

## OMB Orders Reduced Spending, Hiring Under Contracts

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Cut contract spending by 7 percent. Bring inherently governmental work back in house. Share among agencies more details about contractors' performance. That's how the Office of Management and Budget is directing agencies to achieve President Barack Obama's goal of cutting contract spending by \$40 billion a year.

OMB issued three memos Wednesday to begin carrying out Obama's March 4 presidential order for contract reforms.

"The president has emphasized that in these challenging economic times, we have a responsibility to make sure every dollar collected from taxpayers is spent wisely," said Jeff Liebman, OMB's executive associate director. The new memos will get government on the path toward that goal, he said.

One of the memos — **"Managing the Multi-Sector Workforce"** — will help agencies restore the proper balance between contractors and federal employees when it comes to executing agency missions, Liebman said.

Over-reliance on contractors at agencies has eroded the government's ability to perform essential tasks in house and has caused government to spend more than it should to get the job done, Liebman said. Even where work is properly outsourced, government doesn't always have the right amount of staff to oversee it, he said.

The memo aims to fix this by directing agencies to develop strategic human capital plans that determine the right mix of contractors, federal employees and senior managers to support agency missions and workloads, he said.

The memo instructs agencies to in-source inherently governmental functions and functions that are closely supporting decision makers. It also provides guidelines to help agencies decide when it would be appropriate to in-source work that is not inherently governmental. Those guidelines tell agencies they should consider contractor performance, the agency's management capacity and the cost of performing the work before deciding whether it should be done by federal employees or contractors.

By Oct. 1, agencies must pick one program deemed overly reliant on contractors to test the development of the human capital plan through all stages from analysis of the workload to inventorying who performs the work, assessing management's capacity to oversee the blended workforce and determining what gaps in the current mix need filling. Agencies will report their results to OMB by April 30.

Both federal employees unions and industry applauded the guidance.

"It's a reasoned structure to guide sourcing decisions," said Stan Soloway, president of the Professional Services Council. "What it tells us is that beyond inherently governmental functions or absolutely mission-critical functions ... the in-sourcing decision is like an outsourcing decision — it's a decision that should be impartial, analytically rigorous and looks at complete and not just partial costs."

The American Federation of Government Employees also praised the memo. "We're 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," said John Gage, AFGE president. But Gage said the new policy needed to be fleshed out to encourage agencies to use federal employees instead of contractors.

"OMB's in-sourcing guidance ... will ultimately be judged by results — whether agencies break free from a blinkered mindset of automatically, even reflexively contracting out," Gage said. To do this, agencies have to be freed of congressionally imposed hiring caps, he said. OMB must also enforce congressional mandates to give special in-sourcing consideration to poorly performed commercial work, commercial work outsourced without competition and commercial work performed within the last decade gets special consideration for in-sourcing, he said.

A second memo — **"Improving the Use of Contractor Performance Information"** — requires agencies to submit past-performance reports into the Past Performance Information Retrieval System (PPIRS). OMB will grade agencies on their compliance to the requirement, OMB's Liebman said.

The Government Accountability Office reported earlier this year that agencies weren't submitting contractor reviews into PPIRS and those that were there lacked enough detail to be useful. The lack of reliable past-performance information puts the government at risk of contracting with poor performers, GAO said.

Liebman said the evaluations of agency past-performance reports, which will begin in February, will solve this problem. Agencies will be graded not just on how many contracts have past-performance reviews entered into the system, but on how useful the reports are in relaying the contractor's performance, he said.

The reviews, which will be issued publicly, are "a smart move" that will ensure timely and complete performance assessments, said Soloway. Because agencies know they'll be held accountable they'll

actually report past-performance in real time, which benefits taxpayers, high-performing vendors and agencies.

"At the end of the day, performance on a previous, similar contract is probably the best determinant of likely performance in the future," he said.

Currently, agencies rely on ad hoc reference checking, which burdens contracting officers with dozens of phone calls from colleagues each day and may result in incomplete reviews on performance, Soloway said. A properly populated PPIRS will provide contracting officers with the timely, objective, transparent and accurate information needed to make good sourcing decisions, he said.

The final memo — **"Improving Government Acquisition"** — orders agencies to review existing contracts and acquisition practices to determine where they can cut 7 percent of baseline contract spending over the next two fiscal years. The memo suggests agencies can do this not just by ending contracts that are ineffective or wasteful, but also through better management.

Hiring more acquisition professionals to manage contracts, improving up-front planning for requirements, conducting market research, and leveraging the buying power of the government, are among the primary ways agencies can reach the president's goal of reducing spending by \$40 billion, Liebman said.

Like the in-sourcing memo, this too is a "common sense" management approach, Soloway said.

"It recognizes the key to improving performance is in planning requirements, the award and contract administration," he said. "[Government] will get better performance if you put resources in the front end of the process and contract management during performance, rather than relying on after-the-fact checking."

The third memo also orders agencies to reduce spending on high-risk, cost-based contracts by 10 percent in fiscal 2010.

While it's appropriate to use contracts that reimburse vendors for their costs when it is not clear how much it will cost to address a problem, agencies often fail to turn these contracts into fixed-price contracts when their needs and costs become clear, Liebman said. Setting a target will encourage agencies to carefully review their contracts to make sure they're using the right contract at the right time, he said.

OMB's July 29 memos are a first step toward carrying out Obama's contracting reforms. In September, OMB will issue guidelines to tell agencies when it is appropriate to use the different contract types. Along with those guidelines, OMB plans to issue guidance on ensuring contracts are competed, defining what inherently governmental functions are, and outlining when it is appropriate to outsource work.