

Subcommittee on Contracting Oversight
Committee on Homeland Security & Government Affairs

“Contractors: How Much Are They Costing the Government?”
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Written Testimony
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Madam Chairwoman, Ranking Member, and Members of the Subcommittee, thank you for inviting The Coalition for Government Procurement (the “Coalition”) to provide written testimony. It is our privilege to assist you in the important task of assessing and improving the use of data to develop best practices around decisions to utilize contractors. Your efforts today continue a tradition in the subcommittee of seeking to improve the workings of government contracts. In this regard, the Coalition commends the leadership and members of the Committee on Homeland Security & Government Affairs for their contributions to government acquisition, specifically with regard to enhancing competition under the GSA Multiple-Award Schedule contracts.

The Coalition for Government Procurement is a non-profit association of approximately 300 firms selling commercial services and products to the Federal Government. Our members collectively account for approximately 70% of the sales generated through the GSA Multiple Award Schedules (MAS) program and about half of the commercial item solutions purchased annually by the Federal Government. Coalition members include small, medium, and large business concerns, and we are proud to have worked with Government officials over the past 30 years towards the mutual goal of common sense acquisition.

I. Accounting for and Analyzing the Costs of Contractors vs. Federal Employees

With regard to how the Government accounts for and analyzes the cost of contractors versus that of federal employees, the Coalition believes that improved cost analysis ultimately leads to better value for the Government, industry, and the American taxpayer.

Each agency has its own unique mission along with its own distinct requirements. It is not surprising, then, that the composition of each agency’s workforce is inherently varied and unique. An agency will consider outsourcing when it does not believe it has the required capability in-house, but the question concerning government insourcing versus outsourcing is, indeed, nuanced and complex. When making sourcing decisions, an agency must understand its unique mission requirements and strategically determine which factors are important in meeting that mission. In other words, sourcing decisions are mission-driven.

The Acquisition Advisory Panel was authorized by Section 1423 of the Services Acquisition Reform Act of 2003 and enacted as part of the National Defense

Authorization Act of Fiscal Year 2004. Known as the “SARA Panel,” it published its report in January 2007. On this subject, it notes,

Private sector companies spend significant amounts of time and resources developing business cases for services acquisition. They get the stakeholders involved and use highly qualified personnel to develop the business cases. Business case development helps to prevent false trade-offs. Cost reduction is just one component of the business cases. They have found that too much focus on cost reduction can lead to missed opportunities and, in some cases, reduce service quality in other areas of the organization. Stated differently, total cost of service acquisition does not equal total value captured through sourcing. (SARA Panel Report, 2007, p. 88)

Likewise, agencies should employ detailed and robust business case analysis when making sourcing decisions. Business case analysis that weighs value and not only cost, is vital to all agencies in determining how to meet their individual missions.

With the exception of inherently governmental functions, which understandably should be performed by federal employees, the Government should weigh a variety of factors when either outsourcing or insourcing. As stated, important factors for agency missions vary. In 2010, the Government Accountability Office (GAO) report on *Warfighter Support: A Cost Comparison of Using State Department Employees versus Contractors for Security Services in Iraq* stated that,

There are other factors that may play a role in the decision of whether to perform security services with federal employees or contractors. For example, it generally takes more time to hire and train enough federal employees than to acquire contractors. Additionally, the government could potentially be faced with having to take actions to reduce the number of government personnel hired if they are no longer needed. In contrast, if the need for the contract no longer existed, the Government could terminate the contract. (GAO-10-266R, *Warfighter Support*, p. 11)

For some agencies, flexibility and agility is paramount, and for others it is not. Each agency should carefully weigh these unique factors through business case analysis when making sourcing determinations.

In addition to utilizing business case analysis to understand the variety of factors at play when making sourcing decisions, the Government should make an effort to increase the effectiveness of its workforce, specifically its program managers. As noted in former Administrator for Federal Procurement Policy Dan Gordon's May 2010 testimony before the Subcommittee on Oversight and Government Management, it is critical that "Federal employees possess the appropriate training, experience, and expertise to understand the agency's requirements, formulate alternatives, [and] manage the work product." Management that has an intricate understanding of the needs of the agency and the capacity to make sound business decisions through effective analysis generally will benefit the federal procurement process. A well-trained and effective program manager that understands the necessary requirements will determine how a function should be sourced better than one that lacks these abilities.

Along these lines, as much as possible, acquisition professionals should be aligned and committed to programs during their performance life. The benefit of this alignment and commitment to programs may seem somewhat intangible, but it is vital to performance. A stable team develops a working dynamic that enhances program performance. Equally as important, the presence of professionals over the long-term assures the development of a program's institutional memory, allowing contract performance issues to be identified and addressed quickly on the basis of program precedent.

II. Controlling the Cost of Contracting

A. Improved Requirements Development

Essential to controlling the cost of contracting is the development of sound requirements that communicate clearly and effectively the needs of the agency. Improved requirements development enhances competition, which, in turn, will provide the best value to the Government. The SARA Panel stressed that,

Commercial organizations invest the time and resources necessary to understand and define their requirements. They use multidisciplinary teams to plan their procurements, conduct competitions for award, and monitor contract performance. They rely on well-defined requirements and competitive awards to reduce prices and to obtain innovative, high quality goods and services.

Procurements with clear requirements are far more likely to meet customer needs and be successful in execution. (SARA Panel, 2007, p. 87)

Similar to the practices in the commercial marketplace, the Government should endeavor to produce quality requirements for vendors in order to bolster competition and control costs.

There is a positive correlation between the quality of requirements development and the value of the service or good being procured. Clear, well-crafted requirements lead to robust vendor competition, high-quality proposals, low costs and high value to the Government. In order to achieve this level of effectiveness, the Coalition recommends implementing the SARA Panel's recommendation that agencies support requirements by establishing centers of expertise in requirements analysis and development. In addition, as the SARA Panel recommended, program managers and/or users should be required to sign off on complex requirements before an acquisition moves forward.

If the government wishes to control the cost of contracting, it needs to strengthen its requirements development by enhancing the applicable expertise available and focusing its efforts. The government has taken steps to improve requirements development. In particular, the Office of Federal Procurement Policy's "Myth-Busters" initiative to improve government-industry communications, particularly during the requirements development phase of an acquisition, has the potential for improving contracting and delivering greater value for government and the taxpayer.

B. Reducing Contract Duplication

The Coalition believes that the Federal Government has a significant opportunity to control costs associated with contracting by reducing unnecessary contract duplication. This opportunity is consistent with Congress' current objective to reduce program duplication across agencies in order to achieve greater efficiencies of operations. As highlighted in GAO's February 2012 report on *Opportunities to Reduce Duplication, Overlap and Fragmentation, Achieve Savings, and Reduce Revenue*, duplicative efforts and programs across Government lead to redundant inefficiencies. In the case of the federal acquisition system, these inefficiencies lead to increased Government and industry costs, costs that are ultimately borne by the taxpayer.

Contract duplication refers to the prevalence of contracts that offer the same or similar services and products across the Federal Government. Duplicative contracts increase bid and proposal costs and contract administrative costs for both Government and industry, costs that could be avoided through greater use of interagency contracts. As such, addressing the redundancies involved in establishing and managing multiple contracts for the same or similar services and products would provide Government and industry with significant reductions in costs.

In particular, duplication should be reduced through increased use of existing government-wide contract vehicles when there is an opportunity to realize cost savings. Government-wide multiple award contracts, such as the GSA Schedules program, provide a streamlined competitive ordering process that can save both the public and private sectors time and money associated with bid, proposal, and contract administration. The use of these pre-negotiated contracts allows the ordering activity to focus on requirements development rather than the administrative aspects associated with setting up an entirely new contract. Moreover, the Schedules enhance competitive contracting opportunities for small businesses. Indeed, with small business sales of over 30 percent, the Schedules program annually exceeds the government wide goal of 23 percent for small business contracting and represents the largest small business contracting program in government.

There are tools already available to the Government to reduce significantly contract duplication and the unnecessary costs associated with that duplication. A regulatory preference already exists for utilizing GSA Federal Supply Schedules in the Federal Acquisition Regulation (FAR 8.002). Additional guidance reminding contracting officers that the Federal Supply Schedules have priority over other commercial sources would help to reverse the current trend where agencies are developing their own contract vehicles for the same or similar services that are already offered under the GSA Schedules. Also, as part of the acquisition planning process, contracting officers should be required to document and explain why existing contract vehicles do not meet an agency's needs prior to establishing new contracts. This explanation should specifically make the case for why a new contract is the best procurement method to meet the Government's needs. We believe that both proposals are feasible within the current acquisition system and have the potential to result in huge cost savings for the Government.

III. Conclusion

The Coalition believes that thoughtful business case analysis that weighs each agency's unique mission requirements when sourcing decisions are made is crucial to better accounting for and analyzing the costs associated with the use of contractors versus federal employees. We also urge the Government to enhance its requirements development process to ensure increased competition and therefore lower costs. In short, we believe that these objectives can be achieved by:

1. Establishing a performance and financial business cases analysis framework.
2. Establishing program management certification requirements.
3. Setting clear Statements of Work with measurable outcomes.
4. Evaluating contract awards based on best value solutions that meet well-developed technical requirements.
5. Avoiding contract duplication by utilizing Federal Supply Schedules per FAR 8.002 and requiring contracting officers to document why existing contract vehicles do not meet an agency's needs prior to establishing new contracts.

Again, the Coalition thanks the Subcommittee for this opportunity to share our thoughts and to work to support the procurement community. We appreciate your continued commitment to enhancing the effectiveness of government contracting and look forward to continuing to partner with you to provide best value to the American taxpayer. Please feel free to contact us if you have any questions or concerns you wish to discuss.