



EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

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MEMORANDUM FOR CHIEF FINANCIAL OFFICERS
CHIEF ACQUISITION OFFICERS
SENIOR PROCUREMENT EXECUTIVES

FROM: Danny Werfel 
Controller

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SUBJECT: Reduced contract spending for management support services

Reducing expenditures for management support services is an important component of the Campaign to Cut Waste and the Executive Order on Delivering an Efficient, Effective, and Accountable Government. During the White House Forum on Accountability in Federal Contracting this past summer, the Office of Management and Budget (OMB) announced a goal of reducing spending on management support service contracts by 15 percent by the end of FY 2012.¹ To achieve 15 percent savings, we will need to bring spending down by \$6.7 billion government-wide to \$37.4 billion in FY 2012.² This memorandum provides guidance to help agencies achieve this target and requirements for monitoring progress.

For purposes of this initiative, management support services are functions covered by the 12 product and service codes (PSCs) listed in Attachment 1. They include activities such as engineering and technical services, acquisition planning, information technology services, and program management. Across government, in FY 2010 agencies spent more than \$44 billion for these services.³

Over the past decade, agency spending for management support functions has quadrupled, far outpacing the already fast growth in contract spending generally. In addition, a review of historical buying trends indicate that agencies are twice as likely to buy these services using high-risk contract types, especially “time-and-materials” contracts, which put the agencies – and therefore the taxpayers – at greater cost risk than when fixed prices are used. Moreover, these services are more frequently cited as creating a potential risk of overreliance on contractors for critical activities related to the agencies’ mission and operations. All of these reasons point to the need for a more careful review of what management support services we buy and how we buy them. Some agencies already have begun to reduce costs in this area (referred to as advisory and assistance services in the object classification 25.1 used in OMB Circular A-11) under the Administrative Efficiency Initiative included in the President’s FY 2012 Budget. Successful

¹ For more information on the event, go to <http://www.whitehouse.gov/photos-and-video/video/2011/07/07/white-house-forum-accountability-federal-contracting?category=101>

² Data is from the Federal Procurement Data System.

³ Data is from the Federal Procurement Data System.

execution of cuts in advisory and assistance services (object class 25.1) under the Administrative Efficiency initiative should be counted towards the 15 percent reduction goal.

This initiative is not meant to discourage use of contractors. We fully expect agencies to continue to make good use of the expertise, innovation, and capabilities of contractors for a wide range of management support activities, such as program evaluation – investing in what works, and ensuring we have the data, evaluations, analyses, and other studies we need to ensure we are spending taxpayer dollars wisely. While we do not expect agencies to increase the number of Federal employees as a result of this policy, any agency that believes implementation of this policy would require hiring of additional Federal employees should raise the matter with OMB.

Planning reductions in spending on management support services must be approached as a shared responsibility of program (component), financial management, acquisition, and information technology offices. Chief Financial Officer (CFO) Offices will need to work with agency program managers to identify areas where spending cuts can be made – i.e., where there is excess that can be eliminated, and what is affordable and what is not. Acquisition offices will need to help the CFO Offices identify where spending for these services is greatest by identifying the largest contracts for management support services. In addition, Acquisition offices will then need to work with their customers to buy smarter so that agencies can continue to effectively meet mission goals at reduced spending levels—monitoring the 15 percent reduction target.

Accordingly, CFOs and Chief Acquisition Officers (CAOs) (in consultation with Senior Procurement Executives (SPEs)) from agencies subject to the Chief Financial Officers Act shall take the following steps:

- (1) The CFO and CAO shall identify covered contracts funded by the agency in FY 2011 using the Federal Procurement Data System (FPDS) and identify the size of the reduction required in FY 2012, aligned to available budgetary resources, to achieve a 15 percent spending reduction from FY 2010 levels. The CFO and CAO should be prepared to identify the amount spending has been reduced in FY 2011 and the amount spending that will be reduced in FY 2012 to achieve the 15 percent reduction goal.
- (2) The CFO shall provide direction to components and/or program offices to ensure achievement of the agency's goal.⁴ CAOs will be responsible in enforcing the goal when covered acquisitions are being considered by their agency, for example, by insisting that requisitions for management support services that would obligate FY 12 funding include justifications and/or higher level approvals (see Attachment 2).

⁴ Agencies that have not reduced their spending for management support services in FY 2011 from FY 2010 spending levels will need to act more aggressively than agencies that already have reduced their spending in this area in FY 2011 when compared to FY 2010. For example, if the agency's FY 2010 spending for management support was \$1 million and the agency is spending the same amount for these services in FY 2011, the agency will need to take steps to reduce this amount by 15 percent in FY 2012 to reach the target level of \$850,000. However, if the agency is spending only \$900,000 for these services in FY 2011, the agency would only need to take actions to reduce its annual spending by an additional \$50,000 to achieve its target \$850,000 spending level for FY 2012.

- (3) The CFO and CAO shall institute appropriate internal controls to monitor the obligation of FY 2012 funds for management support services under new contracts, new orders, or options under existing contracts.⁵
- (4) The CAO will regularly monitor the agency's spend rate for management support services in comparison to FY 2010 and both the CFO and the CAO will take appropriate actions if the agency does not appear to be on course to achieve its 15 percent savings goal.
- (5) The CFO and CAO will work with OMB throughout FY 2012 to discuss progress in reducing spending.⁶ All decisions on individual contract actions remain solely within the agency's discretion. However, if the agency is not on course to achieve its 15 percent savings goal at the end of the first, second, or third quarters, it will provide information about planned actions in the following quarter, including information on specific contracts (shared in a manner that does not convey procurement sensitive information). If there are extenuating circumstances that would impair the agency's ability to accomplish its core mission, the agency should provide a clear explanation of these issues to OMB.
- (6) Within 30 days after the end of each fiscal quarter, the CFO will provide examples of actions taken on specific contracts to achieve the FY 2012 spending target (e.g., component reduced the amount of spending for technical assistance on contract XYZ by 25 percent; contracting office has renegotiated rates on contract XYZ; component Z ended use of its own component-specific contract and is now using contract XYZ with its more cost-effective rate structure and awarded a fixed-price order based on historical experience). This will be achieved by leveraging the CFO Toolbox in MAX.

Agencies should be prepared to discuss the status of their implementation efforts to reduce contract spending on management support services in FY 2012 with OMB by December 1, 2011. In addition, during the fall Acquisition Status ("AcqStat") sessions with the Office of Federal Procurement Policy, CAOs and SPEs should be prepared to identify actions they are taking to help their program offices and contracting offices buy management support services in a smarter manner, which might include:

- sampling contracts to determine if there are effective internal controls in place to reduce the use of high risk contracts;
- reviewing planned acquisitions to see if more cost-effective labor mixes are possible;
- considering if there is significant redundancy in contracts awarded by specific agency components and the management benefits of consolidating some of these contracts to save administrative resources; and

⁵ See Attachment 2 for examples of potential management controls. Agency's CFO offices, in consultation with the program offices, may want to establish reductions for the object classifications, as defined by OMB Circular A-11 within budget execution plans and agency financial systems.

⁶ OMB will do a monthly comparison using FPDS, beginning on December 1, 2011, of each agency's FY 2012 spending against its spending at the same point in FY 2010. We will track progress at the Departmental level (not at the bureau or component level) and against an aggregate of the total PSCs, not by individual PSCs.

- offering training on how to use management support contractors.

OMB will provide updates to the President's Management Council on progress of this effort. Questions regarding this guidance may be directed to Mathew Blum of OFPP (202)395-4953, or Debra Bond of OFFM (202) 395-3993.

Attachments

List of Management Support Services

PSC	Product or Service Description	FY10 Obligations (\$M)
D302	ADP SYSTEMS DEVELOPMENT SERVICES	\$3,453
D307	AUTOMATED INFORMATION SYSTEM SVCS	\$2,894
D310	ADP BACKUP AND SECURITY SERVICES	\$132
D314	ADP ACQUISITION SUP SVCS	\$446
R408	PROGRAM MANAGEMENT/SUPPORT SERVICES	\$8,022
R413	SPECIFICATIONS DEVELOPMENT SERVICES	\$31
R414	SYSTEMS ENGINEERING SERVICES	\$4,887
R421	Technical Assistance	\$4,852
R423	INTELLIGENCE SERVICES	\$349
R425	ENGINEERING AND TECHNICAL SERVICES	\$17,972
R497	PERSONAL SERVICES CONTRACTS	\$312
R707	MGT SVCS/CONTRACT & PROCUREMENT SUP	\$778
Total		\$44,127

Source: FPDS data as of August 15, 2011.

Internal Controls to Manage and Monitor Spending for Management Support Services

The specific actions or combination of actions agencies take to achieve their 15 percent goal for reduced spending on management support services will be left to the discretion of each agency, but should result in sufficient direction to components and program offices to ensure achievement of the goal.

The CFO and CAO should work together to institute appropriate internal controls to manage and monitor obligation of FY 2012 funds for management support services under new contracts, new orders, or options under existing contracts. Management controls might include one or more of the following, as appropriate:

- (i) direction from the agency head or other senior ranking official to program offices conveying expectations for reduced spending on management support services;
- (ii) a requirement for programs that are the primary users of management support services to identify to the agency's CFO Office specific planned actions for the upcoming fiscal quarter on their largest management support contracts that will be expiring or entering into option periods and actions taken in the prior fiscal quarter against planned contract actions;
- (iii) a direction for components or programs to include justifications with their contract requisitions for management support services to establish that the requested work is essential;
- (iv) an instruction for officials with budget authority at the program level to obtain higher level approval before a requisition for management support services is submitted to the contracting office;
- (v) a requirement that contracting officers not take action on requisitions for management support services that would obligate FY 2012 funding unless the requisition includes justifications and/or higher level approvals; and/or
- (vi) the identification of one or more oversight officials who regularly monitor component spend rates and actions taken, and resolve disagreements between components regarding the relative importance of resource requests for management support services.