

July 2005

FEDERAL  
CONTRACTING

Share-in-Savings  
Initiative Not Yet  
Tested





Highlights of [GAO-05-736](#), a report to congressional committees

## Why GAO Did This Study

Federal agencies spend billions of dollars every year on information technology. Increasingly, agencies are using performance-based contracting methods where they specify desired outcomes and allow contractors to design the best solutions to achieve those outcomes. Share-in-savings contracting is one such method under which a contractor provides funding for a project, and the agency compensates the contractor from any savings derived as a result of contract performance.

The E-Government Act of 2002 authorized the use of share-in-savings contracting for information technology and required implementing regulations by mid-September 2003. The Office of Management and Budget (OMB) reported in December 2004 that no share-in-savings contracts had been awarded. The act's authority expires in September 2005.

The act required GAO to assess the effectiveness of share-in-savings contracts under the act. Because no such contracts have been awarded, GAO cannot provide an assessment. Instead, GAO reviewed the status of regulations and tools available to agencies in developing these contracts and identified the reasons agencies have not used the authority provided by the act.

OMB and the General Services Administration (GSA) generally agreed with GAO's report.

[www.gao.gov/cgi-bin/getrpt?GAO-05-736](http://www.gao.gov/cgi-bin/getrpt?GAO-05-736).

To view the full product, including the scope and methodology, click on the link above. For more information, contact William T. Woods at (202) 512-4841 or [woodsw@gao.gov](mailto:woodsw@gao.gov).

## FEDERAL CONTRACTING

# Share-in-Savings Initiative Not Yet Tested

## What GAO Found

More than 2 years after enactment of the E-Government Act of 2002, implementing regulations and OMB guidance for using share-in-savings contracts for information technology have yet to be issued. OMB officials indicate, however, that implementing regulations and share-in-savings guidance will be issued in the near future. GSA—which the act holds responsible for helping agencies identify share-in-savings opportunities, among other requirements—established a share-in-savings program office in February 2003. A few months later, GSA launched two Web-based tools, one of which is designed to assist agencies in identifying cost-effective uses for the share-in-savings approach and producing business cases for using share-in-savings for information technology projects. As of March 2005, this tool had been used more than 200 times. A total of 15 business cases were deemed potential share-in-savings candidates, however, none of these resulted in a contract award.

GSA hired a contractor that developed a 2-day training course for share-in-savings contracting, but only 21 federal acquisition employees have taken the course. And even though GSA prequalified six contractors as viable information technology system solution providers with commercial share-in-savings experience, no agencies have taken advantage of these opportunities to award a share-in-savings contract.

Officials from 11 agencies cited a number of reasons that the share-in-savings initiative has not resulted in the award of contracts for information technology projects. Reasons include

- lack of implementing regulations;
- difficulty determining baseline costs;
- a belief that the return on investment using share-in-savings contracts is insufficient;
- concerns among agency officials that they still would have to obtain funding for cancellation and termination liability, which can be a significant sum; and
- too few acquisition employees have been trained to use the share-in-savings contracting technique.

Since OMB expects the implementing regulations and share-in-savings guidance to be issued soon, at least some of the reasons agencies cited for not using the share-in-savings contracting authority for information technology soon could be addressed. Whether or not other reasons can be overcome may not be known unless the authority is extended.

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## Abbreviations

FAR	Federal Acquisition Regulation
GSA	General Services Administration
OMB	Office of Management and Budget

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United States Government Accountability Office  
Washington, DC 20548

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July 26, 2005

The Honorable Susan M. Collins  
Chairman  
The Honorable Joseph I. Lieberman  
Ranking Minority Member  
Committee on Homeland Security and Governmental Affairs  
United States Senate

The Honorable Thomas M. Davis  
Chairman  
The Honorable Henry A. Waxman  
Ranking Minority Member  
Committee on Government Reform  
House of Representatives

Federal agencies spend billions of dollars every year on information technology to improve mission-related or administrative processes. To try to maximize the prospects for success of information technology projects, agencies are increasingly using performance-based contracting methods where they specify desired outcomes and allow the contractors to design the best solutions to achieve those outcomes. Share-in-savings contracting is a performance-based technique, under which a contractor provides the initial funding for a project and the agency then compensates the contractor from any financial benefits derived as a result of contract performance.

The E-Government Act of 2002 authorized the use of share-in-savings contracting to obtain information technology.<sup>1</sup> This authority is set to expire at the end of September 2005. The act required that implementing regulations be issued no later than September 2003. It also required that the Office of Management and Budget (OMB) report to Congress on the use of this authority, and that we report on our assessment of the effectiveness of share-in-savings contracting. In December 2004, OMB reported that no share-in-savings contracts for information technology projects had been awarded. We cannot, therefore, provide an assessment

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<sup>1</sup>Section 210, Public Law 107-347 (Dec. 17, 2002), codified at 41 U.S.C. § 266a and 10 U.S.C. § 2332.

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of the effectiveness of this contracting method. As agreed with your offices, however, we (1) determined the status of regulations, guidance, and program level support available to agencies in developing share-in-savings contracts for information technology, and (2) identified the reasons agencies have not used the authority provided by the legislation.

To determine the status of share-in-savings regulations, guidance, and program-level support, we obtained documentation from and interviewed officials with OMB and the General Services Administration (GSA), which is responsible for identifying potential share-in-savings opportunities and providing guidance to the agencies. To determine the reasons agencies have not entered into share-in-savings contracts for information technology, we interviewed officials at seven agencies with high-dollar contracting in information technology during fiscal year 2003. We also interviewed officials at four additional agencies that had expressed interest in annual budget submissions to OMB in using share-in-savings contracts for information technology. We conducted our review from February 2005 through June 2005 in accordance with generally accepted government auditing standards.

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## Results in Brief

More than 2 years after enactment of the E-Government Act of 2002, the regulations required to implement the authority to use share-in-savings contracts for information technology have yet to be issued. Although proposed regulations were issued in July 2004, the final regulations are still undergoing review. OMB also is developing additional guidance to ensure that share-in-savings projects are based on sound business cases. OMB officials indicated that the implementing regulations and guidance would be issued soon. GSA has established a program office and launched two Web-based tools to assist agencies in identifying suitable share-in-savings projects and to help them evaluate the merits of prospective projects. Fifteen out of more than 200 projects evaluated through the use of one of these tools warranted further consideration, according to GSA, but to date, none of these projects has resulted in the award of a share-in-savings contract. GSA has arranged for training courses to teach the federal acquisition workforce how to use share-in-savings contracting and identify suitable information technology candidates. Only 21 federal employees, however, have taken the training.

Officials cited various reasons to explain the lack of share-in-savings contracts for information technology. The reasons included the absence of implementing regulations, the difficulty of determining baseline costs, and concerns that the return on investment may be too low to attract potential

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contractors. Agency officials told us they are reluctant to use share-in-savings contracting until the implementing regulations are finalized. In addition, officials said that even though contractors would be required to provide up-front funding, agencies would still need available appropriations to cover potential cancellation or termination liability, which can be a significant sum. Officials also said that too few acquisition personnel have been trained to use this innovative contracting technique.

Since OMB expects the implementing regulations and share-in-savings guidance to be issued soon, at least some of the reasons agencies cited for not using the authority for information technology soon could be addressed. Whether or not other reasons can be overcome may not be known unless the authority is extended.

We provided a draft of this report to OMB and GSA for their review and comment. Both agencies concurred with the report. OMB provided further observation on the development of regulations and guidance for implementing the share-in-savings initiative.

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## Background

Share-in-savings contracts fall under the umbrella of performance-based contracting, in which a federal agency specifies the outcome or result it desires and lets the contractor decide how best to achieve the desired outcome. In theory, share-in-savings contracting can provide a number of potential benefits to both an agency and its contractor. For example, an agency can ask a contractor to provide up-front funding, in which case most of the financial risk of the project shifts from the government to the contractor. The agency also can leverage the contractor's stake in the success of a project since the contractor receives payment only after demonstrating that the project—a new or upgraded information technology system, for example—saves the agency money. Unexpected problems, such as a delay in system installation, could erase some of the projected savings, so the contractor has an incentive to effectively manage overall costs, schedule, and performance. In short, the contractor is paid for results, not just for effort. Because of the increased financial risk a contractor assumes, a contractor can earn a greater return with a share-in-savings contract compared to the return on a traditional contract.

In 1996, the Clinger-Cohen Act authorized limited pilot programs to test the feasibility of share-in-savings contracts for information technology. In 2002, the E-Government Act expanded authority to award share-in-savings contracts in fiscal years 2003 through 2005 to acquire information technology solutions and provided incentives for agencies to enter into such contracts. For example, agencies are allowed to retain, in their

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information technology accounts, any savings above amounts paid to their contractors. The act required the OMB to report to Congress on the number of share-in-savings contracts entered into under this initiative. In December 2004, the OMB reported that no contracts for information technology projects had been awarded.

In 2003, we issued two reports related to the use of share-in-savings contracts.<sup>2</sup> Our January 2003 report, which focused on commercial use of share-in-savings contracting, found that this approach can be an effective technique to motivate contractors to generate savings and revenues for clients. To be successful, though, clients and contractors need to agree on goals and objectives and how to achieve them. Our March 2003 correspondence to OMB addressed the need for OMB's Office of Federal Procurement Policy to ensure that members of the federal acquisition workforce understand and appropriately apply the authority of the E-Government Act of 2002.

The Department of Energy has used share-in-savings contracting for technology solutions to reduce energy consumption. Congress authorized the department, among other federal agencies, to use a type of share-in-savings contract for private financing of energy-efficiency improvements in federal facilities.<sup>3</sup> Rather than use up-front appropriations from Congress, the department asked energy service contractors to contribute the up-front costs for identifying a federal facility's energy needs as well as buying, installing, operating, and maintaining energy-efficient equipment to reduce energy bills. In return, the contractors get a share of the energy savings generated by the improvements. We have found that agencies that have used energy savings performance contracts have reduced their energy consumption and achieved other goals.<sup>4</sup>

We have raised questions, however, about the use of share-in-savings contracts for energy-efficiency improvements. For example, a number of

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<sup>2</sup>GAO, *Contract Management: Commercial Use of Share-in-Savings Contracting*, [GAO-03-327](#) (Washington, D.C.: Jan. 31, 2003) and GAO, *Contract Management: OFPP Policy Regarding Share-in-Savings Contracting Pursuant to the E-Government Act of 2002*, [GAO-03-552R](#) (Washington, D.C.: Mar. 24, 2003).

<sup>3</sup>These share-in-savings contracts, called Energy Savings Performance Contracts, were first introduced under the Comprehensive Omnibus Budget Reconciliation Act of 1985, Public Law 99-272, which amended the National Energy Conservation Policy Act.

<sup>4</sup>GAO, *Energy Savings: Performance Contracts Offer Benefits, but Vigilance Is Needed to Protect Government Interests*, [GAO-05-340](#) (Washington, D.C.: June 22, 2005).

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factors may cause third-party financing of long-term capital improvement projects to be more expensive than the direct use of available appropriated funds.<sup>5</sup> This is so because the interest rate paid by a contractor for needed capital typically would be higher than if the improvements were funded through appropriations. Inevitably, by opting to use a share-in-savings contract, the federal agency would have to take into account the contractor's higher cost of financing than if the agency had funded the project itself. Another area of concern is how share-in-savings contracts should be reflected in the federal budget, an issue about which federal budget agencies disagree. On the one hand, OMB believes that share-in-savings budget authority, contract obligations, and outlays should be recognized on a year-to-year basis. In other words, only the first year's costs, not the cumulative annual costs of energy share-in-savings contracts, would need to be reflected in the agency's budget in the year the contract is awarded. On the other hand, the Congressional Budget Office believes that the budget should reflect long term share-in-savings contract commitments as new obligations at the time the contract is signed, consistent with government accounting principles.<sup>6</sup> In a recent report, we raised similar concerns.<sup>7</sup> Finally, the extent to which energy savings cover costs remains uncertain, and we have recommended more oversight of energy savings performance contracts and other steps to ensure cost-effectiveness.<sup>8</sup>

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## Share-in-Savings Regulations and Guidance Lag Behind Progress in Other Areas

Final regulations to implement the share-in-savings authority in the E-Government Act of 2002 have yet to be published. Additional guidance on the use of this method also lags behind the progress made in establishing a share-in-savings program office and providing agencies with some share-in-savings tools and related training.

The E-Government Act required that the Federal Acquisition Regulation (FAR) be revised by mid-September 2003 to implement the share-in-savings authority contained in the act. It was not until July 2004, however,

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<sup>5</sup>GAO, *Capital Financing: Partnerships and Energy Savings Performance Contracts Raise Budgeting and Monitoring Concerns*, [GAO-05-55](#) (Washington, D.C.: Dec. 16, 2004).

<sup>6</sup>Congressional Budget Office, *Third-Party Financing of Federal Projects: Economic and Budget Issue Brief* (Washington, D.C.: June 1, 2005).

<sup>7</sup>[GAO-05-55](#).

<sup>8</sup>[GAO-05-340](#).



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that a proposed revision to the FAR was published in the *Federal Register* for public comment. As of July 2005, the final FAR rule was still awaiting approval by OMB's Office of Federal Procurement Policy. The act also required the OMB to develop guidance for techniques to permit agencies to retain a portion of resulting financial savings after payment of the contractor's share of the savings. OMB officials told us they plan to develop a broader policy memorandum providing agencies with additional guidelines to ensure share-in-savings contracting success. As of July 2005, the policy memorandum had not been issued. OMB officials indicated, however, that implementing regulations and share-in-savings guidance would be completed in the near future.

The act assigned GSA responsibility for helping federal agencies identify information technology projects as potential share-in-savings candidates and for providing guidance on determining share ratios and baselines from which savings may be measured. GSA established a share-in-savings program office in February 2003, and in July of that year launched two Web-based tools to help agencies identify and evaluate share-in-savings opportunities. The Business Case Decision Tool is designed to assist agencies in developing business cases on the basis of realistic baseline costs to ensure that use of share-in-savings contracts would be cost-effective. The Proposal Evaluation Tool is used to evaluate the merits of contractor share-in-savings proposals. According to the program office director, agencies started using the Business Case Decision Tool in September 2003. As of March 2005, various agencies have used the tool to conduct 219 analyses, resulting in the identification of 15 information technology projects as potential share-in-savings candidates. Although some of these 15 potential projects are still under consideration, various steps remain to be completed, and none has yet resulted in a share-in-savings contract award.

GSA hired a contractor to train agencies in identifying suitable share-in-savings projects, structuring solicitations, and analyzing proposals. The training, which has been available to agencies since July 2004, is a 2-day course and costs \$650 per student. As of March 21, 2005, a total of 21 federal acquisition employees from six agencies had taken the training. The same training is now being offered by the Federal Acquisition Institute, an entity within OMB charged with developing the curriculum

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needed to train the civilian agency workforce.<sup>9</sup> Two classes have been scheduled, one in June 2005, and the other before the E-Government Act's authority expires in September 2005. The Federal Acquisition Institute may exercise an option to provide five additional share-in-savings training classes in fiscal year 2006.

Finally, in July 2004, GSA established blanket purchase agreements with six contractors; each of which is a major information technology solution provider with commercial share-in-savings contracting experience. A blanket purchase agreement is a simplified method of filling the government's anticipated repetitive needs for supplies or services by establishing charge accounts with qualified sources of supply. The agreements may subsequently be used by agencies to procure specific goods or services. As of June 2005, however, since no share-in-savings project is ready for the contracting phase, no agencies have used the blanket purchase agreements.

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## Use of Share-in-Savings Authority Hindered by Issues Related to Regulations, Baseline Costs, Up-front Funding, and Training

Officials from 11 agencies cited several reasons the share-in-savings contracting authority for information technology has not led to the award of share-in-savings contracts. Reasons include a lack of final implementing regulations and OMB guidance on how to budget and account for retained savings and the difficulty of determining baseline costs. Some officials said contractors are reluctant to get involved in share-in-savings contracts because the return on investment is believed to be too low. In addition, officials told us that even though contractors would provide up-front funding for a share-in-savings contract, some amount of appropriated funds would still be required. Officials also said that too few acquisition personnel have been trained to use this innovative contracting technique.

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## Implementing Regulations and OMB Guidance Not Yet Issued

Agency officials told us they are reluctant to use share-in-savings contracting until the FAR implementing regulations are finalized. Because share-in-savings contracting is considered innovative within the federal government, agency officials said they need clear regulations to understand when and how to use this technique.

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<sup>9</sup>The Federal Acquisition Institute is under the direction of the OMB's Office Federal Procurement Policy. The Institute also partners with the Defense Acquisition University to provide training to both military and civilian acquisition personnel.

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We also highlighted the need for guidance in our March 2003 correspondence to OMB's Office of Federal Procurement Policy.<sup>10</sup> Given the federal government's limited experience with share-in-savings contracting, as well as limited understanding of the conditions that foster successful implementation in commercial share-in-savings contracts, we reported that members of the federal acquisition workforce need to understand and appropriately apply the E-Government Act's new authority. Toward that end, we recommended that OMB develop the necessary guidance. To date, OMB has not responded to our recommendation. While GSA's guidance may be helpful in identifying potential candidates, additional guidance is still needed from OMB on accounting for savings in excess of amounts paid to the contractor and developing sound business cases with firm baselines.

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## Baseline Costs Difficult to Determine

Another reason agency officials say they have not used share-in-savings contracting is the difficulty in determining a baseline cost. A baseline cost is the cost of current operations. Without an accurate baseline, agreed to by the agency as well as the contractor, savings cannot be correctly measured, leaving both the agency and the contractor at risk of not receiving their fair share of savings, if any are generated. The contractor cannot determine with any certainty that the savings would cover its costs, let alone result in a profit. Our past work on commercial use of share-in-savings contracts suggests that the business process and administrative cost information necessary to calculate a baseline may not be available in some cases.<sup>11</sup> Agency officials told us that in the information technology area, calculating a baseline can be very complicated. It can be difficult, for example, to isolate the direct savings from a reduction in the time an employee spends on a new task as a result of a new, automated information system replacing one or more old tasks. Further, in our past financial reporting, we have described the type of systemic challenges agencies face in accurately determining the baseline costs of programs, which could impede agencies' use of share-in-savings contracting. For example, we reported in the *2004 Financial Report of the United States Government* that the federal government's ability to reliably measure the full costs of certain programs is hampered by a significant number of

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<sup>10</sup>[GAO-03-552R](#).

<sup>11</sup>[GAO-03-327](#).

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material weaknesses related to financial systems, fundamental recordkeeping, financial reporting, and incomplete documentation.<sup>12</sup>

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## Return on Investment Believed to Be Too Low

Even if a baseline could be established, most agency officials we interviewed said an obstacle to using share-in-savings contracting would be not having a potential savings pool large enough to provide contractors an appealing return on investment. The GSA share-in-savings program office and the Office of the Secretary of Defense's Business Initiative Council determined that a successful share-in-savings business case requires a savings-to-investment ratio of at least 3 to 1. However, a business case review in 2004 by the Defense Commissary Agency illustrates the potential difficulty in meeting that target. Last year, that agency determined that an inadequate return on investment was a primary reason a share-in-savings contract would not be used to buy a replacement retail transaction system for its hundreds of commissaries.<sup>13</sup> On two occasions, the agency requested information from contractors on installing a replacement retail transaction system under a share-in-savings contract. Concerns about fewer commissaries in the future, as a result of anticipated military base closures, and other cost uncertainties led contractors to request a guaranteed minimum number of system replacements to protect profit margins associated with their initial investments. The agency did not provide minimum guarantees, and a share-in-savings contract was not awarded.

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## Appropriations Still Necessary

Another reason, according to officials, agencies may not have used share-in-savings contracting to acquire information technology solutions is that the E-Government Act requires funds to be available for the first year of the contract. Even though the contractor pays the up-front costs, the agency still needs appropriated funds to cover cancellation and

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<sup>12</sup>Our report is included in a report for fiscal year 2004: The Department of the Treasury, *2004 Financial Report of the United States Government* (Washington, D.C.: December 2004).

<sup>13</sup>The Commissary Advanced Retail Transaction System is to replace legacy technologies with a commercial, off-the-shelf, point-of-sale system that includes hardware, software, and related support services, such as a help desk, maintenance, installation, and on-site consulting services.

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termination liability, in the event the government ends the project.<sup>14</sup> However, agency officials advised that these funds can represent a significant share of the total cost of an information technology project. Accordingly, so that any savings would stay with the government, agency officials said they are motivated to use appropriated funds for information technology projects and to award traditional contracts. This is the reason that the Internal Revenue Service decided not to award a share-in-savings contract to modernize its taxpayer identification system for non-U.S. citizens.<sup>15</sup>

In the past, when we interviewed Department of Energy officials about using share-in-savings contracts for energy-efficiency improvements, they said this contracting technique is best used to finance projects when federal funding is thought to be unavailable.<sup>16</sup> According to Department of Energy officials, they would prefer the agency pay for the entire project, because all of the savings would stay with the government.

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## Few Acquisition Personnel Have Been Trained

We have previously reported that training on the E-Government Act's share-in-savings acquisition initiative would be essential to its effective implementation.<sup>17</sup> However, few acquisition personnel have been trained on when and how to use share-in-savings contracting. As of March 21,

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<sup>14</sup>The government has the right to terminate the entire contract at any time or cancel subsequent program years. If the government chooses to cancel or terminate the contract, certain amounts may still be owed to the contractor. The E-Government Act allows the amount of cancellation or termination liability to be negotiated by the contracting parties. As an incentive, the act gives agencies various options to fund these costs. In certain circumstances, agencies can even enter into share-in-savings contracts if the full costs of cancellation or termination are not available. However, if an agency chooses to leave a portion unfunded, first-year funds must still be available. Also, under the act, the unfunded amount will never be more than the lesser of \$5 million or 25 percent of the total cost of cancellation or termination.

<sup>15</sup>The Internal Revenue Service assigns an individual taxpayer identification number to non-U.S. citizens who file tax returns. The agency's legacy system has become costly, inefficient, and dependent on redundant manual processes. According to the agency, the modernized replacement system will reengineer the individual taxpayer identification and numbering process to eliminate duplicate efforts, unnecessary clerical hand-offs, and manual processing. The agency had intended to procure the system with a share-in-savings contract authorized under the E-Government Act. Instead, the Internal Revenue Service issued a \$2.8 million task order off an existing contract.

<sup>16</sup>GAO, *Energy Conservation: Contractors' Efforts at Federally Owned Sites*, GAO/RCED-94-96 (Washington, D.C.: Apr. 29, 1994).

<sup>17</sup>GAO-03-552R.

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2005, only 21 federal acquisition employees had received share-in-savings training from GSA's share-in-savings training contractor. The training developed by the contractor addresses the technical and organizational share-in-savings issues needed to be understood for successful contracts. For example, negotiating a share-in-savings contract can be a highly technical and time-consuming process and requires a certain level of business acumen. As covered in the training, the use of share-in-savings contracting demands a good understanding of requirements; agreement on baseline costs, use of metrics to measure savings, confidence in savings-share ratios; and the identification and mitigation of risks.

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## Conclusions

With only a few months remaining before authority for the initiative is due to expire, no federal agencies have used the share-in-savings authority provided by the E-Government Act to award contracts. Therefore, neither OMB nor we has a basis for assessing the effectiveness of share-in-savings contracts for information technology to improve agencies' mission-related or administrative processes. Agencies' limited exposure to share-in-savings contracting for information technology has not extended much beyond the initial steps of analyzing potential business cases. As a result, the act's authority has not actually been tested.

Since OMB expects the implementing regulations and share-in-savings guidance to be issued soon, at least some of the reasons agencies cited for not using the share-in-savings contracting authority for information technology soon could be addressed. Although it is too early to know whether or not other reasons can be overcome, the issuance of implementing regulations and OMB guidance may soon create better conditions under which to test the share-in-savings initiative. If Congress wants to test the effectiveness of share-in-savings contracts for information technology, Congress would need to extend the authority beyond the scheduled September 2005 expiration.

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## Agency Comments and Our Evaluation

We received comments on a draft of this report from OMB and GSA. Both agencies concurred with the report.

In oral comments, OMB officials acknowledged that issuance of the share-in-savings implementing regulations and OMB guidance has been delayed longer than anticipated. The officials cited the need to ensure that the regulations and OMB guidance are clear on how to successfully manage share-in-savings complexities, such as establishing a baseline, determining a reasonable return on investment, and ultimately developing a sound

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business case. OMB officials commented that shortly after enactment of the E-Government Act, the agency started efforts to develop the share-in-savings regulations and guidance and noted the October 2003 advanced notice of proposed rulemaking and the July 2004 publication of the proposed rule as examples of the results of such efforts. OMB officials also noted that the final rule was drafted in February 2005. However, OMB officials told us they continue to work with other agencies to ensure that the final policy is clear on how to successfully handle the complexities of the share-in-savings planning and budgeting processes. Although OMB officials could not tell us precisely when, they anticipate that the final rule and OMB guidance will be published in the near future.

In e-mailed comments, GSA generally agreed with our report but believed the title of the report did not accurately describe the efforts taken to test share-in-savings. GSA commented that the report's title implies that nothing has been done, despite the agency's efforts in promoting the use of share-in-savings and that certain portions of the concept have been tested, although outside of the E-Government Act's authority. We recognize that the government has used share-in-savings contracts under other authorities. However, the government has not awarded any share-in-savings contracts under the E-Government Act's authority, and therefore, the authority has not been tested. We also recognize in the report the work GSA did to promote the use of share-in-savings contracting.

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## Scope and Methodology

To determine the regulations, guidance, and program-level support that exist to assist agencies in developing share-in-savings contracts, we interviewed officials and obtained documentation from OMB and GSA. We participated in a 1-day course adapted from GSA's 2-day training course, which was led by the contractor, Beacon Associates Inc. of Bel Air, Maryland.

To determine the reasons agencies have not entered into share-in-savings contracts, we interviewed officials from seven defense and civilian agencies that used contracting vehicles other than share-in-savings to award high dollar-value contracts for information technology in fiscal year 2003. We identified the agencies with high-dollar information technology spending by reviewing contract actions reported in the Federal Procurement Data System, the government's repository for contracting data. Though that system has recognized limitations, it was sufficient for purposes of identifying a mix of defense and civilian agencies with high levels of spending on information technology.

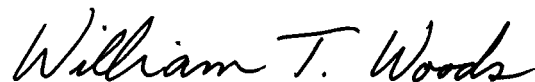
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We interviewed agency officials who had shown an interest in using share-in-savings contracts to buy information technology. We identified these officials by reviewing their agencies' *Exhibit 300*, an OMB budget justification and reporting requirements document that is required for the procurement of major information technology systems. We also contacted the GSA for help in identifying agencies that explored share-in-savings opportunities. Finally, we interviewed and obtained information from the Department of Defense's Business Initiatives Council. The Department of Defense established the council to improve business operations by identifying and implementing business reforms, such as share-in-savings contracting for information technology. The agencies we obtained information from as to why they opted not to use the E-Government Act's share-in-savings contracting authority are the Army, Navy, Air Force, and the Defense Commissary Agency in the Department of Defense; the Departments of Agriculture, Health and Human Services, Interior, and Justice; GSA; the Internal Revenue Service; and the Office of Personnel Management.

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We are sending copies of this report to interested congressional committees, the Director of OMB, the Administrator of General Services, and the chief acquisition officers at the 11 agencies from which we obtained information. We will also make copies available to others upon request. In addition, the report will be available at no charge on the GAO Web site at <http://www.gao.gov>.

If you or your staff have any questions about this report, please contact me at (202) 512-4841 or [woodsw@gao.gov](mailto:woodsw@gao.gov). Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. Major contributors to this report were Carolyn Kirby, Assistant Director; Daniel Hauser; Noah Bleicher; Lily Chin; Johnetta Gatlin-Brown; and Russell Reiter.



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Acquisition and Sourcing Management



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