

STATEMENT OF PAUL A. DENETT
ADMINISTRATOR FOR FEDERAL PROCUREMENT POLICY
BEFORE THE
SUBCOMMITTEE ON READINESS AND MANAGEMENT SUPPORT
COMMITTEE ON ARMED SERVICES
UNITED STATES SENATE
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Chairman Akaka, Senator Ensign, and Members of the Subcommittee, I appreciate the opportunity to appear before you today to discuss contracting for services, interagency contracting, and related issues. You have asked for my views on the report of the Acquisition Advisory Panel established under the Services Acquisition Reform Act (the "SARA Panel") as well as my thoughts on recent assessments by the Inspectors General (IGs) for the Department of Defense (DoD) and other federal agencies.

My remarks will focus on acquisition from a governmentwide perspective, consistent with my responsibilities as Administrator for the Office of Federal Procurement Policy (OFPP). Mr. Shay Assad will provide a departmental perspective on issues before us today.

The beginning of the twenty-first century has presented our acquisition workforce with unprecedented challenges. We are more reliant on contracting to support the numerous agency missions. While I have great confidence in the dedication of our workforce, I am concerned that we have not adequately trained them and strengthened their competencies so that they can deliver the best results possible. Over the past decade, spending on services has outpaced

spending on products, as agencies shift from buying items to buying solutions. Today, service contracting represents just over 60 percent of the almost \$400 billion in total acquisition dollars. Similarly, interagency contracting has also grown significantly as agencies look to reduce administrative expenses and leverage resources. While neither of these trends should, by themselves, be cause for alarm, the level of management attention given to service contracting and interagency contracting must be increased accordingly to ensure these tools are used properly and effectively.

The SARA Panel's report on federal acquisition practices is especially timely. I welcome the anticipated arrival of the final report. Through a highly transparent process and input from members and witnesses representing diverse perspectives and backgrounds, the Panel has produced a comprehensive report with a number of findings and recommendations that are deserving of our careful consideration to improve contracting for the American taxpayer.

I share the Panel's overarching conclusion that competition, transparency, and accountability for results are the underpinnings of a solid federal acquisition system. Many of the shortcomings identified by the Panel, the IGs, and the Government Accountability Office (GAO) lie not in the acquisition tools themselves, but rather in the management, practices, and training surrounding their use. As a general matter, the current statutory acquisition authorities will produce good results for the taxpayer when they are coupled with sound planning, competition, and effective management and oversight. Oversight should contribute to improvement and results. Hold the contracting personnel, including myself, accountable.

Improving interagency contracting

With respect to interagency contracting, in particular, OFPP is taking a number of steps to address weaknesses identified by the GAO, agency IGs, the SARA Panel, and others. Our goal is to ensure these contracts are used properly and in a strategic manner.

Clarifying roles and responsibilities. The GAO, IGs, and others have found that breakdowns in interagency contracting are often associated with unclear lines of responsibilities and a failure to carry out key responsibilities. OFPP is leading an interagency working group to establish guidance clarifying responsibilities between the requesting (customer) agency and the servicing agency for each key step in the acquisition process -- from the determination of needs and development of the statement of work, to the determination of price reasonableness, and the performance of contract surveillance. Participants include DoD and other major requesting and servicing agencies, including the General Services Administration (GSA), the Department of the Interior, the National Aeronautics and Space Administration, the Department of Energy, and the Department of the Treasury, among others. We anticipate completing the guidance in the spring.

This exercise is especially important in an assisted acquisition, where a contract action is placed by the servicing agency on the requesting agency's behalf. Absent a clear understanding between the parties, there is increased risk that responsibilities will not be accomplished. We are working to develop a model interagency agreement to facilitate greater consistency and clarity in the identification and documentation of roles by the respective parties.

I commend DoD for taking actions to improve its interagency contracting. As the DoD IG noted before this Subcommittee, the recent memorandum of understanding between DoD and GSA includes a number of basic contracting management controls, such as ensuring that sole-source justifications are adequate and interagency agreements describe the work to be performed.

Strategic use. We wish to ensure strategic use of interagency contracting vehicles. Many in the contracting community, including the SARA Panel, have raised concerns that there may be unnecessary duplication of interagency vehicles. We are exploring whether we may need a governance structure for multiagency contracts (MACs). MACs operate separate and apart from the Federal Supply Schedules, which are governed by rules established by GSA, and governmentwide acquisition contracts (GWACs), which are subject to review by OMB. As a first step, OFPP conducted a data collection to gain a better understanding of the number of MACs. According to the latest count, agencies have identified at least 55 MACs. These contracts are predominantly for professional and technical services and information technology, which appear to overlap the scope of GWACs and some schedule contracts. We are currently working to identify the dollars obligated through these MACs. We are also reviewing acquisition activity on franchise funds. The SARA Panel recognized and endorsed these efforts, concluding that increased visibility is a prerequisite to improving the strategic use of interagency contract vehicles.

Other OFPP priorities

In addition to our work on interagency contracting, other priorities that I have laid out for OFPP also address the types of concerns identified by the SARA Panel, the IGs and the GAO. They include: (1) increasing attention on acquisition planning and contract management, (2) strengthening the acquisition workforce, and (3) improving the Federal Procurement Data System (FPDS).

(1) Increasing attention on acquisition planning and contract management. We must ensure that agencies do a better job of planning and articulating contract requirements. We must

also pay greater attention to overseeing our contractors to ensure they meet their contractual obligations efficiently and effectively.

This past June, OMB revised its Capital Programming Guide, which discusses the policy for planning, budgeting, acquisition, and management of federal capital assets. The development of business cases remains a central feature of the process. Agencies must conduct comprehensive planning to support the business case, including a needs assessment and an alternatives analysis. The Guide emphasizes the importance of cross-functional participation in the planning process to ensure the ultimate success of the acquisition.

In addition, OFPP plans to:

- Enhance the quality and consistency of agency internal control reviews by issuing guidance to agencies on assessing their acquisition function, taking into consideration the GAO's 2005 framework for assessing risk in acquisition activities.
- Issue guidance to ensure the proper use of contract incentives.

(2) Strengthening the acquisition workforce. Getting good results from our acquisitions ultimately depends on the capabilities of the workforce. Our workforce must be equipped with the skills and competencies required to meet the needs of our end-users. Adequate training is a must. To achieve these results, OFPP plans to:

- Place greater emphasis on the recruitment and retention of top talent through improved acquisition intern programs, cross-agency rotational assignments, and special training for interns and new members of the workforce.

The Federal Acquisition Institute (FAI) has developed the blueprints for a Federal Acquisition Intern and Career Development Coalition that will promote acquisition intern and career development programs for entry and mid-level professionals.

- Seek legislation to make the acquisition workforce training fund (AWTF) permanent.

By using the AWTF, FAI was able to leverage its demand for course work, save an average of 45 percent per student over the commercial price for these classes, and increase the amount of training available to the acquisition community.

- Ask agencies to conduct a competency assessment on the acquisition workforce to help agencies identify skills gaps.
- Support efforts by the Chief Acquisition Officers (CAOs) to identify hiring, training, and developmental needs for their respective agencies for incorporation into the agency's human capital strategic plan.
- Establish program/project manager and contracting officer's representative certification programs to support common competencies and training standards for this important acquisition function.

FAI and the Defense Acquisition University (DAU) now offer classroom and online training on performance-based service contracting to contracting officers, program managers, and other members of the acquisition team who play a critical role in service contracting. These courses will better enable all members of the acquisition team to contribute to the creation of performance work statements and support management of the resulting contracts.

- Work with DoD to study the feasibility of a Federal Acquisition University.

Over the last two years, FAI and DAU have developed a close partnership to leverage resources for training and other professional development efforts. In FY 2006, FAI delivered classroom training to over 2,800 contracting professionals and provided on-line training to over 20,000 students – a substantial increase over any previous year.

- Work with DAU and FAI to develop additional emergency contracting training and expand reference materials available through the DAU/FAI online community of practice Web site to meet the needs of the Department of Homeland Security and other agencies with emergency responsibilities.

In addition, I launched the “Shine” initiative to increase the visibility of acquisition excellence within our workforce. Too often, we fail to recognize when acquisitions are conducted well and miss opportunities for employees to learn through the successes of their peers. The Shine initiative will help ensure best practices are shared and the value of our federal employees are appropriately recognized.

(3) Improving FPDS. FPDS must be an authoritative source for acquisition information that allows the government and industry to make decisions and measure results with accurate data. We will implement a data verification process to achieve this outcome.

Reviewing the SARA Panel's recommendations

I will work closely with the Chief Acquisition Officers Council (CAOC) and the Federal Acquisition Regulatory Council (FAR Council) to analyze the Panel's recommendations, identify those that deserve priority attention, and take timely action. In this regard, I am glad that many of the Panel's proposals can be addressed through regulatory or policy actions.

I intend to pay particular attention to proposals that would strengthen the management and transparency of task and delivery orders, especially for complex services. The Panel, IGs, and GAO each have raised concerns about high-dollar value orders for services being placed with inadequate planning, competition, and post-award surveillance.

I also intend to pay close attention to proposals that can improve the quality of acquisition planning. The Panel offers several common-sense ideas to help agencies better define their requirements. For instance, they recommend the establishment of agency centers of expertise to assist with analysis related to common recurring needs, and the centralization of market research information at GSA to organize and make this information available for governmentwide use.

I am pleased to tell you that OFPP, through its ongoing initiative to improve interagency contracting, has already taken actions to address some of the recommendations made by the Panel in this area. The Panel acknowledged our data collection as an important first step to ensuring these vehicles are being used strategically.

While not specifically addressed in the Panel's report, other ongoing OFPP initiatives are also serving to help agencies improve their operations through the synergies of marketplace competition, including:

- Greater use of strategic sourcing, where agencies collaborate to leverage the government's buying power and reduce costs for commonly used products.

GSA recently awarded a blanket purchase agreement (BPA) with a nationwide domestic delivery service company to leverage the government's volume, reduce prices, and improve commodity management. By February, agencies will have placed over \$55 million in orders against this BPA to take advantage of significant price reductions - which could be as high as 40 percent, depending on the services ordered.

- The reasoned and responsible use of competitive sourcing to reduce costs and improve the performance of commercial support activities.

Improvements set in motion by competitions completed in FY 2006 are expected to generate net savings or cost avoidances totaling about \$750 million over the next 5-10 years. Expected annualized savings from competitions completed between FY 2003-2006 is approximately \$1 billion.

Conclusion

Mr. Chairman and Members of the Subcommittee, OFPP is committed to addressing shortcomings and reinforcing successful practices. I look forward to working with DoD and the other agencies, the members of this Subcommittee, and other members of Congress in a bipartisan effort to ensure our acquisition system produces the good results our taxpayers deserve.

This concludes my prepared remarks. I am happy to answer any questions you might have.