

Cut contracting costs by 15 percent, agencies are told

By Charles S. Clark cclark@govexec.com July 7, 2011

Federal agencies are being directed to achieve a 15 percent reduction in costs for managing contracts over the next year under a new component of the Obama administration's [Campaign to Cut Government Waste](#), Office of Management and Budget officials announced Thursday. The goal is to save \$6 billion government wide by the end of fiscal 2012.

Jeffrey Zients, federal chief performance officer and deputy OMB director, told an audience of primarily agency officials at the White House Forum on Accountability in Federal Contracting that costs for management support services quadrupled between 2000 and 2010, from \$10 billion to \$40 billion. "Agency productivity as a whole is relatively flat, and we can't tolerate that, particularly in this fiscal situation," he said.

The new approach will "still look to contractors for a wide range of professional and technical needs, but in a more prudent, cost-effective manner," Zients said. Agency managers "will analyze their spending patterns and buy only what they can afford. They will seek out contractors with good past performance and end relationships with firms who are proven bad actors. They will also keep a watchful eye out for situations where reliance on a contractor's expertise has gone beyond what is appropriate for the agency to maintain control of its mission and operations."

Other methods being pursued include lowering labor rates, helping agencies groom a cadre of information technology acquisition specialists and boosting efforts to cease engaging contractors that have tax delinquencies. Among the problems with contracting, Zients said, is that too often "it is hard to distinguish who is the contractor and who is the federal employee" and some contractors today are actually managing other contractors, which is "unacceptable."

In framing the contract management initiative as part of the larger anti-waste campaign, he said the administration is on track to achieve its dollar goals in the areas of reducing improper payments, selling off unneeded federal real estate and improving efficiency of IT purchasing. Government spending on contractors declined by \$80 billion in fiscal 2010, the first such reduction in 13 years, Zients added.

Dan Gordon, administrator of the [Office of Federal Procurement Policy](#), said the process "will be transparent so that the [Government Accountability Office](#) and industry can follow it [and successes] will be shared across government." When asked by a contracting professional how agencies could prioritize contracts strategically, Gordon said the process should be "thoughtful, not mechanical. It is not a call for insourcing and not a numbers game."

The Professional Services Council, an Arlington, Va.-based industry group, welcomed OMB's efforts to reduce waste, but took issue with setting a dollar target.

"Although this is not an insourcing initiative, telling agencies to cut 15 percent of their support contracts by the end of next year could create the same kind of undisciplined process that has marked much of the Defense Department's insourcing initiatives," PSC President and Chief Executive Officer Stan Soloway said. "This puts significant responsibility on OMB and agency leadership to ensure that does not happen."

Gordon has targeted 15 federal product service codes that are of special interest because they are high risk to government and taxpayers. "That's where the money is," he said. These 15 areas currently have a high proportion of cost-plus or time-and-materials contracts, as opposed to fixed-price contracts. "The focus on management support services is to get closer to inherently government functions," Gordon said. "Contractors are still valuable to management support services, but we're saying we need to spend less money."

He added he'd like an acquisition force that is better trained, receives more attention and meets more frequently with White House leaders. He praised the Education Department, for example, for developing a network of junior acquisition professionals. He also said contract managers should focus more on pre- and post-award planning, particularly as it affects set-asides for small businesses.

He praised the [General Services Administration](#) for encouraging more government wide contracts. "There's a communications problem and we must change the culture," he said, dismissing a long-standing assumption that talking to industry was improper. Finally, contract

managers under the new approach will better document companies' past performance and will share that information with other agencies.

Presenting at the forum were representatives from agencies whose successes in improving contract management OMB wanted to highlight. The Homeland Security Department official described savings from a strategic sourcing of office supplies and other purchasing. A U.S. Agency for International Development official described procurement reforms for that agency's work in often remote and dangerous locations overseas, which include a new executive-level suspension and debarment team to track performance on contracts by local businesses and nongovernmental agencies. A representative described the Navy's negotiation of a continuity of services contract that saved \$1 billion by retaining rights to intellectual property created under the contract.

One specific way to achieve savings, Gordon said, is working with "vendors you use so much, you can negotiate lower prices." He cautioned agencies to avoid duplicate agreements by checking before putting out a contract to see if a suitable one already exists. And agency contract managers looking for efficiencies, he added, should "include in their meetings people from outside the contracting shops."