OFFICE OF THE UNDER SECRETARY OF DEFENSE
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ACQUISITION,
TECHNOLOGY
AND LOGISTICS

JAN 14 2010

MEMORANDUM FOR COMMANDER, UNITED STATES SPECIAL OPERATIONS COMMAND (ATTN: ACQUISITION EXECUTIVE)
COMMANDER, UNITED STATES TRANSPORTATION COMMAND (ATTN: ACQUISITION EXECUTIVE)
DEPUTY ASSISTANT SECRETARY OF THE ARMY (PROCUREMENT), DASA(P)
DEPUTY ASSISTANT SECRETARY OF THE NAVY (ACQUISITION & LOGISTICS MANAGEMENT), ASN(RDA)
DEPUTY ASSISTANT SECRETARY OF THE AIR FORCE (CONTRACTING), SAF/AQC
DIRECTORS, DEFENSE AGENCIES
DIRECTORS, FIELD ACTIVITIES

SUBJECT: Achieving Better Value from Our Acquisitions

The Office of Management and Budget (OMB) issued a memorandum on December 22, 2009 (attached), which highlighted the initiatives the Federal agencies are undertaking to improve the acquisition system and meet President Obama's goal of saving $40 billion annually in taxpayer resources. For your information, specific initiatives are identified in a recently released OMB report, *Acquisition and Contracting Improvement Plans and Pilot,* available on OMB's website.

In its memorandum, OMB identified another opportunity for improving acquisition practices and referenced a recent report by the Government Accountability Office (GAO) entitled "CONTRACT MANAGEMENT: *Agencies Are Not Maximizing Opportunities for Competition or Savings under Blanket Purchase Agreements despite Significant Increase in Usage, GAO-09-792 (September 2009).* The GAO report found that agencies did not take advantage of opportunities for competition in establishing BPAs and, in almost half of the BPAs covered by the report, there was no evidence that agencies had sought or requested discounts. The GAO report observed that agencies frequently received discounts when they were requested and, as a case in point, noted that the Justice Department was able to save $20 million dollars under a BPA where the contracting officer requested and received discounts.

With this finding in mind, OMB's memorandum provides guidance on maximizing the value of BPAs to include taking advantage of competition, negotiating discounts, and reviewing BPAs at least annually. OMB recognizes that a number of

agencies have identified, as one way to meet their goal of improving acquisition policies and practices, their intent to more aggressively pursue discounts on blanket purchase agreements (BPAs) under the Federal Supply Schedule (FSS) program managed by the General Services Administration (GSA), and it urges all agencies to do so.

Please ensure that you are doing all that can be done to use BPAs effectively and responsibly. Beyond that, I urge you to continue to pursue policies and procedures that will provide for more effective use of taxpayer dollars when procuring supplies and services for the warfighters. Avoid the use of time-and-materials contracts, look for strategic sourcing opportunities, and compete to the maximum extent possible. I am confident we are making progress but we need to persist in our effort to improve.

Shay D. Assad
Director, Defense Procurement
and Acquisition Policy

Attachment:
As stated

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

OFFICE OF FEDERAL
PROCUREMENT POLICY

December 22, 2009

MEMORANDUM FOR CHIEF ACQUISITION OFFICERS
SENIOR PROCUREMENT EXECUTIVES

FROM: Daniel I. Gordon
Administrator

SUBJECT: Achieving Better Value from Our Acquisitions

Yesterday, the Office of Management and Budget (OMB) released a report, *Acquisition and Contracting Improvement Plans and Pilots*, available on OMB's Web site, to describe the actions agencies are taking, with your leadership and support, to improve our acquisition system. I am pleased to join you as the new Administrator of OMB's Office of Federal Procurement Policy (OFPP) in this critical endeavor to achieve better results for our taxpayers.

As OMB's report shows, our community is off to a good start in meeting the President's goal of saving $40 billion annually in taxpayer resources, reducing reliance on high-risk contracting, and achieving a more appropriate mix of in-house and contractor labor. Agency plans identify a wide variety of strategies to achieve more than $19 billion in savings for FY 2010 – including the pursuit of new avenues for strategic sourcing, program terminations and reductions, use of online reverse auctions and electronic sealed bids, and more aggressive renegotiation of contracts. Plans also show that agencies are developing initiatives to reduce high-risk contracting for new contracts by 10 percent. Many of the initiatives are tied to improving the acquisition workforce's capability to manage high-risk contracts and to ensure that the most appropriate contract type is used for each procurement.

Agency plans provide a powerful tool for achieving better execution and implementation of acquisition policies and practices. They can help us to identify and spread best practices and innovations and to monitor the results of our actions. They can also help us to more quickly direct management attention on opportunities that offer immediate benefit.

One example of such an opportunity is the proactive negotiation of discounts on blanket purchase agreements (BPAs) under the Federal Supply Schedules program managed by the General Services Administration (GSA). BPAs are specifically designed for agencies to negotiate better deals with Schedule vendors that reflect volume purchasing associated with recurring needs. A number of agency plans identify initiatives to more aggressively pursue discounts on BPAs in FYs 2010 and 2011. I strongly urge every agency to follow the lead of the agencies whose plans propose to make taxpayer dollars go further by taking immediate action to

more aggressively seek discounts. A recent report issued by the Government Accountability Office[1] (GAO) found no evidence that agencies had sought discounts in almost half of the BPAs covered by the report. With agencies having spent nearly $10 billion through BPAs in FY 2008, even a small increase in the overall level of discounts achieved for these purchases could potentially save hundreds of millions of taxpayer dollars. The attachment outlines several steps agencies can take to maximize the value received through BPAs and ensure valuable savings opportunities are not being lost.

There is much work to be done to effectively implement the many initiatives agencies have identified in their plans and responsibility for many of these initiatives will largely rest on the shoulders of our acquisition workforce. Over the coming weeks and months, I look forward to meeting you, and members of your front line, to discuss how OFPP can help your agency successfully address its acquisition responsibilities, including the ongoing implementation of your acquisition savings and high risk reduction plan. I also look forward to discussing your progress in developing human capital plans for acquisition. These plans, which will form the basis of budget preparation in future budget cycles, are key to ensuring your agency's acquisition workforce has the capacity and full complement of skills required to get the best results from our contracts.

Questions regarding this memo may be directed to Mathew Blum at mblum@omb.eop.gov, 202-395-4953, or to me at dgordon@omb.eop.gov, 202-395-5802.

Thank you for the steps you and the dedicated women and men of your acquisition workforce have taken and the plans you are making to save money and improve value for the taxpayer. Working together, I am confident our community will achieve impressive results to help ensure taxpayer trust and enhance pride in our acquisition profession.

Attachment

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[1] GAO's findings are presented in *CONTRACT MANAGEMENT: Agencies Are Not Maximizing Opportunities for Competition or Savings under Blanket Purchase Agreements despite Significant Increase in Usage*, GAO-09-792 (September 2009), available at http://www.gao.gov/new.items/d09792.pdf.

Attachment

Maximizing the Value of Blanket Purchase Agreements

GSA Schedule BPAs give agencies a way to more effectively leverage their buying power for recurring requirements. The BPA allows an agency to take the basic contractual terms and conditions that GSA has pre-negotiated and develop a customized agreement that provides better value for the agency's needs. To capture this value, the agency must actively negotiate with Schedule vendors for better pricing, deeper discounts, and more favorable delivery terms. Otherwise, the benefits of BPAs are undermined. This point was underscored in a recent report issued by the GAO[2] on agency use of BPAs. The GAO found that agencies did not take advantage of opportunities for competition in establishing BPAs – a sure way to get better deals -- and often considered only one vendor. Frequent use of single award BPAs resulted in a lack of competition on resulting orders. The GAO also found no evidence that agencies sought discounts in almost half of the BPAs covered by the report. There were even fewer instances – only about a quarter of all BPAs reviewed – where agencies conducted an annual review of their BPAs to determine if the estimated quantities had been exceeded and additional price reductions could be obtained. These failures are resulting in the loss of significant savings, likely to be in the hundreds of millions of dollars each year.

The Federal Acquisition Regulatory Council is currently reviewing options for strengthening the FAR's coverage on BPAs, including the competition rules associated with establishing and placing orders under BPAs. This clarification will further help to ensure discounts are routinely sought and maximize the value received from BPA orders. I have asked that this review be given expedited attention.

While FAR changes are pending, agencies should take the following steps:

1. **Take advantage of competition**. Compete the establishment of new BPAs. Seek to establish multiple BPAs whenever possible so that competition can be conducted among the BPA holders to keep prices fresh at the time orders are placed. Competition at the order level is especially critical for the acquisition of services where initial prices are based on fixed hourly rates rather than fixed prices for accomplishing specific tasks.

2. **Negotiate discounts**. Seek discounts when establishing schedule BPAs and, as appropriate, when placing orders, especially large dollar orders. Discounts may be sought in a number of ways, such as in the request for quote when establishing the BPA or during negotiations. Agencies should consider making the offer of a discount by the contractor a condition for awarding the BPA.[3] For existing BPAs, focus on those for which no discount has been

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[2] *Id.*

[3] For instance, a request for quotation could include a statement as simple as: "quoted prices, inclusive of fees, must be discounted below GSA schedule prices," or "provide proposed discount off your normal GSA schedule rates for the entire BPA period of performance."

sought, especially for products and where only one BPA has been awarded.[4] If, upon review, the agency determines that renegotiation of a BPA could lead to discounts—or deeper discounts—for agency buyers, explore, in consultation with agency counsel, what options are immediately available.

3. **Review BPAs at least annually**. As required by FAR 8.405-3(d), these reviews should address whether: (1) the schedule contract upon which the BPA was established is still in effect, (2) the BPA still represents the best value, and (3) estimated quantities/amounts have been exceeded and additional price reductions can be obtained. No orders should be placed under a BPA after the annual anniversary of its establishment until the agency makes this determination and documents the results of its review.

Agencies should incorporate a BPA savings initiative into their savings plans. In addition, they should be prepared to share the results with OFPP of their efforts taken between now and March 15, 2010 regarding BPAs, for discussion during the mid-year progress review with OMB, which will be held in the spring of 2010. OFPP is especially interested in highlighting actions that are expected to result in additional savings over $5 million, or 25 percent, on any individual BPA.

[4] OFPP recognizes that there are BPAs that already reflect discounted pricing, such as those awarded under the Federal Strategic Sourcing Initiative or SmartBuy.