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Improving Government Efficiency

Federal Contracting Reform and Other Operational Changes Could Save Hundreds of Billions of Dollars

Ian Millhiser March 12, 2010

Introduction

The White House rollout of the president's 2011 budget last month highlighted the proposed three-year spending freeze in nonmilitary, nonentitlement spending. Yet, as CAP's Michael Ettlinger notes, the savings from this spending freeze are small compared to the overall budget. In 2014, the year of greatest savings, the spending freeze will only reduce federal expenditures by $27 billion—around 4 percent of the projected budget deficit in that same year.

At the same time, however, the Obama administration is silently achieving more significant savings by improving the way government performs routine tasks such as procurement, contracting, and IT management. None of these reforms are the kind of sexy, big-ticket items that make headlines—no history book, for example, will memorialize the day when the Veterans Administration stopped throwing away half-used inhalers before their patients are done with them.

Nevertheless, these under-the-radar reforms are likely to save hundreds of billions of dollars over the next 10 years. This memo examines some of the efforts by Obama administration officials that could well become the catalysts for these kinds of significant savings engineered through more government efficiency and transparency.

Contracting reforms

The Obama administration's most immediate success in reducing the government's operating costs stem from reforms to the federal contracting process. Since President Barack Obama took office, federal agencies identified $19 billion in savings from making the contracting process more transparent, more technology savvy, and less wasteful. The administration says it is on track to meet a goal of reducing the annual cost of contracting by $40 billion per year by 2011.

In many cases, the agencies found ways to save money simply by finding more efficient ways to purchase services they already relied upon. The Department of Homeland Security, for example, will save $87.5 million by utilizing the same software agencywide, allowing DHS to purchase licenses and maintenance agreements in bulk at discounted rates. NASA will save $89 million by chopping a contract to manage a 43-acre facility into several smaller contracts, allowing NASA to contract with the lowest bidder on each of these component parts. And the Department of Energy's National Nuclear Security Administration already saved $73 million by adopting an eBay-like method of accepting bids that automatically encourages contractors to underbid their competition.

Moving forward, the administration plans to achieve additional savings by reversing the Bush-era trend toward no-bid and single-bidder contracts. Between 2002 and 2008, the amount spent on contracts not subject to full and open competition grew from $82 billion to $188 billion, an increase of 129 percent. Such reliance on high-risk, noncompetitive contracts flouts federal law and encourages waste and inefficiency. Open, competitive bidding is more likely to lead to the selection of a contractor that can do the best work for the least amount of money. In contrast, noncompetitive contracting decreases the likelihood that government will receive the best value from contractors.

The White House set a goal of reducing the number of contracts awarded without a full and open competition by 10 percent in 2010. Ten percent may not be the most ambitious goal in light of the dramatic increase in the number of high-risk contracts during the Bush years, but this is nonetheless a step in the right direction.

Agencies are allowed flexibility to experiment in meeting this goal. Such experimentation will enable the administration to identify best practices that can be copied across the agencies, potentially enabling them to accelerate the reduction in the number of high-risk contracts in subsequent years. It may also turn out to be the case that some of the new high-risk contracts were awarded without competition for compelling reasons. Those contracts could be exempted from future reforms.

Finally, the White House hopes to achieve savings by preventing the outsourcing of jobs that are best performed by civil servants or military personnel. As CAP's Scott Lilly notes in a 2007 report, the cost of federal contracting grew more than 17 times faster than the size of the federal workforce between 2000 and 2005. A recent report by the White House Office of Management and Budget suggests that many inherently governmental functions, including the power to award new contracts, are delegated to contractors.

The president issued a memorandum in March 2009 ordering the OMB and several agency heads to provide governmentwide guidance "prescribing when outsourcing is and is not appropriate." This guidance, however, has not yet been released. It remains to be seen how much will be saved by moving more government contracts in-house.

Open government

The Obama administration's open-government efforts also help keep spending under control. These efforts include a website known as the IT Dashboard, which tracks federal information technology spending, rates each IT project based on whether it is on time or overbudget, and provides project grades (based on a five-point scale) from an agency chief information officer. The Veterans Administration identified $200 million in overdue or overbudget projects using the IT Dashboard. All of these projects were temporarily halted; many will be killed entirely.

The White House is also experimenting with ways to build communities, social networking websites, and other structures that allow individuals who do not normally shape policy decisions to share their expertise with government decision makers. An example is the newly created SAVE Award, a new annual contest allowing federal employees to submit an idea to the White House on how the government can save money and perform better.

The White House received more than 38,000 submissions this year, including the winner's proposal to eliminate the Veterans Administration's wasteful practice of tossing half-used containers of medication in the trash rather than simply giving them to discharged patients who were taking the medication during their hospital stay.

Other finalists proposed to streamline redundant inspections of subsidized housing, allow the public to schedule meetings with Social Security Administration officials online, and allow federal offices to bank locally rather than purchasing a money order from a local bank and mailing it for deposit into a bank account in another state. So far, however, the savings from these initiatives only number in the tens or hundreds of millions of dollars.

Moreover, the fact that only 15 of the SAVE Award submissions were included in the president's budget raises a number of questions, such as whether the government gave serious consideration to each of the 38,000 submissions, whether it would be cost effective to devote more resources to such projects, and even whether the SAVE Award's real purpose was simply garnering positive press.

Nevertheless, the administration's work on open governance is still largely in the pilot stage, so many of its first efforts are intended more to permit experimentation than to achieve massive savings. Small savings achieved by early experiments will multiply if these experiments reveal successful approaches that can be expanded across government.

Indeed, there is already evidence this is happening. The White House's successful IT Dashboard inspired a regulatory dashboard, RegInfo.org, which allows users to track the progress of federal regulatory actions, and a planned Cybersecurity Dashboard is expected to launch soon.

IT reforms

The president's budget proposes $79.4 billion in federal IT spending for fiscal year 2011, so the sheer amount of federal spending in this area makes it fertile ground for budget savings. This $79.4 billion request is only a slight decline from the $80.6 billion Congress appropriated in 2010, but the White House plans to make a number of reforms that could achieve significant savings in the years to come.

The Obama administration must thread a difficult needle to achieve these savings. The federal government does not deal with vendors or contractors as one, unified entity. Instead, agencies historically manage their own IT acquisitions. Agencies often buy redundant systems as a result. And the government diminishes its ability to demand deep bulk discounts by bargaining as a single massive purchaser.

At the same time, however, there are risks in centralization of IT decision making. One tech policy expert who served on the Obama transition team offers this cautionary tale: A senior official ordered intelligence agencies to impose security restrictions that made it virtually impossible for field agents in places such as Yemen to use government email to send reports from the field. Many agents then resorted to transmitting highly sensitive information over Gmail or similar services. A different, more workable policy probably would have been implemented had the decision-making process incorporated a broader spectrum of input that accounted for constraints affecting field agents. Centralization, especially without appropriate consultation, can produce inflexible decisions that ignore important variations and special circumstances within government.

Apps.gov is one of the Obama administration's first attempts to thread this needle between agency atomization on the one hand and overcentralization on the other. Presently, the bulk of Apps.gov is a catalogue of software applications addressing common agency needs such as data analytics, networking, and survey gathering.

The applications are all available under a "cloud computing" model, meaning that they are housed remotely and can be accessed by agency personnel via any computer that is connected to the Internet. All of these applications are available to agencies at pre-negotiated rates, thus eliminating the inefficiencies inherent in requiring multiple agencies to negotiate with the same provider in order to purchase identical software.

Just as important, agencies are free to choose which applications they wish to employ—or they can choose to spend their IT budget elsewhere. This approach harnesses the advantages of centralized pricing without stripping agencies of their power to seek agency-appropriate solutions.

The administration also plans to make more efficient use of the government's many computer servers. Unlike software, which is infinitely customizable to address unique agency

needs, computer hardware is relatively interchangeable. Virtually all of the government's computers can run multiple operating systems, multiple networking platforms, and multiple applications.

Despite this interchangeability, federal agencies generally maintain their own dedicated data centers—1,100 data centers are dispersed across government. Each of these centers is comprised of expensive server units that require significant electricity and negatively affect the environment. When assembling a data center for a single agency, IT professionals need to purchase enough equipment to support the agency's computing requirements during periods of peak usage—even if such peaks are few and far between and even if normal usage is only a tiny fraction of peak usage.

FIGURE 1

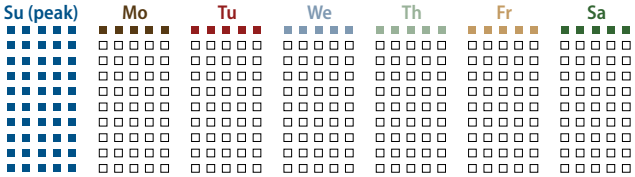
Traditional IT solution

(350 computing units for seven departments)

Each department maintains its own data center

■ Active computing unit □ Inactive computing unit

On Sunday, only the Department of Sunday utilizes its full capacity. The other six departments waste most of their computing capacity.



On Monday, the Department of Monday utilizes its full capacity, but the other six departments still waste most of theirs.

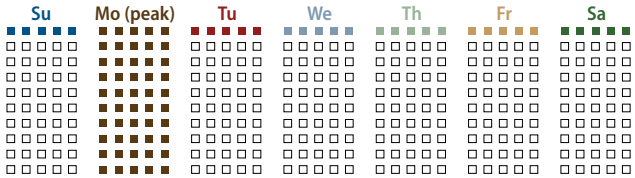


Figure 1 represents the traditional IT model—the model the Obama administration hopes to transition away from. Imagine seven departments, each named after a day of the week. Six days of the week, each department needs only five units of computing power to run its operations, but on Sunday, the Department of Sunday's needs peak, and it requires 50 units of computing power on that day. The Department of Monday requires 50 units of computing power on Mondays, the Department of Tuesday requires 50 units on Tuesday, and so forth.

At any given moment, all seven departments combined only require 80 units of computing power (50 + [6*5]). Yet if each department maintains its own data center, the government will need to purchase each department enough computing power to manage its peak needs. The seven departments will each purchase 50 units of computing power, a total of 350 units, even though 77 percent of this computing power will go unused at any given moment.

One solution the administration is pursuing is consolidation. Rather than purchasing seven data centers that each supply seven agencies' peak needs, the government could instead purchase a single data center that can supply all seven agencies' combined needs.

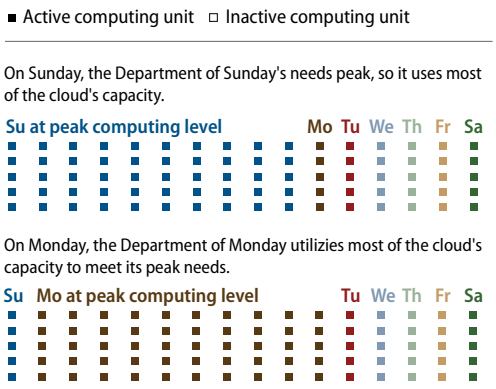
Consolidation nonetheless has its limits. It could be difficult for the government to find a physical space to house a data center sufficiently large to replace federal agencies' 1,100 existing centers. Congress has also already appropriated the money to build the agencies' existing data centers, and this money has already been spent. Implementing a consolidated data center right away would either require a massive new appropriation to purchase new equipment—effectively wasting all the money spent on existing data centers—or that agencies turn their existing equipment over to a central office, something they are unlikely to agree to without a fight.

Figure 2 represents another solution—cloud computing—that the president's budget proposes as "a major part of the strategy to achieve efficient and effective IT." Rather than treating each department as an independent body whose computing needs must be managed separately, each department's servers could be networked together to form a shared "cloud." Thus, on Sunday, the Department of Sunday could not only use its own data center to meet its peak computing needs, it could tap into the other six departments' unused capacity to meet its heightened computing needs. On Monday, when the Department of Sunday's needs diminish, it would in turn lend its own excess capacity to the Department of Monday.

FIGURE 2

Cloud computing solution

(80 computing units for seven departments) Each department's servers are networked together to form a shared "cloud."



Under this cloud computing model, the seven departments would only need to purchase a total of 80 units of computing power, but that capacity could be housed anywhere in the world, or even at multiple locations. Most important, the cloud model significantly reduces wasted computing capacity by allowing one agency to temporarily borrow capacity from another during peak usage periods, rather than requiring each agency to permanently maintain enough capacity to accommodate occasional periods of peak use.

The administration hopes to achieve savings both from consolidation and from adopting a cloud computing model. Although they have not released an estimate of how much money they expect to save in the long term, these savings could be substantial. By hosting just one website—USA.gov—on a remote cloud server, the General Services Administration expects to save $1.7 million per year. GSA is already considering adopting a similar approach to other websites.

On a larger scale, the United Kingdom recently unveiled its own strategy to move toward a cloud computing model. The U.K. government predicts that it could cut £3.2 billion (approximately $4.8 billion) from a £16 billion (approximately $23.9 billion) annual IT budget, a 20 percent savings. If the Obama administration achieves similar savings, it will save $16 billion a year.

Conclusion

It is too early to estimate the total number of dollars that Obama-era operational reforms will save, or even where much of the savings will come from. At a recent CAP event, for example, federal Chief Performance Officer Jeffrey Zients promised to reform the thoroughly broken federal hiring system, noting that many agencies follow Byzantine hiring processes that take many months to complete and which require over a dozen officials to sign off on a single hire.

If Zients succeeds, the immediate savings will be minimal; as a percentage of the overall budget, the federal government spends very little on direct hiring expenses. Nevertheless, today's frustrating hiring process discourages many applicants from pursuing government jobs. A streamlined process will enable government to hire more top talent, and the ultimate savings from a brighter, more motivated, more efficient federal workforce could be enormous—even if we cannot predict their exact size today.

Additionally, many of the pilot projects launched under the White House's Open Government Directive will be duds, and many of the IT reforms presently under consideration will prove unworkable at the agency level. The nature of the experimental process is that some experiments will fail. But the administration is right to experiment with new methods such as contests, web dashboards, and cloud computing.

The only way to identify new ways to save money is to try new ways to save money, but the administration must also subject its experiments to rigorous evaluations to ensure that fruitful initiatives are identified. Experiments that work should be replicated throughout government; unsuccessful experiments should be discontinued.

Of course, even the most rigorous experimental process will not single-handedly restore the budget surpluses of the Clinton era, and the exact savings that will be achieved through operational reforms are uncertain. But these savings clearly will be significant. The $40 billion a year President Obama hopes to save from contracting reforms alone is significantly more than the annual cost of the Departments of Commerce, Interior, and Labor put together.

Most important, every dollar saved by trimming the cost of contracting or eliminating redundant IT systems is freed up to be spent on important initiatives such as health care, clean energy, education, or reducing the federal deficit. By cutting operational costs, the Obama administration helps ensure that taxpayer dollars will advance national priorities and achieve maximum bang for the buck.

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