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OFFICE OF MANAGEMENT AND BUDGET
BEFORE THE
COMMITTEE ON HOMELAND SECURITY AND GOVERNMENTAL AFFAIRS
UNITED STATES SENATE

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“How to Save Taxpayer Dollars: Case Studies of Duplication in the Federal Government”

Chairman Lieberman, Ranking Member Collins, and Members of the Committee, I welcome the opportunity to appear before you today to discuss the federal government’s use of interagency and agency-wide contracting vehicles and opportunities to reduce duplication associated with these vehicles. Improving use of interagency and agency-wide contracts can help us meet the President’s mandate for agencies to become more fiscally responsible in their contracting practices. These vehicles give us the ability to produce savings for our taxpayers through better pricing, improved quality, and increased administrative efficiencies. This afternoon, I would like to share with the Committee the steps the Administration is taking to maximize the benefits of interagency and agency-wide vehicles and minimize the systemic risk in interagency contracting that the Government Accountability Office (GAO) identified in 2005. I will also share our views about duplication in the area of contracting and how we are addressing it.

Reducing the risk associated with interagency contracting

For the past six years, GAO has included the management of interagency contracting on its High Risk List. In the years preceding this designation, the government experienced a rapid growth in interagency contracting brought about by important new authorities introduced in the 1990s by the Federal Acquisition Streamlining Act, the Clinger-Cohen Act, and a number of regulatory and policy changes. These changes, which were designed to improve the efficiency of the contracting process – especially for information technology (IT) and other rapidly evolving requirements – were well suited for interagency and agency-wide contracts. They gave agencies the ability to: (1) create multiple-award contracts where a stable of prequalified contractors compete for a wide range of requirements, (2) work with the Office of Management and Budget (OMB) to become executive agents of government-wide acquisition contracts (GWACs) for IT, and (3) use the Federal Supply Schedules Program to place orders for goods and services in any quantity (without regard to order limitations that had previously existed) and create blanket

purchase agreements (BPAs) to negotiate better deals with Schedule vendors to reflect volume purchasing associated with recurring needs. Congress also reinforced agencies' ability to create multi-agency contracts to meet the requirements of two or more agencies using the authority of the Economy Act. Interagency contracting, in its various forms, became especially popular to help a shrinking acquisition workforce meet a growing number of agency demands.

Unfortunately, our policy guidance and management controls did not keep up with this rapid growth. In what some called the "Wild West," agencies frequently picked vehicles without having any real information as to which one represented the best alternative. Many agencies routinely allowed customer agencies to acquire goods and services through their contracts and BPAs without a clear understanding of who was responsible for describing requirements, negotiating terms, ensuring that orders were within the scope of the contract, and conducting contractor oversight. GAO and agency inspectors general repeatedly uncovered instances of waste and abuse. In this context, it is easy to understand why GAO concluded that interagency contracting posed systemic risks to our acquisition system. It is also easy to understand why GAO, when placing this contracting tool on its high risk list, recommended that all agencies develop improved management controls, clarify roles and responsibilities between servicing and customer agencies, and adopt clear, consistent and enforceable policies and processes that balance the need for customer service with the requirements for sound contract management and fiscal responsibility.

As a result of demonstrated commitment by our acquisition workforce and the leadership of our acquisition officials, we have made noteworthy progress in addressing the root causes of high risk in interagency contracting. GAO acknowledged this progress in its most recent High Risk List Update, released this past February. Over the past several years, agencies have taken specific actions to improve their internal management controls to support interagency acquisitions – steps that have been reviewed by a number of agency inspectors general. In FY 2010, senior procurement executives reported to OMB that their agencies are improving the management of interagency contracting by implementing practices to improve how they evaluate if an interagency acquisition will be beneficial, including making "best interest" determinations before using another agency's acquisition vehicle, taking into account factors such as the suitability of the vehicle, the value of using the vehicle (including the reasonableness of the fees), and the requesting agency's ability to use the vehicle effectively. When assisted acquisitions are pursued, agency customers and servicing agencies are entering into agreements that establish terms and conditions to govern the relationship between the agencies, including each party's role in carrying out responsibilities over the acquisition lifecycle. Agencies are more regularly documenting decisions to use another agency's contract, and preparing more carefully delineated interagency agreements to establish roles and responsibilities when they seek acquisition assistance from another agency. To ensure these controls are used consistently

by all agencies, the Federal Acquisition Regulatory Council incorporated them into the Federal Acquisition Regulation (FAR) last December. The FAR changes also addressed provisions in section 865 of the FY 2009 National Defense Authorization Act, which reinforced many of these principles. These are promising steps that go a long way towards eliminating the systemic risk that originally caused GAO to place interagency contracting on its high risk list and arguably justify its removal from GAO's list.

That said, there is still much more to be done to reap the full benefits of interagency and agency-wide vehicles. Agencies are often missing the benefits of these vehicles by duplicating each other's contracting efforts. Unjustified duplication must be avoided. This redundancy increases both the workload for our acquisition workforce and procurement costs for vendors, which are then passed on to our taxpayers in the form of higher prices. In its March report on potential duplication in government programs, GAO identified two overriding factors that contribute to the overlap between contracts: (1) the lack of consistent government-wide policy on the creation, use, and costs of awarding and administering these contracts, and (2) ongoing problems with the availability and quality of information on interagency and agency-wide contracts in the Federal Procurement Data System (FPDS). GAO's report states that these shortcomings can be overcome by expanding the use of business cases and improving the quality of data on interagency contracts. We agree. Before sharing the steps the Administration is taking in this regard, I would like to briefly comment on the nature of duplication in this area, as we see it, to put the Administration's priorities into clearer perspective.

The two ways that duplication arises

There are a number of reasons why contract vehicles may overlap, but duplication typically occurs in one of two ways. The first form of duplication occurs when a suitable contract vehicle *already exists* and an agency doesn't take advantage of it and instead awards a new contract (in this discussion, references to contracts should be understood to include both contracts and other vehicles, such as BPAs). This may occur because the agency has not fully researched available options, it doesn't have sufficient visibility into its choices, or both. The second form of duplication occurs when a suitable contract to meet the needs of multiple agencies or multiple agency components *does not exist* and each agency component creates its own redundant contract without considering if there are opportunities to leverage, either at the agency or government-wide level.

To date, concern has centered largely around a fear that agencies are creating new interagency contracts that duplicate existing ones (in essence, a subset of the first form of duplication). Particular focus has been on multi-agency contracts (vehicles established by one agency for use by two or more government agencies consistent with the Economy Act), even

though there is limited evidence to suggest a large proliferation or wide use of these vehicles.¹ Ironically, less attention has been paid to the duplication that occurs when agencies pass up existing interagency contracts in favor of creating their own separate agency-specific contracts for similar products or service – which is a more likely source of duplication. Even less attention has been given to the duplication that arises when separate and redundant contracts are awarded by each agency component to serve a narrow customer base, only because no one has taken the initiative to create either an agency-wide or interagency contract to meet these repetitive demands (the second form of duplication). In my opinion, agency failure to create new agency-wide and interagency contracts to fill voids is, by far, the greatest single cause of duplication and the reason why agencies find themselves unable to get the best prices for the taxpayer. We are wasting our limited acquisition resources to contract again and again for the identical goods and services, while also dividing up the federal marketplace and denying ourselves the ability to leverage our buying power as the world’s largest customer. In short, for too long, we have been giving the least attention to the area where harmful duplication is most likely to occur and the most attention to where it is least likely to occur.

To effectively minimize unhealthy duplication, we must recognize the different ways in which duplication occurs and take appropriate action to address it. Specifically, we must create an environment where agencies regularly take *both* of the following steps:

- Consider whether existing interagency or agency-wide contracts are suitable before creating a new one, use existing contracts if they are more suitable, and phase out agency-managed contracts, or the portion of them, that provide the same products or services.
- Consider creating new inter-agency or agency-wide contracts where no such contract currently exists but where there is agency demand (e.g., the supply or service is commonly used within or among agencies and is needed on a recurring basis) and ensure that meaningful consideration is given to using the new contract once it is established and phasing out overlapping component specific contracts.

¹ As I explained in testimony before the Subcommittee on Contracting Oversight last summer, there are a number of indicators, even in the absence of solid FPDS data, suggesting that the level of multi-agency contracting is not substantial. First, there are virtually no bid protests involving multi-agency contracts, whereas there are many bid protests involving Schedules and agency-specific vehicles. Second, a number of agency-wide vehicles are well known in the acquisition community, such as the Navy’s “SeaPort-e” contract and DHS’ “EAGLE” contract. Multi-agency vehicles, however, are not readily identifiable, which would make interagency use of multi-agency contracts difficult. Third, at least one commercial source maintains a database of non-schedule interagency vehicles and agency-wide vehicles which indicates a total of fewer than 60 vehicles, many of which are Department of Defense vehicles. These indicators point to a conclusion that (1) there are few multi-agency contracts and (2) interagency activity under multi-agency contracts is probably more incidental, along the lines traditionally envisioned under the Economy Act.

We are pursuing three initiatives to make these steps a routine part of our acquisition processes. First, we will soon issue guidance that requires agencies to develop business cases to support their decisions to create a new contract or BPA. Second, we are actively promoting strategic sourcing to pool the government's buying power through a limited number of interagency acquisition contracts. Third, we are working to make sure agencies have access to information on available interagency and agency-wide contract options.

Business cases

The new business case process will help agencies determine if expected return from investment in a contract or BPA is worth the effort. In developing this process, we have reviewed section 865 of the FY 2009 National Defense Authorization Act, studied the GAO's 2010 report on interagency and agency-wide contracting, and revisited the findings and recommendations made by the Acquisition Advisory Panel several years ago. While the guidance is not yet final, here are the main features you are likely to see:

1. **Business case requirements will cover all major interagency contracts and certain agency-specific contracts.** Our goal is to have guidance that will cover GWACs, multi-agency contracts, and BPAs. Covering the full range of contracts will provide a more comprehensive picture to indicate if there is unhealthy overlap between them.

2. **The guidance will retain many of the basic elements that have been used successfully to evaluate proposed GWACs.** These elements include the anticipated level of usage – both within and outside the agency – the value the contract would add to current contracting options, and the suitability of the agency to award and administer the proposed contract, including any relevant specialized experience. It will also reinforce the fundamental building blocks of cost-effective acquisition, including use of competition and robust communication with industry. The GWAC business case model, which was cited favorably by the Acquisition Advisory Panel, has given OFPP key information needed to facilitate the coordinated development of GWACs in support of a range of Administration priorities. The Committee might note that, over the past year, OMB has granted designations to:
 - The National Institutes of Health (NIH) to award two GWACs (one as a small business set-aside) with a focus on health-related IT services: the Chief Information Officer Solutions and Partners (CIOSP3) GWAC and the CIOSP3-Small Business GWAC. These GWACs will fill an important need for agencies with health-related responsibilities in the Patient Protection and Affordable Care Act.

- The Department of Homeland Security (DHS) to award a GWAC for Technical Investigative Surveillance Equipment. The GWAC, which is expected to be awarded later this year, will offer specialized electronic equipment for use by federal agencies with a law enforcement mission in support of their criminal investigations and will facilitate the acquisition of secure common interoperable digital video and audio surveillance equipment within the federal law enforcement community. The GWAC should also enhance the overall effectiveness of joint investigations, and it is expected to lower prices of equipment by approximately 10 percent as well as facilitate access to high-quality products. In addition to having programmatic expertise, the DHS procurement office that will manage the GWAC has developed, awarded, and managed multi-agency contracts for audio and video surveillance equipment needs in the past.
 - The General Services Administration (GSA) to award a follow-on to its 8(a) Streamlined Technology Acquisition Resources for Services (“STARS”) contract, which is set aside for small disadvantaged businesses in the Small Business Administration’s 8(a) business development program. The current 8(a) GWAC complements two other GSA GWACs that are set-aside for small businesses, including one for service-disabled veteran-owned small businesses. Small business set-aside GWACs have proven to be a helpful vehicle for facilitating agency access to the talents and skills of small businesses in an efficient and effective manner. Agencies are currently examining opportunities to take greater advantage of interagency vehicles, including GWACs, to create new opportunities for small business contractors that will help the government meet its small business contracting goals.
3. **The new guidance will require an agency to expressly consider the potential for duplication and to describe how its proposed vehicle is unique.** An agency will be required to address the anticipated impact that its proposed vehicle will have on the government’s ability to leverage its buying power. While we need to work out the details with agencies to ensure that the guidance does not impose an unjustified burden on them, we believe that agencies need to do reasonable research of existing vehicles for potential suitability, with an emphasis on existing vehicles (i) that are designed to meet the same requirements under the same or similar terms and conditions, (ii) that already reflect leveraged pricing, (iii) for which there is information readily available, and (iv) that are intended for government-wide use. These vehicles would include BPAs established by the Federal Strategic Sourcing Initiative (FSSI) or GSA’s SmartBuy Program, and GWACs. Agencies would also be expected to review relevant Schedule contracts, multi-agency contracts or BPAs of which the agency is aware, and relevant contracts or BPAs within their own agencies that were previously established to leverage the agency’s buying. The

agency would then explain how its proposed contract or agreement differs from the existing contracts it researched with respect to pricing, delivery, or other terms. If overlap is identified, the agency would be expected to make an adjustment or explain why the overlap is not a problem. In this regard, there are legitimate reasons that might favor establishing an agency-specific vehicle instead of using an existing interagency contract, even if it overlaps in its coverage. For example, the agency may need to negotiate terms and conditions that are tailored to its needs, simplify contract management by bringing contractors together under one contract (in lieu of having to manage contractors on multiple interagency contracts, each of which addresses only part of the agency's requirement), or ensure products are in compliance with agency-specific standards.

4. **Agencies will identify the costs for awarding and managing the vehicle and the amount of fees.** We view it as important that the business case ensure that agencies consider the costs, both direct and indirect, of awarding and administering a new contract. While the details are still under discussion, we believe that this information will help agencies compare the cost of using an existing contract (or acquisition assistance) to the cost of creating a new one. An agency will also identify the amount of planned fees that an agency intending to create an interagency contract would charge to prospective customers, and the methodology used for setting and adjusting fees.

5. **An appropriate mechanism will be developed to allow rapid, informal feedback from stakeholders to assist agencies in identifying available vehicles and potential duplication.** As explained above, the agency seeking to create a new interagency or large agency-specific contract will be asked to take reasonable steps to understand if the products and services it seeks to acquire are available on an existing contract that already reflects leveraged pricing, and either make adjustments or explain why the planned contract is unique with regards to its pricing, schedule, delivery, or other terms. As I will discuss, we must, and will, make strides in improving our use of technology to make more information available to agencies that are evaluating the benefits of creating new contracts, but no information system will ever match the level of knowledge or replace the insight of the agencies who manage existing interagency or agency-wide contracts. Identifying and addressing duplication, where it may be unhealthy, is a shared responsibility. This is why collaboration within the federal community is so important and why we are making it part of the business case development process.

Our focus will be on encouraging informal information exchanges that are useful and timely, not on process perfection. While the details are still being finalized, we anticipate a process where sponsoring agencies will be able to post information about their plans on a secure website, and federal managers of existing interagency contracts and other interested

federal stakeholders would be encouraged to offer feedback that can be considered by the sponsoring agency before it makes a decision to award a new contract. Interested stakeholders would include, at least, the leadership of the Federal Acquisition Service, FSSI and SmartBuy Programs, who manage the development of government-wide contracts to leverage the government's buying power. It would also include Chief Acquisition Officers and Senior Procurement Executives, and, if the contract is for IT, managers of GWACs and Chief Information Officers, any of whom may be able to point out the existence of relevant vehicles, identify agency components looking to piggy-back on a new contract, and share relevant experiences.

We do not expect, nor intend, to eliminate all duplication through this process. We recognize, as did the Acquisition Advisory Panel, that not all duplication is bad and “[s]ome competition among vehicles is . . . desirable and even fundamental to maintaining the health of government contracting.” That said, we are confident that these disciplined steps will help to reduce duplication and achieve a more healthy balance in the use of interagency and agency-specific acquisition tools.

Strategic sourcing

We continue to improve our ability to leverage the government's purchasing scale through strategic sourcing. This strategy involves analyzing overall spending patterns for recurring requirements and identifying opportunities to negotiate lower prices and better terms by pooling buying power. This is the government's most powerful tool for reducing fragmented purchasing and duplicative contract actions. As part of the Administration's initiative to cut contracting costs, almost every agency has been pursuing some form of strategic sourcing – some simple, some complex, some covering only a component, others covering the entire agency or government. A number of agencies use internal teams of commodity experts from their components to consolidate purchasing under their own multiple-award task and delivery order contracts or Schedule BPAs, and to negotiate lower prices and better terms and conditions. By using strategic sourcing:

- the Department of Homeland Security saved more than \$80 million for standardized department-wide desktop operating, systems, email and office automation and associated licensing agreements,
- the Department of Interior saved more than \$20 million for a variety of common-use needs, including IT hardware, commercial wireless equipment, multifunctional devices, software, and alternative dispute resolution services, and

- the Department of Veterans Affairs plans to save an approximate \$140 million per year in diagnostics imaging support services.

Efforts at the government-wide level are being coordinated through FSSI and governed by an interagency body, the Strategic Sourcing Working Group (SSWG) of the Chief Acquisition Officers Council. After carefully studying industry practice and agencies' experiences over the past several years, OMB, GSA, and the SSWG created a roadmap to capture the benefits of strategic sourcing. The roadmap entails: (i) convening a group of government experts for each commodity being strategically sourced to better understand agencies' specific requirements, (ii) sharing pricing information and considering the impact a new contract would have on existing contracts, (iii) analyzing spend data, (iv) consulting with industry, (v) securing up-front spending commitments from agencies to increase vendor interest in the procurement, and (vi) maximizing small business participation. Last spring, GSA and other agencies used the roadmap to establish innovative new government-wide BPAs for office supplies. The new BPAs, which include awards to three service-disabled veteran-owned small businesses and thirteen small businesses overall, are helping the government save 10 percent, on average, on their office supply purchases and helping agencies to get these discounted prices automatically when paying with a government purchase card, whether over the phone, online or in a store – a feature never previously available. Under the terms of the BPAs, vendors must provide agencies with detailed data on their spending patterns. GSA negotiated these terms so that agencies would have the information they need for continuous analysis of internal business processes, which is needed to identify more efficient practices, achieve additional savings, and share demonstrated best practices and lessons learned with GSA and others to inform future agreements.

The SSWG has been studying agency-level strategic sourcing efforts and industry trends to identify additional areas that are ripe for strategic sourcing. As a result of these efforts, plans are advancing to develop new government-wide contracts for wireless services and multi-function devices for printing and copying, and to further efforts to reduce the cost of software licenses. When we launch the new business case vetting process that I described, the SSWG and other agency members of the FSSI community will have unprecedented visibility into agency efforts for a wide range of repetitive needs. This visibility will help our government-wide buyers (i) avoid unnecessary and potentially costly redundant acquisition efforts, (ii) use information about better prices to strike better deals in the future, and (iii) identify additional products and services for strategic sourcing, along with potential experts within the agencies to serve as commodity experts.

Data quality

GAO has recommended consideration of a centralized database of interagency and agency-wide contracts. We are committed to ensuring adequate information is available on interagency and agency-wide contracts, so agency acquisition planners can evaluate available options before awarding contracts. Our research has led us to conclude, as noted above, that the limited number of multi-agency contracts that we know of is more a reflection of current reality than data inadequacies – that is, there are, in fact, a limited number of multi-agency contracts beyond the Schedules and GWACs. Accordingly, we believe that information on the great majority of the available options is already available to agency acquisition personnel. The major sources of interagency contract activity – the Schedules and GWACs – are well known to the acquisition community and provide readily accessible information on their contracts to interested sources. In addition, we have identified at least one commercial source that a number of agencies use to obtain information about the existing non-schedule interagency contracts and large agency-wide contracts. As a result, while we will continue to consider ways to help ensure the ready availability of information, it appears the effort to create a new and potentially costly government-run database of interagency contracts may be unnecessary.

That said, there are other areas where more data is needed. In particular, OMB is working with GSA to identify strategies for sharing information among agencies about Schedule BPAs, which are typically agency-specific. BPAs are widely used, yet little information is readily available about which agencies have BPAs and how they are being used. Improved visibility on BPAs should help the government save money and increase efficiencies through shared insight, avoided duplication of effort, and the ability to consolidate procurement volume. We should also point out that GSA has recently launched a “Knowledge Management Portal,” where studies, market research, and spend analyses developed in connection with strategic sourcing initiatives are being posted to promote knowledge sharing of best demonstrated practices and further develop strategic sourcing as a tool for fiscally responsible buying.

Conclusion

When used and managed properly, interagency and agency-wide contracting allows agencies to leverage their purchasing power and achieve administrative efficiencies that reduce costs and produce savings for our taxpayers. Important progress has been made to address systemic weaknesses and help stop the abuse of interagency contracting with the help of strengthened policies and the introduction of new internal management controls. The recent codification of these improvements in the FAR creates a sound foundation for success and sets the stage for removal of this contracting tool from GAO’s High Risk List.

Much still needs to be done, however, to consistently realize the full potential of interagency contracts. We are confident that our three-pronged approach of sound business cases, aggressive pursuit of strategic sourcing, and good data will help agencies achieve the benefits that a more integrated approach to contracting is capable of producing. We look forward to working with this Committee and other members of Congress to bring about meaningful and lasting improvements that will achieve greater efficiencies and savings for our taxpayers.

This concludes my statement. I am happy to address any questions you may have.