

## Outcome Goal PR – Improve Procurement Management

For FY 2004, the Department's leadership determined that the most effective way to demonstrate it has improved procurement management is to more thoroughly introduce market forces into the Department's purchase of goods and services. Previously, the vast majority of the Department's administrative and management activities were provided by an entirely Federal workforce. Now, for those activities that the Federal Activities Inventory Reform (FAIR) Act inventory determines are available in the commercial marketplace, Federal and commercial providers compete to determine the most cost-effective means of service delivery. This approach is called competitive sourcing. Additionally, the previous methods for compensating the Department's contractors included the level of effort, the kinds of processes, and the skills of the contractors. Through Performance-Based Service Contracting (PBSC), contractors are instead compensated strictly according to the results they produce. PBSC aligns the Department's desire to receive high quality and completed services with contractors' incentives to increase revenue.

The Department's use of competitive sourcing and PBSC demonstrate that its purchase of services relies on the market forces of competition and incentives. Their use also demonstrates improved procurement management, as the Department can now purchase equivalent or better services for less money. The table below capsulizes performance goals and achievements supporting this outcome goal.

Goal (Agency) - Period Goal Statement [Achievement]	Performance Summary
<p align="center"><b>PR1 (OASAM) – FY 2004</b></p> Complete competitions on not less than 15 percent of the FTE listed on DOL's 2000 Federal Activities Inventory Reform (FAIR) Act inventory. <b>[Substantially Achieved]</b>	The target was substantially reached. DOL's cumulative competitions for FTE listed in its 2000 FAIR Act inventory approached 14 percent.
<p align="center"><b>PR2 (OASAM) – FY 2004</b></p> Award contracts over \$25,000 using Performance-Based Service Contracting (PBSC) techniques for not less than 40 percent of total eligible service contracting dollars. <b>[Achieved]</b>	The target was reached. The Department used PBSC techniques for 67 percent of total eligible service contracting dollars.

### Results Summary

DOL substantially achieved its FAIR Act inventory goal by nearly reaching its target to compete no less than 15 percent of the FTE listed on the inventory. The Department held competitions for almost 14 percent of these FTE. DOL awarded 67 percent of total eligible service contracting dollars (for contracts over \$25,000) using PBSC techniques; the target was 40 percent.

### Future Challenges

DOL will continue to ensure that FAIR Act competitions are conducted in accordance with applicable obligations between labor and management and existing personnel regulations. While this presents a challenge, it is surmountable if statutory provisions are properly followed and if DOL management works closely with unions and human resources staff. DOL has assigned human resource specialists to assist competitive sourcing staff in this effort. Another challenge is the substantial upfront costs of public-private competitions. Given the lasting savings the competitions will yield, however, these initial expenditures are really investments rather than costs; especially considering that the resulting savings can be used for other program improvements.

The challenge associated with PBSC is developing expertise required to develop and oversee performance-based contracts. DOL will continue offer training in these areas so that PBSC will deliver on its promise to lower costs while improving services.

## Complete FAIR Act Competitions

### Performance Goal PR1 (OASAM) – FY 2004

*Complete competitions on not less than 15 percent of the FTE listed on DOL's 2000 Federal Activities Inventory Reform (FAIR) Act inventory.*

#### Indicators

Percentage of commercial FTE on the Department's 2000 FAIR Act inventory included in completed competitions or direct conversions;

Percentage of Direct Conversions;<sup>31</sup> and

Percentage of Completed A-76 Competitions.

#### Program Perspective

Competitive sourcing is one of five government wide initiatives of the President's Management Agenda. Under competitive sourcing, executive agencies identify activities that are available in the commercial marketplace but that are currently performed by Federal employees. Federal and commercial providers then compete to determine the most cost-effective means of service delivery.

The government spends billions of dollars every year for commercial services provided by government employees. Competition can easily result in savings of an average of 30 percent, whether government employees or private sector employees ultimately do the work. These savings can be re-invested in pursuit of the agency mission. This means there is enormous potential for more productive use of available funding, with no reduction in quality of service. It makes sense to periodically evaluate whether or not any organization is organized in the best possible way to accomplish its mission. This self-examination is the fundamental purpose public-private competition is intended to achieve. For FY 2004, DOL established a target of competing 15 percent of its Federal Activities Inventory Reform (FAIR) Act inventory.

#### Results, Analysis and Future Plans

The goal was substantially achieved. By the end of FY 2004, DOL had competed or directly converted to contract 386 commercial FTE, constituting almost 14 percent of commercial FTE on DOL's 2000 FAIR Act inventory. This included almost 100 FTE that were competed in six streamlined and standard competitions in FY 2004. The full implementation of these market-based initiatives will significantly enhance the effectiveness and efficiency of the Department of Labor's (DOL) service to all Americans.

DOL has also developed plans for competition of at least an additional 376 FTE in FY 2005, and for competition of virtually all of DOL's commercial-competitive functions by the end of FY 2007, consistent with guidance from the Office of Management and Budget. To ensure that DOL's scheduled competitions are completed within the given timeframes in the coming years, DOL will continue to:

- establish specific, detailed competition schedules;
- monitor competition progress to ensure timely completion;
- designate individuals within DOL agencies who are responsible for competition progress; and
- make technical assistance available to managers and teams involved in competitions and other competitive sourcing-related activities.

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<sup>31</sup> Direct Conversion of work to the private sector is no longer allowed under OMB Circular A-76, Performance of Commercial Activities.

**Management Issues**

The performance data for this goal are extremely reliable. The indicator is the percentage of public-private competitions completed, and the completion date of a competition is reflected in an announcement on the website *FedBizOpps.gov*, which indicates whether the award went to the Federal government or to a commercial provider.

Because Federal agencies will always have a need to explore ways to better accomplish their missions and stretch their budgets, competitive sourcing will continue to serve as a valuable tool for DOL management. However, DOL must continue to recognize and address challenges and risks to full implementation of its competitive sourcing plans. Ensuring that competitions are conducted in accordance with applicable obligations between labor and management and existing personnel regulations could present a challenge. However, this challenge is controllable if statutory provisions are properly followed and if DOL management utilizes effective practices, such as working closely with unions and human resources staff. DOL has assigned human resource specialists to assist competitive sourcing staff in this effort.

Additionally, due to the substantial upfront costs of public-private competitions, particularly for the expertise of outside contractors, DOL must continue to marshal necessary resources to support competitions. Over time, agencies will begin to realize the savings resulting from competitions, which can be used not only to support additional competitions but also can be used for other program improvements.

## Ensure Performance Results Are Achieved Through Contracts

### **Performance Goal PR2 (OASAM) – FY 2004**

*Award contracts over \$25,000 using Performance-Based Service Contracting (PBSC) techniques for not less than 40 percent of total eligible service contracting dollars.*

#### **Indicators**

Dollar Value of Performance-Based Contracts over \$25,000 awarded.

#### **Program Perspective**

In March 2001, the Office of Management and Budget (OMB) established a performance-based service-contracting goal for Federal agencies. This goal is based on the goals established under the Government-Wide Acquisition Performance Measurement Program, developed by the Procurement Executives Council. Performance-based service contracting methods result in procurement efficiencies by ensuring contractors are paid for the actual level of service that the government receives. Performance-based contracts describe requirements in terms of results rather than methods of performance of work; emphasizing objective, measurable performance requirements and quality standards in developing statements of work, selecting contractors, determining contract type and incentives, and performing contract administration. Performance-based service contracting is a tool that offers improved contractor performance and mission attainment, significant cost savings, and implementation of the principles of streamlining and innovation of the President's Management Agenda as well as the Government Performance and Results Act.

Since 2001, DOL has had a performance goal to expand the application of performance-based service contracting techniques for DOL contracts. The emphasis is to pay for the results of a contract rather than the effort put forth by the contractor. Very recently, OMB directed all Federal agencies—for FY 2005—to award contracts over \$25,000 using performance-based service contracting techniques for not less than 40 percent of total eligible service contracting dollars. DOL has already exceeded this new government-wide goal. The \$25,000 threshold is a practical criterion, because Federal agencies report on contracts above that amount through the General Services Administration's Federal Procurement Data System, which will be used by OMB in determining compliance with its FY 2005 directive.

#### **Results, Analysis and Future Plans**

The goal was achieved. As of the end of the 3rd quarter of FY 2004, DOL had used performance-based service contracting techniques for 67 percent of total eligible service contracting dollars. The total obligations of performance-based contracts totaled more than \$294 million. DOL will continue to emphasize converting and awarding eligible service contracts over \$25,000 using PBSC techniques. DOL will also monitor the dollar value of PBSC contracts to ensure attainment of the PBSC goal.

DOL has encouraged the use of performance-based contracts DOL-wide by providing high-level briefings for senior staff, by scheduling relevant training for procurement and program staff, and by establishing an annual performance goal DOL-wide. DOL will continue to include the use of performance-based service contracting techniques as a performance goal, increasing every year the percentage of contract dollars to be awarded using those techniques. The ultimate objective is for DOL to put in place performance-based service contracts, as appropriate, for all eligible DOL contracting dollars.

#### **Management Issues**

The data source for this goal is the Federal Procurement Data System. The performance data are reliable, as the information is collected manually from the contract specialist or/and the contracting officer at the time the procurement action is completed. A procurement analyst in the Department's procurement policy office validates the data before it is transmitted to the Federal Procurement Data Center.

The largest acquisition program at the Department of Labor is the Employment and Training Administration's Job Corps Program. Approximately 70 percent of DOL's acquisition dollars support Job Corps contracts. These acquisitions are for the operation and maintenance of more than 110 Job Corps Centers around the Country, and their related outreach and employment assistance services. Job Corps Center contracts were converted to PBSC

by modifying the fee structure to incorporate incentives and penalties for the contractor based on achievement of measurable goals including, but not limited to, the number of students entering employment and student retention in the program. By the end of FY 2005, DOL anticipates converting a majority of the Job Corps contracts to PBSC as the existing contracts expire.

The remaining challenge will be to ensure that other DOL agencies expand their use of performance-based service contracting techniques. DOL will continue to facilitate high-level support for the performance-based service contracting initiative, and will offer additional training sessions to contracting and program management personnel throughout the Department.