

# OMB Acquisition Guidance Directs Contract Scrutiny and Spending Cuts

Posted At : July 30, 2009 10:27 PM | Posted By : Deniece Peterson

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On July 29, OMB issued a set of memos outlining several acquisition requirements that will impact existing and future federal contracts. Following the directive that President Obama issued in his March 4 memo, OMB created new policies that will put some contracts under high scrutiny and possibly the chopping block. The goal - save \$40 billion a year by reducing spending and using less risky contract types.

OMB's guidance contains several directives and suggestions for process improvements to save money, increase competition and reduce contracting risk.

Agencies must review their existing contracts and acquisition processes and develop a plan to save 7% of baseline contract spending by the end of FY2011. To accomplish this, OMB asks agencies to consider:

- Migrating work from cost-type contracts to fixed-price as requirements become better defined.
- Analyzing organizations with disproportionate levels of Time & Material/Labor Hours contracts and consider whether other contract types or insourcing are more appropriate.

Agencies must reduce the share of dollars they've obligated in FY10 to new contracts that use "high-risk" contracting types by 10%. This includes cost-reimbursement, Time and Materials, and Labor Hours contracts. FY2008 dollars will be used as the baseline.

Agencies should strengthen acquisition practices to pay more attention to planning and oversight, including:

- Upfront planning to align requirements and acquisition strategies.
- Market analysis, cost estimates and choice of contract types and incentives.
- Internal capacity to manage programs, oversee contract performance, and mitigate risks after award.
- Instituting peer review at critical stages of high-priority acquisitions.
- Ensuring that systems are in place to review contract cost, schedule and performance goals on an ongoing basis and that corrective actions are taken to affect contract outcomes.

Agencies should develop more strategic acquisition strategies. For example, OMB encourages agencies to increase participation in government-wide strategic acquisition initiatives like strategic sourcing to take advantage of volume discounts.

## Implications for Contractors

This guidance has a laundry list of implications for contractors.

- Potential contract cancellation or transition from a high-risk contract type to fixed-price.
- Lost revenue on cost-plus contracts prematurely transitioned to fixed-price.
- More scrutiny as agencies review contracts for program performance and cost control (especially organizations heavy on T&M/LH contracts).
- Agency reexamination of acquisition strategies and requirements when only one offer is received.
- Broader competition in areas that were questionable as sole-source in the past.
- Better requirements development to reduce risk of fixed-price contracts.
- Increased complexity and timeframes for procurement to incorporate deeper planning and analysis.
- More volume purchases and/or consolidation of contracts as agencies try to create broad one-stop shops for commonly acquired products/services.
- Additional reporting on guidance objectives to compare outcomes of current practices to new practices.

So what should contractors do? At a minimum, you should review your cost-plus contracts for any performance, schedule or quality issues. If there are issues, draft a list of actions to correct them immediately. You can also begin crafting value propositions that tie your program to current mission objectives. Provide metrics to support the effectiveness of your work. It is also important to develop and share strategies for reducing outsourcing program costs. For programs targeted for transition to fixed-price contracts, provide your own assessment of any ill-defined or unstable requirements that continue to pose risks.

OMB plans to release more guidance at the end of the fiscal year, but agencies are urged to start program reviews now. It's likely that the VA, which has already canceled 45 IT projects and has had \$1.1B of its IT development funding put on lockdown until program reviews are complete, will serve as a model for other agencies.

Avoid becoming an acquisition reform casualty - start planning now.