Improving Contracts

Significant Results through Strengthened Vendor Communication

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Department of Education, Office of Federal Student Aid

Executive Summary

The Department of Education's (Education) Office of Federal Student Aid (FSA) administers the student financial assistance programs authorized under Title IV of the Higher Education Act. These programs collectively represent the nation's largest source of federal financial aid for postsecondary students. Last year, the office processed over 21 million applications for federal student aid, resulting in the delivery of approximately $134 billion in grant, work-study and loan assistance to over 14 million postsecondary students and their families attending approximately 6,000 institutions of higher education located across the world.

FSA's Virtual Data Center (VDC) directly supports the information technology used for these programs. The VDC provides technical, operational and maintenance services in support of mainframe and midrange hardware and software. The facility provides electronic access to these applications over the World Wide Web, providing benefits to the end user including: reduction in application errors, immediate end user confirmation of Free Application for Federal Student Aid (FAFSA) filing requirements completion, and immediate preliminary summary of expected parental financial support.

VDC's existing contract from 1989 through 2006 was held by a single vendor. Without competition, this vendor acted as a monopoly for this service, charging prices far exceeding market rates. Between the time of original contract in 1989 and the year in which the contract was going to be rebid, Education had implemented a process of pre-RFP market research and vendor communication. This process resulted in an effective new contract with competitive prices able to take advantage of emerging technologies and services.

Challenge

Prior to conducting more pre-RFP communications, the type of contracts that FSA negotiated and executed did not optimally deliver what the office needed in terms of price, performance, and flexibility. FSA's portfolio was filled with long-term contracts which were effective monopolies. This led to a lack of innovation and significantly higher costs than comparable services in industry. The office's approach to pre-RFP communications when the original VDC contract was awarded relied on limited communication with the vendor, lack of market research to determine current technology options, pricing, and methods to incentivize the vendor to improve services.

In the specific case of the VDC program, the incumbent vendor had been providing data center services since 1989. By 2006, FSA was looking to recompete the contract, but had very little insight into the current market for such services in terms of technological innovation and pricing. Over the life of the existing contract, the vendor had not provided such updates and had delivered the same service over the course of more than a decade.

Solution

FSA engaged an independent consulting firm to conduct market research on current prices and potential vendors. During this pre-RFP phase, the office was able to meet with the vendor community in a variety of settings, ranging from traditional vendor days and public forums to one-on-one meetings with industry-leading vendors, to learn about potential solutions in the current market environment.

FSA's approach adopted industry practices and services rather than dictating government norms to industry. FSA told the vendor community what service the office needed, not what solution, and received a variety of recommendations informed by market principles. Specifically, FSA gained insight into available security and disaster recovery capabilities, current pricing models, and best ways to incentivize better vendor performance.

Armed with this market research, FSA shaped a solicitation built on the assumption that technology would evolve over time and the vendor would be responsible for providing up-to-date industry standard technology over the life of the contract. In addition, the contract cost would be benchmarked periodically against prevailing industry prices so that the agency could maintain a contract over longer periods without sacrificing cost and innovation.

FSA then pursued a two step procurement. First, the office issued a high level proposal that whittled down the competitive range of vendors. FSA was then able to sit down with each vendor that had made the initial cut to perform due diligence in executing a performance-based acquisition. Instead of spending time reviewing dozens of highly-detailed offers, the office devoted its energy to looking into the selected vendors most likely to fit their needs.

Results

The resulting proposals received across bidders were almost 50% less expensive than the previous contract. Even the incumbent vendor submitted a bid that reflected competitive pricing. Furthermore, the proposals and ensuing contract were better aligned with the technology cycle and contained more effective contractor incentives.

Under the previous contract, the vendor was being rewarded for meeting Service Level Agreements (SLAs) that basically reflected expected industry performance standards. The new contract altered this arrangement, eliminating incentives for meeting/exceeding SLAs while retaining disincentives for failing to meet SLAs.

The industry exchanges described above also enabled FSA to better understand the types of risks that data center providers struggle with and the importance of offering predictable contract duration(s) to allow for more competitive pricing. Using this awareness, FSA developed and incorporated an award term incentive.

Essentially, if the first 3-years of contract performance execution warranted it, the provider could earn an initial award term period and, for sustained or better performance, continue to earn follow-on award terms. During each award term, the Indefinite Delivery Indefinite Quantity (IDIQ) contract converted to a requirements contract, for a specific duration, during which FSA agreed to award the provider all of its data center requirements. Further, if the provider consistently earned award terms during the initial 10-year IDIQ contract performance period, FSA could extend the contract for an additional five years. This incentive addressed two highly valued aspects of supply chain management: if delivering high quality performance, the contractor can obtain a desired long term relationship and ensure contract stability.

The resulting contract also applied key aspects of Six Sigma quality control methodology by not only advocating the use of proven quality assurance and control techniques but also mandating that the contractor maintain a forward-looking orientation towards continuous improvement and innovation. To earn award terms, the provider not only had to perform well, but also continuously and systematically evolve its technology solution to remain aligned with industry advances.

Lessons learned

- While more labor-intensive up front, engaging the vendor community pre-RFP and during the procurement process leads to a better contract.
- To keep down customization costs, Government should examine and adopt industry services instead of dictating a solution.
- Government acquisition teams can be incentivized to leave their comfort zone and pursue new contracting models.

Disclaimer

- References to the product and/or service names of the hardware and/or software products used in this case study do not constitute an endorsement of such hardware and/or software products.