

**REVIEW OF GSA'S COMPETITIVE
SOURCING INITIATIVE**

REPORT NUMBER A050260/O/F/F06019

SEPTEMBER 29, 2006



U.S. GENERAL SERVICES ADMINISTRATION
Office of Inspector General

Date: September 29, 2006

Reply to: Acting Deputy Assistant Inspector General
Attn of: Finance and Administrative Audit Office (JA-F)

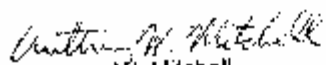
Subject: Review of GSA's Competitive Sourcing Initiative
Report Number A050260/O/F/F06019

To: Emily W. Murphy
Acting Associate Administrator
Office of Performance Improvement (R)

This report presents the results of our review of GSA's Competitive Sourcing Initiative. The initial objective of this review focused on determining whether GSA is effectively and efficiently implementing the Competitive Sourcing initiative as outlined in the Office of Management and Budget's (OMB) Circular No. A-76 and the President's Management Agenda. To accomplish our objective we interviewed Office of Performance Improvement staff and members of the Executive and Competitive Sourcing Working Group Committees; obtained and reviewed competitive sourcing guidance; obtained and reviewed documentation for a sample of completed competitions and GSA's future plans for competitions; compared GSA's competition results with those of other Federal agencies; and tested data transmitted to OMB for reasonableness.

Based on our review of GSA's competitive sourcing process, we found that GSA may face challenges in maintaining its PMA score resulting from the loss of knowledge of the competitive sourcing process due to the shift in focus from PBS to the rest of GSA and the reorganization of FTS and FSS into FAS; GSA has not posted lessons learned and best practices to the A-76 Share! website as required by OMB Circular No. A-76; and GSA is proceeding with the re-competition of the previously canceled agency-wide marketing function without addressing the issues arising from the previous cancellation.

If you have any questions regarding this report, please contact myself or Jeffrey Womack, Acting Deputy Assistant Inspector General for Finance and Administrative Audits, at (202) 501-0006.


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Review of GSA’s Competitive Sourcing (A-76) Initiative

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EXECUTIVE SUMMARY

Purpose

This review focused on determining whether GSA is effectively and efficiently implementing the Competitive Sourcing initiative as outlined in the Office of Management and Budget's (OMB) Circular No. A-76 (A-76) and the President's Management Agenda (PMA).

Background

Competitive sourcing is based on the belief that competition between federal agencies and the private sector is necessary to determine who is best able to perform commercial activities to ensure the best value for Americans' tax dollars. The PMA, enacted in 2001, requires agencies to explore competitive sourcing as a means to make government more efficient.

GSA currently maintains a score of "Green" for Competitive Sourcing on the PMA Scorecard for both Current Status and Progress in Implementing the PMA. GSA achieved this status, in part, through the performance of competitions and the development of the GSA Green Plan.

Results-in-Brief

Although GSA is currently achieving the goals of the PMA, there are areas of concern which may have a negative impact on GSA's ability to continue effective and efficient implementation of the provisions of the PMA and OMB's A-76 Circular. These areas may place GSA in jeopardy of losing its "Green" status on the PMA scorecard. Our first concern is that the Competitive Sourcing Initiative focus will shift from GSA's Public Buildings Service (PBS) to the rest of the agency, resulting in the loss of a significant amount of knowledge and experience regarding the competitive sourcing process. Adding to this, the reorganization of the Federal Technology Service (FTS) and the Federal Supply Service (FSS) into the Federal Acquisition Service (FAS) may have a negative impact on scheduled competitions. Also, GSA has yet to post and share lessons learned from the competitive sourcing process as required by A-76. Lastly, GSA is scheduled to re-compete a canceled agency-wide Marketing function but has not yet addressed the problems and issues arising from the previous cancellation.

Recommendations

We recommend that GSA's Office of Performance Improvement take the following steps to help ensure that GSA continues to effectively and efficiently implement the provisions of the PMA and A-76:

- For upcoming competitions, ensure that PBS officials from completed competitions actively participate throughout the process to ensure their experiences and knowledge gained from prior competitions is carried forward.
- Examine the potential impact of the FSS/FTS reorganization on the scheduled competitions to determine whether to proceed with the competitions and examine alternative areas for competition where necessary.
- Post lessons learned from both streamlined and standard competitions to the SHARE A-76! website in order to comply with the provisions of A-76.
- Review the lessons learned compiled by the contractor and PWS team to avoid the inefficiencies of the cancelled marketing competition.

BACKGROUND

The PMA is a starting point for management reform and contains six government-wide goals for improving federal management. These goals are:

- *Strategic Management of Human Capital*
- *Budget and Performance Integration*
- *Competitive Sourcing*
- *Expanded E-Government*
- *Improved Financial Performance*
- *Federal Real Property Asset Management*

The third goal requires agencies to explore competitive sourcing as a means to make government more efficient. Competitive sourcing is based on the belief that competition between federal agencies and the private sector is necessary to determine who is best able to perform commercial activities to ensure the best value for Americans' tax dollars. Guidance for public-private competitions is provided by OMB Circular A-76.

Competitive sourcing requires federal agencies to identify commercial activities that are performed in-house and are suitable for a public-private cost comparison. A commercial activity is a recurring service that could be performed by the private sector. On the other hand, an Inherently Governmental activity is an activity that is so intimately related to the public interest as to mandate performance by Government personnel. These activities normally fall into two categories: the exercise of sovereign government authority or the establishment of procedures and processes related to the oversight of monetary transactions or entitlements. GSA has taken steps to improve agency-wide consistency in defining job functions and performing competitions. GSA has fully implemented the FAIR Act Inventory Tool (FIT), which will help the agency to consistently code jobs functions as either Inherently Governmental or Commercial Activities throughout the Regions.

Circular A-76 provides guidance for conducting standard and streamlined competitions in support of the competitive sourcing process. A standard competition compares competitive bids from the in-house group, private sector, and public reimbursable providers to determine if it is better for the government to retain a particular activity in-house or contract out that activity. As part of a standard competition the in-house group develops a "Most Efficient Organization" (MEO), a staffing plan developed by the agency to represent the most efficient

and cost effective organization, to compete against private sector bids and public reimbursable providers. Although a standard competition can involve any number of Full Time Equivalent (FTEs), it is an OMB requirement for those with 65 or more FTEs and is to be completed within 12 months.

Streamlined competitions may examine activities that are commonly contracted and use existing federal contracts or solicit private sector bids to determine a fair and reasonable cost for performing a particular activity. A source selection team evaluates all the proposals to select the best value, considering technical merit, cost, and past performance. Streamlined competitions can be performed on activities comprised of 65 or fewer FTE and are required to be completed within 90 to 135 days, depending on whether an MEO was created.

GSA currently maintains a score of “Green” for Competitive Sourcing on the PMA Scorecard for both Current Status and Progress in Implementing the PMA. The PMA employs a stoplight scoring system in which a score of Green represents success, Yellow represents mixed results, and Red represents unsatisfactory results. GSA achieved its status through the performance of competitions and the development of the GSA Green Plan. GSA’s Green Plan outlines the competitions scheduled to be performed by each Service and Staff Office through Fiscal Year 2008.

Between Fiscal Years 2003 and 2005, GSA completed 71 competitions. According to competitive sourcing data submitted to OMB by GSA, these competitions have resulted in a total estimated savings for GSA of \$156,676,000. During this time period, standard competitions accounted for only 2 of the 71 competitions held.

GSA’s Office of Performance Improvement (OPI) is responsible for assisting in the development and implementation of the agency’s competitive sourcing program. OPI centrally manages the program while the GSA Competitive Sourcing Executive Committee develops agency-wide strategic approaches regarding competitive sourcing. Although OMB provides guidance (OMB Circular No. A-76 and other administrative requirements) for competitive sourcing, final implementation decisions are the responsibility of the agency.

OBJECTIVES, SCOPE, AND METHODOLOGY

The objective of our audit is to answer the following questions:

- How effectively is GSA implementing the provisions of the competitive sourcing initiative?
- What plans are in place to ensure that GSA continues to achieve a successful status on the PMA scorecard?

- Does GSA effectively identify the most efficient means to accomplish tasks?
- How has GSA identified effective methods and processes for promoting and achieving continuous improvement and removing roadblocks to greater efficiency?

To accomplish our objectives, we:

- Interviewed OPI staff and members of the Executive and Competitive Sourcing Working Group (Working Group) Committees.
- Obtained and reviewed competitive sourcing guidance.
- Obtained and reviewed results and documentation for a sample of completed competitions and GSA's future plans for competitions.
- Compared GSA's competition results with those of other Federal agencies.
- Tested data transmitted to OMB for reasonableness.

The review was conducted between September 2005 and March 2006 and was performed in accordance with generally accepted government auditing standards.

RESULTS OF REVIEW

In general, GSA has been successful in communicating the objectives of competitive sourcing to GSA associates. The GSA Administrator has issued several memos to associates stressing the importance of the competitive sourcing initiative and the current status of ongoing competitions. In June 2004, GSA issued a Competitive Sourcing Program Management Guide. The Program Management Guide is provided as a resource to those individuals within GSA who are participating in, or are involved with, a competitive sourcing competition under A-76. The guide provides an outline for successful project planning and describes the roles and responsibilities of the primary participants in competitive sourcing activities.

OPI has established an agency-wide training program that will promote consistency in performing competitions and inform the participants of their roles and responsibilities in the competitive sourcing process. Additionally, GSA has

created a Working Group in which members discuss current competitive sourcing issues and act as liaisons to their respective offices.

OMB has recognized GSA's efforts in competitive sourcing through GSA's Green status on the PMA Scorecard. In our opinion, however, GSA may need to address several potential problems in the near future in order to maintain its Green status and meet the competitive sourcing requirements of OMB.

Based on our review of GSA's competitive sourcing process, we found that:

- GSA may face challenges in maintaining its PMA score resulting from 1) the loss of knowledge of the competitive sourcing process due to the shift in focus from PBS to the rest of GSA and 2) the reorganization of FTS and FSS into FAS;
- GSA has not posted lessons learned and best practices to the A-76 Share! Website as required by OMB Circular No. A-76; and
- GSA is proceeding with the re-competition of the previously canceled agency-wide marketing function without addressing the issues arising from the previous cancellation.

Continuation of GSA's "Green" Status

Future A-76 competitions will include more standard competitions, which may increase the complexity of the process. Coupled with the loss of first-hand knowledge and experience of the competitive sourcing process as the focus shifts from PBS to the rest of the agency, GSA's ability to maintain its current "Green" status on the PMA scorecard may be hindered. Between Fiscal Years 2004 and 2005, PBS performed 53 of the 54 completed competitions, all of which were streamlined. PBS performed the competitions as a part of its business plan and is now completing their scheduled competitions. As PBS finishes the last of their competitions, the responsibility for continuing the competitive sourcing initiative will transfer to the rest of GSA. One of the requirements of a "Green" status on the PMA is that the competitions be performed within the prescribed timeframe. We believe that without the knowledge and experience of the individuals who have been participating in the PBS competitions, GSA may encounter difficulties in meeting the timing requirements. To further complicate the matter, GSA is currently in the process of merging FTS and FSS into FAS and received approval to offer early outs and buyouts to nearly 400 employees. This would mean that positions that had been scheduled to compete may be eliminated, possibly leading to the cancellation of some competitions which would have an adverse effect on GSA's PMA

scorecard. Management has expressed doubt as to whether GSA will be able to maintain its current PMA status in this environment.

Failure to Develop and Share Lessons Learned from Completed Competitions

GSA, to date, has not posted lessons learned or best practices derived from competitions to the SHARE A-76! website. The provisions of A-76 Attachment B require that “Agencies shall post best practices and lessons learned resulting from streamlined or standard competition process on SHARE A-76!” website. The act of posting to the SHARE A-76! website would force GSA to formally collect and review lessons learned. The fact that GSA does not develop or share lessons learned may mean that potential methods for achieving a more efficient competitive sourcing process and continuous improvement of the process are not being utilized or put into practice.

As part of our review, we accessed the SHARE A-76! website and were unable to find any entries posted relating to lessons learned. According to a GSA official, GSA had not developed or posted any official lessons learned from completed competitions. The official stated that because most of the competitions had been streamlined and were similar in nature, they felt that their lessons learned would be insignificant and would not be helpful to others. In our opinion, whether streamlined or standard, each competition performed yields best practices and lessons learned and should be shared and posted as required by OMB guidance.

As part of the competitive sourcing program, GSA has created a Competitive Sourcing Working Group comprised of members from various Services and Staff Offices. The members review OMB guidance relating to the FAIR Act Inventory, make recommendations to the Executive Committee regarding policy issues, and act as liaisons to their respective offices. In our opinion, the Working Group is a valuable resource of information regarding best practices and lessons learned relating to GSA’s Competitive Sourcing Initiative. Lessons learned developed by the Working Group could be utilized by competition officials throughout GSA and should be posted to the SHARE A-76! website. According to the GSA Competitive Sourcing Program Management Guide, the Working Group is tasked with making recommendations to the Competitive Sourcing Executive Committee on policy issues. Therefore, the lessons learned and best practices resulting from the Working Group meetings should be passed on to the Competitive Sourcing Executive Committee for management review and possible inclusion onto the SHARE A-76! website.

Re-competing the Previously Canceled Marketing Function

GSA is planning to re-compete the GSA-wide marketing function without considering the issues arising from its prior cancellation. According to the GSA

Competitive Sourcing Green Plan, the agency plans to announce in Fiscal Year 2008, the re-competition of GSA's agency-wide marketing function. The original GSA-Wide marketing competition was announced in Fiscal Year 2004 and was canceled in part due to the FTS and FSS merger. However, there are additional issues that surfaced from the cancellation of the competition. These additional issues include the lack of a pre-existing agency-wide marketing function, and issues in preliminary planning and the MEO Team structure as cited by the contractor hired to support the marketing competition.

At the time of the announcement for the initial marketing competition, an agency-wide marketing function did not exist at GSA. Marketing functions did exist within individual Services and Staff Offices but not on an agency-wide scale. According to the Performance Work Statement (PWS) team, "The marketing function was selected by GSA for competitive sourcing partly because of an apparent desire to strategically improve the function from the enterprise-wide viewpoint. However, very little enterprise-wide marketing functions actually exist. Services and Staff Offices view marketing markedly different with little agreement on definitions and basic concepts. As a result, the centralized marketing functions that were being competed did not actually exist within GSA, nor were they understood. Using competitive sourcing as a tool to attempt to create a centralized marketing function was neither ideal nor effective from the organizational or competitive sourcing standpoint."

The contractor hired to support the marketing competition and the PWS team, who is responsible for identifying the technical, functional, and performance characteristics of the agency's requirements, both cited lack of preliminary planning as a major impediment to the successful completion of the marketing competition. The lack of pre-planning caused delays and frustration in the competition process. A biddable PWS was not developed due to the failure to adequately complete the task definition, develop baseline data, identify in-scope personnel, and a lack of a budget estimate and funding mechanism. The contractor noted in their lessons learned that the structure of the MEO Team was another contributing factor to the cancellation of the marketing competition. The contractor believes that an MEO Team of three to five members is ideal for a competition. During the marketing competition, however, the MEO Team consisted of ten GSA managers. The contractor also recommended that the MEO team consist of individuals with enough authority within the organization to empower them to make critical strategic decisions for the agency.

To date, GSA has not addressed the factors arising from the marketing competition. We believe it is in GSA's best interest to consider these issues before proceeding with the re-competition of the marketing function. Due to the size of the proposed marketing competition, its cancellation could potentially lead to a lower score on the PMA scorecard.

RECOMMENDATIONS

Based on our review, we recommend OPI take the following actions:

- 1) For upcoming competitions, ensure that PBS officials from completed competitions actively participate throughout the process to ensure their experience and knowledge gained from prior competitions is carried forward.
- 2) Propose that GSA's Executive Committee examine the potential impact of the FSS/FTS reorganization on the scheduled competitions to determine whether to proceed with the competitions. If the Executive Committee determines that the reorganization would have a negative impact on the scheduled competitions, the Committee should examine alternative areas for competition.
- 3) Post lessons learned from both streamlined and standard competitions to the SHARE A-76! website in order to comply with the provisions of OMB Circular No. A-76.
- 4) Review the lessons learned compiled by the contractor and PWS team to avoid the inefficiencies in re-competing the GSA marketing function.

MANAGEMENT RESPONSE

We met with a representative from the Office of Performance Improvement (OPI) to obtain feedback on a discussion draft of our report. Written comments provided by OPI have been included in Appendix A.

INTERNAL CONTROLS

As outlined in our Objectives, Scope, and Methodology section above, our review did not require, nor did we perform, a review of internal controls.

**REVIEW OF GSA'S COMPETITIVE
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SEPTEMBER 29, 2006


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SEP 29 2006

MEMORANDUM FOR JEFFREY C. WOMACK
ACTING DEPUTY ASSISTANT INSPECTOR
GENERAL FOR AUDITING
FINANCE AND ADMINISTRATIVE AUDIT OFFICE (JA-F)

FROM:

EMILY W. MURPHY 
ACTING ASSOCIATE ADMINISTRATOR
OFFICE OF PERFORMANCE IMPROVEMENT (R)

SUBJECT:

Draft Report on the OIG's Review of GSA's
Competitive Sourcing Initiative

Thank you for the draft report on your Review of GSA's Competitive Sourcing Initiative and for the opportunity to respond. Attached for your review is the Management Response from the Office of Performance Improvement.

If you or your staff have any questions, please call myself or Paul Boyle on (202) 501-0324.

Attachment

REVIEW OF GSA'S COMPETITIVE SOURCING INITIATIVE
REPORT NUMBER A050260, #1 DATED SEPTEMBER 5, 2006
MANAGEMENT RESPONSE

Comment #

1. Page 1 - Results-in-Brief, last sentence. This office respectfully disagrees that the Marketing Competition was cancelled for any reason other than the FTS/FSS merger. Although, I agree that the competition had issues to overcome, the competition was progressing according to schedule at the time of cancellation. Although an agreement had been reached among GSA Leadership that Marketing would be "off limits" so that the competition would not be impacted, aspects of the marketing process kept showing up in newer versions of the reorganization until it did not make sense to continue.

2. Page 2 - Recommendations. For the most part, I agree with your recommendations and the Office of Performance Improvement has already taken some steps towards their implementation.
 - a. First bullet - The Administrative Support Function (ASF)
Competitions currently underway provided an excellent opportunity to utilize the PBS expertise and to initiate other organizations into the A-76 process. By combining the ASF activities of the PBS and GM&A organizations into one organization allowed PBS to officials to pass on their knowledge and skills resulting in a much more diverse A-76 workforce. These competitions were also preceded with 2-day A-76 workshops presented by OPI in most Regions as well as any additional training each region felt appropriate in attending.

 - b. Second bullet - The impact of the FSS/FTS reorganization will be with us for some time. OMB has recognized the issues involved and allowed GSA to cancel a number of competitions in FY 2005 without a negative impact on our quarterly scorecard. For the 4th Qtr of FY 2005, OMB did include a caveat that GSA must revise our Green Plan and incorporate (reschedule) all of the cancelled Initiates (which includes Marketing). A revised Green Plan was issued in October 2005. The plan currently focuses on functions that will not have a significant impact the reorganization (Administrative Support and the Maintenance Control Center) in FY 2007.

- c. Third bullet - Although I do not disagree, GSA uses a very decentralized approach in accomplishing our Competitive Sourcing initiatives making it difficult to compile running file of lessons learned. The integrated working group and, more recently, the bi-weekly conference calls among the ASF Project Managers was very helpful in passing on do's and don'ts concerning the ongoing competitions. OPI will encourage those offices completing competitions to post lessons learned to the SHARE A-76! Website.
 - d. Fourth bullet - OPI plans on utilizing feedback from a number of sources involved with the Marketing competition that was cancelled in FY 2005. However, unless the agency leadership steps forward and takes control of the Marketing Competition, there may be additional problems ahead.
3. Page 3 - Background. Please include Real Property as a sixth PMA bullet.
4. Page 6 - Third bullet - See comment #1 above.
5. Pages 7 & 8 Marketing - While I again agree that there were unresolved issues impeding the progress of the Marketing competition, I do not believe they were caused by a lack of preliminary planning or the fact that a current, agency-wide organization exists. Marketing is a very organization-specific function that HSSO's, understandably, feel their uniqueness requires they maintain absolute control of the function. Accenture was commissioned at a total cost to GSA of almost \$1 million to study the Marketing function at GSA and to make recommendations as to how GSA should compete the function under the guidelines of Circular A-76. A lot of time and resources were expended in compiling the preliminary report but GSA was never able to create the synergy necessary to effectively accomplish a successful competition. The bottom line facing GSA at this point is that the Marketing Function is a commercial activity and the President's Management Agenda wants all commercial activities competed.