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WASHINGTON, D.C. 20503
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STATEMENT OF
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OFFICE OF MANAGEMENT AND BUDGET
BEFORE THE
COMMITTEE ON THE BUDGET
UNITED STATES SENATE

JULY 15, 2010

Chairman Conrad, Ranking Member Gregg, Senator Warner, Senator Bunning, and Members of the Committee and Task Force on Government Performance, I welcome the opportunity to appear before you today to discuss our shared interest in improving federal acquisition and the part it can play in improving the performance of government. Our current fiscal challenges underscore the importance of maximizing the effectiveness of every tax dollar we spend. With approximately one of every six of these dollars going to contractors, it is imperative that federal contracts provide the best value for the taxpayer.

In March 2009, the President directed agencies to become more fiscally responsible in their contract actions and to take immediate steps to achieve real and sustainable improvements. He charged agencies with saving $40 billion by Fiscal Year (FY) 2011 and reducing the use of high-risk contracts. The President's mandate has instilled a new sense of fiscal responsibility in agencies, which has slowed the unsustainable contracting cost growth rate of the past decade, from an average annual growth rate of 12 percent between FYs 2000 and 2008 to just four percent between FYs 2008 and 2009. This Administration's commitment to fiscal responsibility was again underscored in plans recently announced by Dr. Ashton Carter, the Undersecretary for Acquisition, Technology, and Logistics at the Department of Defense (DoD), to free up $100 billion in the Defense budget by eliminating excessive costs, unproductive overhead, and programs that can't be managed to be affordable.

The new fiscal discipline that is emerging in contracting is the result of three inter-related efforts. First, agencies are focused on cutting contract costs. They are using smarter buying practices that have been shown to save money – such as strategic sourcing – and improving oversight to ensure that taxpayers get the price, schedule, and quality the contractor committed to deliver. Second, agencies are reducing the use of high-risk contracting practices that can lead to taxpayers paying more than they should. They are competing contracts that, in the past, were awarded for higher prices on a sole-source basis; and they are relying more heavily on fixed-price contracts that require contractors to deliver completed products and services and, in doing so, create a greater incentive for efficiency than when the government simply reimburses contractors for what they spend. Third, agencies are building the capacity and capability of the acquisition workforce. The acquisition workforce is the lifeblood of our procurement system and I can tell you with confidence – after face-to-face meetings at many of our procuring agencies – that the dedication and determination of these women and men are driving better acquisition outcomes. We must ensure agencies have the resources they need to support a strong and well-equipped acquisition workforce. That workforce, I should note, includes program and project managers and contracting officer technical representatives (COTRs) as well as contracting professionals, all of whose contributions are needed. Whether we achieve the best long-term results from our acquisition activities depends on the quality of their skills and the support that we give them.

This morning, I would like to briefly highlight a number of key actions we are taking to advance each of these important efforts and share a few examples of the improvements that we are already seeing.

Achieving acquisition savings

To facilitate immediate improvement following the issuance of the President's March 2009 Memorandum, OMB last year directed each agency to develop an acquisition savings plan. This approach was built on the premise that every agency can and must immediately operate in a more cost-effective manner and reduce inefficiencies and waste from its practices and programs. At the same time, this approach recognizes that each agency has a unique mission with different acquisition requirements, as well as strengths and weaknesses, and therefore needs to tailor actions that best serve its specific circumstances. In response to OMB's direction, each of the 24 agencies identified in the Chief Financial Officers Act – who collectively account for more than 98 percent of all federal procurement spending – developed plans to reduce contracting costs. These agencies are on track to save more than $19 billion by the end of FY 2010. Most of these savings efforts will have recurring benefits that contribute to agencies' ability to save $40 billion by FY 2011.

Agencies are using a combination of strategies to achieve savings. In some cases, agencies are ending procurements that do not meet program goals or that support projects that are no longer needed. In other cases, they are increasing use of acquisition practices that have been shown to drive costs down and improve the quality of performance. Agency plans identify specific savings initiatives as well as the difference between what would have been spent in the absence of the savings initiative and what the agency expects to spend as a result of pursuing the initiative.

At least two promising cost-savings trends have already emerged. First, agencies are improving the way in which they leverage the government's buying power – both across the agency and government-wide. Second, agencies are driving competition by using innovative buying tools such as online reverse auctions.

Strategic sourcing. Agency spending for many commonly-used items is typically fragmented across multiple departments, programs, and functions, which means that agencies often rely on hundreds of separate contracts, with pricing that varies widely. The result is that agencies often do not get the best price they could if their spending were consolidated, leading to an unacceptable waste of taxpayer dollars. To address this waste, agencies are reviewing their internal buying patterns and identifying opportunities to achieve significant savings for recurring requirements. In particular, a number of agencies are negotiating better pricing and deeper discounts for recurring needs for commercial products acquired under blanket purchase agreements (BPAs) negotiated under the Federal Supply Schedules program managed by the General Services Administration (GSA). For example, the Department of Homeland Security (DHS) expects to save more than $87 million during the next six years by having standardized department-wide desktop operating systems, e-mail, and office automation and then negotiating a department-wide BPA for the full suite of products at a substantial savings.

OMB is building on these efforts by bringing agencies together to identify commodities that all agencies buy and that can be purchased at lower prices by leveraging their collective buying power. In late 2009, a team of agencies selected office supplies as a promising 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 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 competing in the procurement. The new office supply BPAs, which include sustainable technologies and other green products, will:

- entitle federal agencies to automatically receive the discounted pricing just by using their SmartPay card -- whether they buy on-line, over the phone, or in person -- at any one of the twelve winning vendors, which includes two service-disabled veteran-owned small businesses and eleven small businesses overall;

- help federal agencies cut procurement costs for office supplies by as much as 20 percent, or close to $200 million, over the next four years, which does not take into account even deeper price discounts of up to 19 percent that will kick in as government-wide purchasing increases the spending above pre-determined volume discount thresholds; and

- require the winning vendors to provide detailed spend 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.

While we are pleased by these results, the progress with respect to office supplies is only a first step. OMB is actively working with agencies to identify other suitable opportunities for government-wide strategic sourcing, especially in the area of information technology, where a number of agencies have begun to successfully pool their buying power, and medical and surgical supplies, where the Department of Veterans Affairs has already leveraged the buying power of its own medical centers through an integrated network of national and regional contracts. In addition, GSA will launch a knowledge management portal later this summer, where studies, market research, and spend analyses developed in connection with government-wide and agency-wide strategic sourcing initiatives will be posted to promote knowledge sharing of best demonstrated practices. The portal will further develop strategic sourcing as a tool for fiscally responsible buying.

Online reverse auctions. Agencies are increasingly obtaining the economies and efficiencies made possible by conducting web-based "e-procurements." In particular, agencies are using electronic reverse auctions, where vendors use an online site to bid prices down to win an agency's work, in order to generate greater competition. This practice is helping agencies obtain lower prices, especially on their purchases of commercial off-the-shelf products, and these web-based tools have become a routine part of how we conduct procurements in the 21^{st} century: agencies conducted thousands of electronic reverse auctions last year. The Department of Health and Human Services, for example, offers on-line reverse auction services to customers who use its "Electronic Commodities Store" (ECS) – a government-wide acquisition contract for IT hardware and software products. Last year, agencies placing orders under ECS using reverse auctions reduced their costs by roughly 17 percent. 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.

<u>Reducing high-risk contracting</u>

As I noted at the outset, President Obama has directed agencies to reduce the risk of overspending that occurs when contracts are awarded without the benefit of competition and when agencies agree to reimburse contractors for their expenses, instead of insisting on a fixed price upfront. To meet this direction, every agency is taking steps to reduce by 10 percent the share of dollars obligated through new contracts in FY 2010 that are awarded with inadequate competition – those awarded without any competition or through a competition that attracted only one bidder – or through contracts with insufficient cost control, including time-and-materials or labor-hour (T&M/LH) and cost-reimbursement contracts.

While we have only begun to change the culture of government purchasing, our analysis of agency data reported in the Federal Procurement Data System indicates that agencies have made good initial progress:

Progress in increasing competition. In the first two quarters of FY 2010, the percentage of dollars awarded through new noncompetitive contracts dropped by 10 percent when compared to the same time period in FY 2009. In addition, use of new competitively awarded contracts in FY 2010 that received only one bid dropped by two percent when compared to the first two quarters of FY 2009. A number of agencies reported strengthening their internal controls to help in these efforts. For example, one agency reported creating a competition board, made up of contracting and program officials, to review justifications for non-competitive contracts.

While agencies have thus made progress in opening more contracts through competition, additional work is required to attract more bidders. When work that has been performed on a sole-source basis for a long period is first opened to competition, the incumbent may initially be the only bidder until other companies become convinced that the expenditure of bid and proposal costs will be worth the effort. Agencies are working to attract new sources and bidders. Some agencies are also breaking out pieces of requirements that are most likely to attract additional bidders, encouraging long-time subcontractors – including small businesses – to consider competing as prime contractors, and restructuring requirements in ways that more closely reflect how work is performed commercially.

Progress in increasing fixed-price contracting. In the first half of FY 2010, the percentage of dollars awarded for 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 for new cost-reimbursement contracts dropped by 6 percent. In many cases, these efforts have been facilitated by peer reviews, contract review boards, or other practices that create collaboration between senior agency program and acquisition managers and bring seasoned contract and other experts together to help contracting and program offices identify and address high-risk practices. Through such collaboration and with knowledge of costs historically paid by the agency under cost-reimbursement contracts, the Environmental Protection Agency (EPA) was able to switch to a fixed-price basis for remediation work at the Tower Chemical Superfund site. EPA estimates that this action helped the agency significantly reduce its costs, dropping 65 percent from the original baseline estimate of what it would have cost to acquire these services on a cost-reimbursement basis. Following a similar model of using historical knowledge of prices paid for services under a cost-reimbursement contract to negotiate a fixed-price task order, the Enterprise Architecture Office in the Internal Revenue Service (IRS) achieved significant savings for technology improvements associated with the modernization of core taxpayer services. In some cases, agencies, including DoD, have moved from T&M/LH contracting to cost-reimbursement contracting, where the level of uncertainty regarding the agency's requirements prevents the agency from negotiating a fixed price. This interim step, especially for complex requirements, reduces risk for taxpayers, because agencies can more effectively monitor a contractor's costs on a cost-reimbursement contract.

Strengthening the acquisition workforce

A capable and appropriately sized workforce is a critical element in supporting better acquisition outcomes and improved government performance. To realize savings and reduce contract risks, our contracting and program offices must understand the marketplace and work collaboratively to clearly describe the government's requirements in a way that can generate robust competition – our most effective tool for achieving best value for the taxpayer. Led by our contracting officers, our acquisition teams must be able to negotiate lower prices, favorable contract terms, and the right incentives for contractors to control their costs and perform efficiently. We must have in place an adequate number of well-trained COTRs. These officials play a critical role in contract management, ensuring that contractors perform as they promised and taking corrective action to address performance shortfalls. When use of a higher-risk vehicle, such as a cost-reimbursement contract, is justified, the acquisition workforce must be able and ready to deploy the broader range of management skills these contracts demand – including finance, accounting, cost and price analysis, and program management.

Unfortunately, the lack of capacity and capability within our workforce to meet these demands has hampered our ability to manage contract risk and control contract costs for much of the past decade. Between FYs 2000 and 2008, spending on contracting doubled while the size of the acquisition workforce remained essentially flat. This lack of capacity has caused harm at every step of the acquisition process, from poor definitions of the government's requirements, to unjustified sole-source contracting and poorly-run competitions, to failure to adequately oversee the contractor and ensure that it delivers what it committed to, in terms of cost, schedule, and performance.

To reverse this trend, the President, in his FY 2011 Budget, requested that Congress appropriate $158 million for the civilian agencies' acquisition workforce. This small investment will have a high return as our contracting officials improve their capacity and capability to save resources and reduce risk from the hundreds of billions that are spent on contracts every year. Specifically, the $158 million would enable most civilian agencies to increase their acquisition workforce by five percent as well as to invest in training and technology. This amount also includes resources for the Federal Acquisition Institute to help civilian agencies leverage their investment for common workforce needs, such as for the collection of acquisition workforce data, curriculum development and training for certification standards as they are updated to reflect the skills required for acquisition in today's environment. To sustain acquisition workforce improvements in the future, OMB is requiring agencies to submit an annual acquisition human capital plan that shows how the agency is aligning its acquisition workforce skills with its acquisition needs. These plans should help agencies to identify gaps in workforce skills and size as well as to plan future resource needs that will serve as the basis for budget preparation and justifications for FY 2012 and beyond.

These key actions are being supported by a variety of additional initiatives to improve workforce development. Some agencies are using intern programs to provide structured paths for career development and advancement. Others are bringing back retired contract specialists to mentor newer members of the workforce and provide greater workforce stability. Another promising approach some agencies are pursuing is the use of rotational assignments to give contract specialists exposure to the skills and perspectives in offices of other key stakeholders in the acquisition lifecycle – from finance and information technology to program and human capital. Through these concerted efforts, we will strengthen our workforce and build on the progress we have been making to improve acquisition results.

Promoting best practices

As agencies have begun implementing their plans to achieve savings and reduce risk, a number of best practices have emerged. As you have heard, we see promising examples of agencies:

- working to attract new sources and bidders for competition, challenging justifications for sole-source contracting and revisiting solicitations and specifications that receive weak interest from the marketplace to see how participation can be increased;

- leveraging the expertise of their most experienced practitioners to help program and contracting offices structure new contracts and restructure old ones to create stronger incentives for contractors to perform more efficiently and effectively and to tie the payment of fees to the achievement of results;

- reviewing their pool of contracts to identify opportunities to achieve savings by combining requirements for recurring needs both within and across agencies; and

- capitalizing on the power of technology to improve acquisition planning and strengthen the quality of competition.

These and other best practices are helping agencies save money and get better results for our taxpayers. At this point, these practices are not being used consistently across all agencies. We are committed to doing all we can to share demonstrated best practices as they are identified, so that strategies which work well are replicated across government and become the norm rather than the exception.

My Office, the Office of Federal Procurement Policy (OFPP), is facilitating the rapid adoption of successful practices in a variety of ways, from hosting regular roundtables and conference calls with Chief Acquisition Officers (CAOs) and Senior Procurement Executives (SPEs), to periodic forums with contracting personnel through the recently re-established Front Line Forum. We are creating a catalogue of initiatives from agency savings plans so acquisition officials can see what their peers are doing to address similar challenges, and we plan to make available the growing number of individual agency success stories as a resource to better understand our achievements. In that regard, we recently surveyed the CAOs and SPEs to identify new ways of sharing information through the Chief Acquisition Officers Council (CAO Council). The survey results indicated a great desire to improve communications and collaboration between agencies, and we are in the midst of identifying a number of improvements for the Council's consideration. As one immediate step in response to an agency's suggestion, I have begun to email out "Notes from the OFPP Administrator" so agencies have more timely information on ongoing matters of interest in which OFPP is playing an active role. We will also solicit ideas for improved information sharing as we meet one-on-one with agencies to review progress on their plans.

Equally important, we are facilitating continuous collaborations between DoD and the civilian agencies. As the government's predominant buyer, DoD has a wealth of experience that civilian agencies can tap into, both learning from the challenges that DoD has faced and looking for opportunities to replicate the Department's successes. For example, DoD has been the acquisition community's leader in the use of "peer reviews." As noted earlier, this practice brings seasoned contract professionals and other experts together to help contracting and program offices achieve the best results. The interchange between peer review teams and host teams bolsters the quality of contracting by helping to identify better alternatives to risky and inefficient practices, so that programs which require contract support can get better results for our taxpayers. We are encouraging all agencies to adopt some form of this model practice, especially for large-dollar major acquisitions that support priority goals and involve complex requirements.

I am also pleased to note that the Department is similarly looking to civilian agencies for best practices and taking advantage of their skills, where appropriate, to improve the performance of the Department's programs. With the leadership and support of my colleague Shay Assad, the Director of Defense Procurement and Acquisition Policy, DoD recently strengthened the quality of contract support for its Military OneSource Program, which provides a variety of important support services to military personnel and their families. Since its inception shortly after the September 11, 2001, terrorist attacks, the program has relied on a contract that had never been competed. Recognizing the many pressing requirements demanding the attention of its acquisition workforce, the Department looked to outside acquisition support to help put a more cost-effective contract in place. The Department found this quality support at the Department of Interior (DOI)'s National Business Center, which provides acquisition support to other agencies. In close collaboration with DoD, DOI conducted a full and open competition. The winning bidder agreed to a number of cost-saving measures, including charging the call center operation services based on actual monthly call volume, rather than a fixed monthly rate. In all, the new contract is expected to save DoD $300 million over five years and result in high quality services to military personnel and their families. The Military OneSource initiative was recently honored by the CAO Council as an example of inter-agency acquisition at its very best.

We must replicate these types of successes. In collaboration with the leadership at DoD and the civilian agencies, and listening to, and working with, the thousands of dedicated federal employees who are our acquisition workforce and who are working very hard to improve results, I am confident that we will have more good news to share as our efforts continue to take hold.

I am also optimistic that we will begin to see improvements in the use of small business contractors. At the end of April, the President established an interagency task force to develop recommendations by August for ensuring small businesses have a fair opportunity to compete for federal procurement opportunities. The Small Business Administration, the Department of Commerce, and we at OMB are leading the effort, working with other contracting agencies, to identify recommendations for removing barriers that discourage small business participation, using innovative strategies and technologies to increase participation, and conducting outreach. A number of agencies have reported successes in tapping into the creativity, innovation, and technical expertise of the small business community as they take steps to increase the use of competition. Last year, for example, the Department of Energy's National Nuclear Security Administration (NNSA) separated its functions for cyber security and IT support services into two separate contracts in order to generate more 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 GSA. The robust competition enabled NNSA to award two five-year fixed-price contracts to small businesses this past April that will allow the agency to save $22 million, or 15 percent of what it was previously paying for these services under its prior higher-risk cost-reimbursement contract.

Conclusion

There is much work ahead, but early results show that we are on track in our efforts to achieve savings and reduce contracting risk. OMB will meet periodically with agencies to review progress against their savings plans and risk reduction goals. We will help those who are achieving success to sustain and build on those results; we will work closely with those who are having difficulties, to identify actions that can be taken to improve results. An online dashboard will launch later this summer to track agencies' progress.

A new sense of stewardship is emerging in contracting offices across government. From the smallest agency to the largest department – even in areas that are the hardest to oversee and assess, such as in the Intelligence Community – steps are being taken to improve the way the government buys goods and services. OMB is committed to ensuring that all agencies remain vigilant in their efforts to maintain fiscal discipline and achieve the best value for our taxpayer.

I thank the Committee and the Task Force for taking time to consider the critical connection between federal acquisition and government performance. I look forward to working with you and other members of Congress as we implement meaningful and lasting improvements for our contracting processes and how the government delivers services to our taxpayers.

I would be pleased to address any questions you may have.