

**STATEMENT OF ANGELA B. STYLES
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BEFORE THE
SUBCOMMITTEE ON OVERSIGHT OF GOVERNMENT MANAGEMENT,
THE FEDERAL WORKFORCE AND THE DISTRICT OF COLUMBIA
COMMITTEE ON GOVERNMENTAL AFFAIRS
UNITED STATES SENATE**

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Chairman Voinovich, Senator Durbin, and Members of the Subcommittee, I appreciate the opportunity to appear before you today to discuss the Administration's competitive sourcing initiative. Two years ago, the Administration unveiled the President's Management Agenda (PMA), a bold strategy for improving the management and performance of the federal government. Opening commercial activities performed by the government to the dynamics of competition -- i.e., competitive sourcing -- is a major component of the PMA and the Administration's vision for a market-based government.

A number of Administrations have encouraged the use of competitive sourcing -- through memoranda, a Circular, a government-wide handbook, and even an Executive Order. Like us, past Administrations recognized that public-private competition improves service delivery and decreases costs to taxpayers, irrespective of which sector wins the competition. Various studies have found savings of anywhere from 10-40%, on average, regardless of the sector that wins the competition. In fact, savings can be even higher. For example:

- Federal employees won a public-private competition in 1994 to perform base operations support at Goodfellow Air Force Base. The competition has resulted in an effective savings of 46%.
- Private sector performance of aircraft maintenance at McChord Air Force Base, work previously performed by the government, has resulted in an effective savings of 66% following a public-private competition in the early 1990s.

Despite these positive results, use of public-private competition has not taken hold outside of the Department of Defense. Our competitive sourcing initiative seeks to institutionalize public-private competition by providing an infrastructure and management blueprint for its considered application.

Today, the Office of Management and Budget (OMB) is providing a report to Congress describing the steps we have been and are taking to implement competitive sourcing. A copy of the report is attached to this statement. I would like to summarize that report for you this morning. I think you will find that the report provides important insight regarding our reasoned and responsible approach for ensuring the fair and

effective application of this important management tool. I would also like to address the specific concern you raised in your letter of invitation regarding the potential impact of competitive sourcing on the federal workforce.

The strategy for implementing competitive sourcing

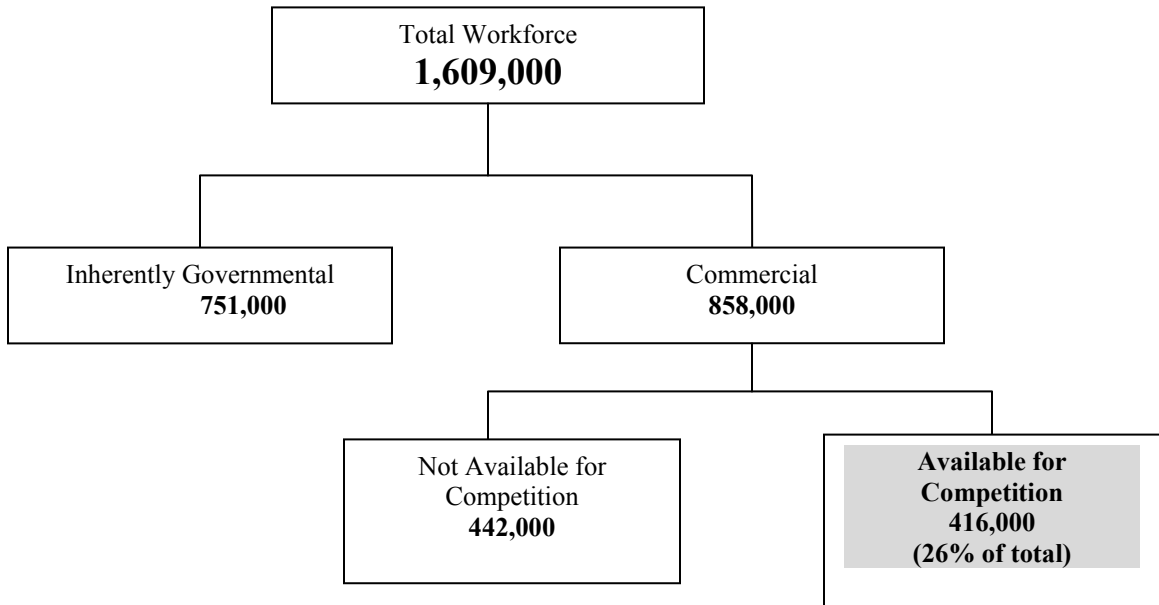
The Administration's strategy for institutionalizing public-private competition has three features:

1. Agency-specific competition plans that are customized, based on considered research and sound analysis, to address the agency's mission and workforce mix;
2. A dedicated infrastructure within each agency to promote sound and accountable decision making; and
3. Improved processes for the fair and efficient conduct of public-private competition.

Let me briefly describe how each of these features reinforces careful planning and well informed decision making.

Customized competition plans. The preparation of competition plans begins with the development of workforce inventories, as required by OMB guidance and the Federal Activities Inventory Reform (FAIR) Act. Agencies first differentiate inherently governmental activities from commercial activities. Inherently governmental activities are excluded immediately from performance by the private sector. Agencies then separate commercial activities that are available for competition from those that are not. In deciding whether a commercial activity is inappropriate for potential performance by the private sector, agencies take various factors into consideration, such as the unavailability of private sector expertise, preservation of core competencies, or the need for confidentiality in support of senior level decision making. As noted in the diagram below, OMB estimates that approximately 26% of the workforce from agencies being tracked under the PMA are engaged in commercial activities that should be available for competition. Individual agency determinations, however, vary from under 20 percent to over 60 percent: no two agencies are alike.

OMB Estimated Aggregate Workforce Profile of Agencies Being Tracked under the PMA



Once an agency has identified commercial activities available for competition, they consider, in a disciplined way, which of these might benefit most from comparison with the private sector. Agencies are generally focusing use of public-private competition on commonly available routine commercial services where there are likely to be numerous capable and highly competitive private sector contractors worthy of comparison to agency providers. They also consider factors such as workforce mix, attrition rates, capacity to conduct reviews, the percentage of service contracts, and the strength of the agency's contract management capabilities. For our part, OMB has created scorecards to measure agency progress in implementing competition plans. We have also committed to meeting with agencies on a quarterly basis to provide assistance in the use of competitive sourcing as a management tool.

OMB has moved away from mandated numerical goals and uniform baselines that were introduced at the beginning of the initiative to ensure a level of commitment that would institutionalize use of the tool within each agency. Instead, we have negotiated tailored baselines based on mission needs and conditions unique to the agency. As an additional step to reinforce our customized approach to competitive sourcing, OMB has revised the criteria that will be used to grade agency progress. The revised criteria, which are set forth in section III of our report, contain no government-wide numerical goals that would require an agency to compete a portion of the commercial activities performed by the government. However, the scorecard still includes the types of incentives that should facilitate the application of competitive sourcing in a sound manner.

Agency management infrastructure. OMB requires that agencies designate a Competitive Sourcing Official (CSO) to be accountable for competitive sourcing actions in the agency. The organizational placement of the CSO is left to each individual agency. OMB further requires that agencies centralize oversight responsibility to help facilitate a wide range of activities, including:

- the development of inventories of commercial and inherently governmental activities;
- the determination of whether commercial activities are suitable for competition;
- the scheduling and preliminary planning of competitions, including the coordination of resources to support the agency provider;
- the tracking of results; and
- information sharing within the agency so past experiences can inform future actions.

Improved processes for conducting public-private competitions. For a long time, the acquisition community has argued that the benefit derived from public-private competitions could be much greater if processes for conducting competitions were improved. Towards this end, OMB has revised Circular A-76, the document that sets forth the guidelines for conducting public-private competitions. In developing the revisions, we carefully considered the guiding principles of the Commercial Activities Panel. We believe the Circular is generally consistent with the Panel's principles and recommendations. The General Accounting Office has indicated that it shares this belief.

Of particular importance, the revised processes concentrate on results -- not the sector that provides the service -- so that agencies and the taxpayer may reap the full benefit of competition. The processes are intended to ensure a level playing field for public and private sector sources with incentives to devise the most effective means to provide needed services. Here are a few of the new features of A-76.

- Focus on selecting the best available source. Because OMB seeks to emphasize selection of the best service provider, as determined through competition, the revised Circular deletes a long-standing statement that the government should not compete with its citizens. Deletion of the "reliance" statement is not intended to denigrate the critical contribution the private sector plays in facilitating the effective operation of government. The deletion is simply meant to avoid a presumption that the government should not compete for work to meet its own needs. Current government incumbents should have the opportunity to demonstrate their ability to provide better value to the taxpayer.
- Better planning. The revised Circular emphasizes the importance of preliminary planning as a prerequisite for sound sourcing decisions. Before announcing the commencement of a competition, agencies must complete a series of actions including:
 - determining the scope of activities and positions to be competed;
 - conducting preliminary research to determine the appropriate grouping of activities as business units; and

- determining the baseline cost of the activity as performed by the incumbent service provider.
- Elimination of "direct conversions." During the development of Circular revisions, some public commenters complained that the traditional authority to convert functions with 10 or fewer positions directly to private sector performance was encouraging agencies to ignore consideration of the agency provider, even where a more efficient, cost-effective government organization could offer the better alternative. The revised Circular eliminates direct conversions and instead provides a versatile streamlined competition process for agencies to efficiently capture the benefits of public-private competition for activities performed by 65 or fewer full-time-equivalent employees.

While providing added flexibility, the Circular also incorporates mechanisms to ensure that agencies act as responsible stewards. For example, agencies must publicly announce both the start of a streamlined competition and the performance decision made by the agency. The notice announcing the initiation of a competition must include, among other things, the activity being competed, incumbent service providers, number of government personnel performing the activity, names of certain competition officials, and the projected end date of the competition. In addition, agencies must document cost calculations and comparisons on a standardized streamlined competition form. The official who documents the cost estimate for agency performance must be different from the one who documents the cost estimates for performance by either the private sector or a public reimbursable source. Finally, the agency must certify that the performance decision is cost-effective.

- Establishment of firewalls. The revised Circular seeks to improve public trust in sourcing decisions by reinforcing mechanisms of transparency, fairness, and integrity. Among other things, the revised Circular establishes new rules to avoid the appearance of a conflict of interest. The revised Circular separates the team formed to write the performance work statement from the team formed to develop the most efficient organization (MEO) -- i.e., the staffing plan that will form the foundation of the agency's tender. In addition, the MEO team, directly affected personnel and their representatives, and any individual with knowledge of the MEO or agency cost estimate in the agency tender will not be permitted to be advisors to, or members of, the source selection evaluation board.
- Post-competition accountability. During the revision process, we heard numerous complaints regarding weaknesses in post-competition oversight. Among other things, the old Circular required post-competition reviews only for 20 percent of the functions performed by the government following a cost comparison. As a result, even where competition has been used to transform a public provider into a high-value service provider, insufficient steps have been taken to ensure this potential translates into positive results.

Under the revised Circular, agencies will be expected to implement a quality assurance surveillance plan and track execution of competitions in a government management information system. Irrespective of whether the service provider is from the public or private sector, agencies will be expected to record the actual cost of performance and collect performance information that may be considered in future competitions.

OMB intends to work with the agencies to review costs and results achieved. This information will be used to evaluate the effectiveness of competitive sourcing at each agency and devise additional strategies to address agency-unique implementation issues. We will also work with the agencies to ensure they provide the Congress with the information Congress needs to ensure sufficient oversight of these activities and their associated costs.

Finally, with the assistance of the Federal Acquisition Council, agencies will share lessons learned and best practices for addressing common issues. Using past experiences to inform future decision making will further ensure that competitive sourcing is a fair and effective tool for improving the delivery of services to our citizens.

Competitive sourcing and the federal workforce

Mr. Chairman, in your letter of invitation, you raise concerns regarding the potential impact of competitive sourcing on the federal workforce. You fear that the initiative may have an adverse impact on federal employee morale, recruiting efforts, and possibly its effectiveness.

Clearly, competitive sourcing poses a challenge for government personnel who perform commercial activities that are available for competition. These providers must critically examine their current processes and determine how they can improve the delivery of services. Answers may not come easily, but they are ones which our taxpayers are owed.

Historically, the government wins over 50% of public-private competitions. This high success rate should give employees confidence that they can and do compete effectively head-to-head with the private sector. As I described a moment ago, the revised Circular has a number of specific features to ensure that competition is applied in an even-handed manner. Equally important, the revised Circular recognizes the talents of the federal workforce, the conditions under which the workforce operates, and the importance of providing the workforce with adequate training and technical support during the competition process to ensure they are able to compete effectively. In particular, the revised Circular seeks to ensure that the agency provider has the available resources (e.g., skilled manpower, funding) necessary to develop a competitive agency tender.

As an example, the Department of Energy (DOE) recently competed the graphics function at DOE headquarters. Before the competition, this was a 13-person operation at DOE. Through the competitive process, the incumbent government provider determined that it could do the same job with 6 people. In other words, the same graphics service could be delivered by half the number of people. By sharpening their pencils, benchmarking the private sector, and reorganizing the function, the federal employees won the graphics function competition against the private sector. Importantly, however, through managed attrition, no involuntary separations are anticipated. Though small in number, this competition exemplifies the benefits of the competitive sourcing initiative. As a result of the competitive process, this organization determined how to become more efficient. The competition at DOE is a significant win for the taxpayer.

Even when the commercial sector is chosen to perform the activity, there generally are only a small number of involuntary separations of federal employees -- 8% according to one study; 3.4% according to another. The percentage of involuntary separations should remain small. Nearly 40% of all federal workers will be eligible to retire by 2005, creating many new job opportunities across government. The Administration's human capital initiative is already helping agencies better train and retain a capable workforce.

Conclusion

The Administration is committed to creating a market-based government that embraces the benefits generated by competition, innovation, and choice. We are equally committed to ensuring that this endeavor is pursued in a reasoned and responsible manner.

Competitive sourcing is not about arbitrary numbers. This initiative is about reasoned plans, accountable infrastructures, and balanced processes that facilitate the application of public-private competition where it benefits mission objectives and the needs of our citizens. We appreciate the Subcommittee's interest in our competitive sourcing initiative. We look forward to working with you and the other members of Congress as we strive to bring lasting improvements to the performance of government through the sensible application of competition.

This concludes my prepared statement. I would be pleased to answer any questions you may have.