

OMB Instructs Agencies to Save \$40 Billion Annually by Streamlining Acquisitions

By Elizabeth Newell
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Contracting guidance released on Wednesday will help agencies identify \$40 billion annually in savings, according to the White House.

The Office of Management and Budget issued memos for agency heads aimed at improving acquisition practices, making better use of information on contractors' past performance, and finding an appropriate mix of federal employees and contractors. The acquisition practices memo by OMB head Peter R. Orszag directed agencies to develop a plan to save 7 percent on contract spending by the end of fiscal 2011.

Orszag laid out a number of ways these savings could be realized: ending contracts that are no longer essential; recruiting the acquisition workforce necessary to negotiate more favorably priced contracts and manage costs more effectively; developing strategic acquisition approaches to leverage buying power; increasing the use of technology to control contracts; and reengineering ineffective business processes and practices.

In addition, OMB instructed agencies to reduce by at least 10 percent the share of dollars obligated through new contracts in fiscal 2010 that are awarded noncompetitively; receive only one bid; or are cost-reimbursement, time and materials, or labor and hour-type agreements. The Government Accountability Office, agency inspectors general and federal managers have indicated that these "high-risk contracting authorities" often are used without the appropriate justification, and without the management and oversight needed to limit taxpayer risk, Orszag wrote.

"We're not at all telling agencies not to use these contract authorities at all, but we do believe they are overused," said OMB Executive Associate Director Jeff Liebman. "So we're telling agencies that they need to make sure they have the proper balance and that they should work hard not to use these authorities in cases where they're not appropriate."

By taking these steps to improve acquisitions and related program practices, agencies can meet the Obama administration's net savings target of \$40 billion annually, the memo stated.

In the memo on the multi-sector workforce, Orszag told agency heads that current policies and practices must be improved to "achieve the best mix of public and private labor resources to serve the American people." Preventing an overreliance on contractors is crucial to effectively managing government performance, according to the memo.

"Too often agencies neglect the investments in human capital planning, recruitment, hiring and training that are necessary for building strong internal

capacity -- and then are forced to rely excessively on contractors because internal capacity is lacking," Orszag wrote.

The memo directed agencies to adopt a framework for planning and managing the multi-sector workforce that considers all the functions for which the agency is responsible, not just those currently being performed by federal employees.

"What we found across agencies was that in many cases where it would be more appropriate to have the internal federal capacity to perform work, it's sometimes quicker and easier to use contractors even though that can be more costly and less effective," Liebman said.

The American Federation of Government Employees, which vehemently criticized the Bush administration push for outsourcing, strongly endorsed the workforce memo.

"Finally, agencies will start focusing on how they can improve performance, lower costs and restore integrity by using federal employees, instead of contractors," AFGE National President John Gage said. "We are entering a new era in which in-sourcing will be just as important an option for agencies as outsourcing, and tracking the cost and quality of work performed by contractors will be just as important as tracking the cost and quality of work performed by federal employees."

The Professional Services Council, a contractor association, also praised the memo, saying it sets an "impartial, strategic tone" and provides a "workable, disciplined framework."

"The guidance really does reflect a common sense and appropriate approach" PSC President Stan Soloway said. "We all agree that the government needs to reinvigorate critical workforce skills and capabilities, but that process must be subjected to meaningful analytical rigor and not result in 'in-sourcing for the sake of in-sourcing.' "

Soloway urged agencies to follow through on the guidance "thoughtfully and fully."

Agencies will be required to identify at least one program that might rely too heavily on contractors and conduct a pilot human capital analysis. The pilot will provide agencies with an opportunity to develop the processes and practices to support a "broader vision of multi-sector workforce management," the memo stated.

OMB will track agencies' progress on these reforms closely and publicize it, Orszag wrote. The agency will issue further guidance on acquisition reform and outsourcing -- including a definition of inherently governmental work -- by Sept. 30.