

STATEMENT OF
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BEFORE THE
UNITED STATES GENERAL ACCOUNTING OFFICE
COMMERCIAL ACTIVITIES PANEL

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Chairman Walker and Members of the Panel:

My name is Patricia Armstrong. On behalf of the 200,000 executives, managers, and supervisors in the Federal Government whose interests are represented by FMA, I would like to thank you for allowing us to present our views before this distinguished panel.

I am currently a Program Analyst, Industrial Management Branch, Naval Air Systems Command, Patuxent River, Maryland. My statements are my own in my capacity as a member of FMA and do not represent the official views of the Department of Defense or the Navy.

Established in 1913, FMA is the largest and oldest Association of managers and supervisors in the Federal Government. Our Association has representation in more than 25 Federal departments and agencies. We are a non-profit advocacy organization dedicated to promoting excellence in government. As those who are responsible for the daily management and supervision of government programs and personnel, our members have a broad depth of experience with the government's practice of contracting-out for services.

The mission of your panel is to improve the current outsourcing framework in manners that reflect a balance among taxpayer interests, government needs, employee rights, and contractor concerns. We at FMA applaud the efforts of the new Administration to not merely cut federal jobs, but to focus agency attentions on how to carry out missions more effectively and efficiently. Performance measurements, goal tracking, and insertion of new technology and business practices are vital to success in today's fast-paced market. These cultural changes within the government can only be accomplished with thoughtful interaction between government and industry, as your panel appropriately represents. My testimony reflects both your intention and the voices of the Federal managers throughout the government in our mutual goal to pursue excellence in government service.

Since 1993, the non-postal executive branch civilian workforce has been reduced by some 400,000 positions. Agencies are being asked to do more with less, compete Federal functions with the private





sector, streamline procurement processes, and at the same time deliver higher-quality service to the American public.

Federal managers and supervisors want our government to work the best it can for the American people. However, as the number of civilian employees continues to shrink, this task is becoming increasingly difficult.

In fact, earlier this year GAO for the first time added workforce management to its list of the Federal Government's "high-risk" areas. Strategic human capital management across government was the only area added to the "high-risk" list this year. "Human capital shortfalls are eroding the ability of many agencies—and threaten the ability of others—to economically, efficiently, and effectively perform their missions," said Comptroller General David Walker in the report. "Initial rounds of the downsizing were set in motion without sufficient planning relating to the longer term effects on agencies' performance capacity," he further stated. "A number of individual agencies drastically reduced or froze their hiring efforts for extended periods. This helped reduce the size of agencies' workforces, but it also reduced the influx of new people with new skills, new knowledge, new energy, and new ideas—the reservoir of future agency leaders and managers."

Federal functions performed by civil servants are being subjected to unprecedented competition with the private sector. The Office of Management and Budget's (OMB) January 15 memorandum to agency and department heads (OMB M-01-15) called on agencies to expand OMB Circular A-76 competitions in addition to submitting position inventories in accordance with the 1998 Federal Activities Inventory Reform (FAIR) Act. Under the FAIR Act agencies are required to submit to OMB lists of positions that are considered commercial activities under OMB Circular A-76.

The Federal Activities Inventory Reform (FAIR) Act of 1998 requires agencies to annually publish lists of government positions that could be performed by contractors and those positions deemed off-limits to contracting. In March of this year, Mr. O'Keefe directed agencies to compete at least 5 percent of those jobs – or 42,500 Federal positions – considered commercial in nature by October 2002. Furthermore, agencies are to submit, with their FAIR Act inventories,





a separate report that lists the agency's inherently governmental functions and associated civil service positions. FMA applauds Mr. O'Keefe's belief that competition is the best way to find efficiency. Caution should be exercised, however, if commercial activity (CA) studies are thought to be the panacea for efficiency savings. The cost of conducting the actual cost comparison is borne by the activity, and these costs are considered unfunded burdens to the activity with respect to Congressionally approved appropriations to conduct the studies. The return on investment is largely lost. Conducting a cost comparison generally consumes two to three years. Implementing the results of cost comparison, either the Government Most Efficient Organization (MEO) or contractor MEO, generally consumes another year. Since most activities are dynamic in nature, the CA study costs generally outweigh the planned benefits. There are many issues that impact the activity aside from just cost, such as morale, downgrading of employees, loss of experienced workers, and the training costs of new employees.

There must be a better way. The new Administration is drafting legislation that will help agencies account for the full cost of their programs and make it easier for managers to assess program performance. It is imperative that an analysis of the core missions of agencies be conducted to determine the MEO and ensure that essential skills are retained in the Federal workforce. FMA is therefore encouraged by the direction taken by the Administration to ask agencies to submit reports on workforce planning and restructuring before moving forward with any government rightsizing. As we have witnessed over the past decade, arbitrary reductions, including cutbacks in managerial and leadership positions, without mission analysis serve to undermine the efficiency and cost-effectiveness of government.

If we are serious, however, about integrating a performance-based process that focuses on the strategic management of human capital, we must measure the entire cost of programs, including the current shadow workforce of contractors. A major concern to FMA is the Federal Government's inability to track costs and inventory of the contractor workforce and the functions it assumes once work is outsourced. FMA has consistently urged that the FAIR Act be amended to require an inventory of the Federal contractor workforce. The fiscal 2000 Defense Authorization bill requires the armed services to





complete and publish contractor inventories. The Army has, in fact, already established standards for counting the number of its contractors. This process must continue and must be properly enforced. Only with an accurate count of contractor jobs and costs can we even begin to assess cost-effectiveness and have the information at hand to consider whether or not it is in the best interest of an agency's mission to outsource a function.

Moreover, under current government contracting rules, when the government wins a contracting competition we are periodically audited to determine if we remain the most cost-effective providers of service. Ironically, no similar rule is applied to contractors that win competitions. As a result, the biggest criticism of government contracting is that once the work moves to the private sector there is no way to know if Americans are still getting the best deal for their hard-earned tax dollars.

With respect to our National Defense, FMA applauds the efforts of Mr. Harnage and others to maintain the in-house "capability" for any necessary military requirement. Since the last round of BRAC, many support services were directly converted from public to private providers with no opportunity for project bidding. Less than 1 percent of DoD's contracts are first subjected to public-private competition, despite GAO's findings that Federal employees win 60 percent of the competitions actually conducted. Almost all of the \$115 billion worth of work performed annually by contractors is acquired with no public-private competition.

Meanwhile, we are continually undergoing a "silent BRAC." We are still suffering from the negative impacts to readiness of the last round of BRAC, which closed some installations but simply converted others from public to private, thus not having the intended effect of decreasing defense infrastructure.

President Bush has directed the Secretary of Defense to provide an assessment of our future defense needs, and this is certainly the most important step in formulating an overall plan. But if we don't match that plan with an assessment of what the government should maintain as an in-house capability, we may find that we are at the mercy of non-government forces when it comes to contingency response.





We do not want to create monopolies or limit ourselves to foreign suppliers of our defense needs. At the same time, we must be able to exercise some control over competition. We should at a minimum be capable of an ongoing, strike-free, in-house depot capability that can quickly gear up for any contingency.

Depot maintenance is not the budget monster it is portrayed to be. Organic depots account for only 1.45 percent of the fiscal 2001 DoD manpower requirements. Forty-three percent of depots have already been closed and personnel reductions are over 58 percent. The twenty remaining depots account for only 4.4 percent of the domestic bases.

The President's budget proposal indicated the possibility for additional base closures. The Administration stated in its proposed fiscal 2002 budget that the military has a 23 percent surplus of bases: "It is clear that new rounds of base closures will be necessary to shape the military more efficiently." However, this 23 percent surplus potentially represents an additional reduction of 14,825 employees (or the equivalent of 5 depots), for a total personnel reduction of 68 percent (from 156,000 to 106,367), and a total installation reduction of 57 percent (from 35 to 15). For the sake of readiness, therefore, any future BRAC should exclude depot maintenance bases.

The requirement to establish organic depot maintenance capability within four years of fielding a new system should be strengthened and all core work for old and new systems should be maintained in the organic depots. Organic depots assure absolute readiness and maintain surge requirements for the major weapons systems to include; aircraft, ships, tanks, helicopters, air-defense systems, artillery, and more. Depot maintenance should be funded to re-capitalization levels and guarded so these funds are not transferred to fund other projects or programs.

Current law requires that no more than 50 percent of the funds made available in a given fiscal year to a military department for depot-level maintenance and repair workload be used to contract for performance by non-Federal Government personnel. This preserves readiness, surge requirements, and competition. The depot organic base is supported with fewer than 65,000 employees and only accounts





for approximately 2.5 percent of the DoD Budget. This is a bargain, not a budget monster devouring valuable support dollars. Organic depots have been reduced by over 58 percent over the last 10 years. To realize true savings and increased readiness, more work – not less – needs to be performed by the organic base. However, to obtain the best of both worlds, public and private, both sides should establish and strengthen teaming relationships. Where government can partner with industry to provide the American people with the best possible services, we should look at those options as well. This cultural integration will take time, strong leadership, and hard work by all concerned.

We as a government should at a minimum determine the true mission and the core workforce size needed to perform the mission. We should empower individual agencies to implement their own MEOs, rather than continue the use of arbitrary and unbecoming personnel ceilings. And, we should ensure that agencies have the tools to shape and attract a strong civilian workforce.

As a start, FMA urges support for legislation introduced by Congressman Albert Wynn, H.R. 721, the “Truthfulness, Responsibility, and Accountability in Contracting (TRAC) Act,” to correct several longstanding inequities in the contracting-out process.

Despite some positive steps, there is still much work to be done in the way of reversing the damage caused by a decade of arbitrary civil service reductions. We must take the time to fully examine how we can reach an optimal size and shape for the Federal workforce. FMA would like to serve as a sounding board for the Administration in an effort to ensure that policy decisions are made rationally and provide the greatest return for the American taxpayer, while recognizing the importance and value of our nation’s civil servants. It is in the best interest of policy-makers, taxpayers, and the future well-being of our country that any rightsizing effort be executed in an objective and cost-effective manner that does not simply shift resources from in-house operations to a shadow government of contractors.

I want to thank you again for allowing FMA to present our views on contracting-out. FMA looks forward to continuing to work with you to improve the ability of Federal managers and supervisors to ensure the delivery of high-quality goods and services to America. I hope the experiences and





suggestions FMA has shared with you will be helpful in any future efforts you may undertake to reform the government's current practice of contracting-out for services. This concludes my prepared remarks. I would be happy to answer any questions you may have.

ADDENDUM

- A Canadian warship surged out of heavy fog in the North Atlantic yesterday in an attempt to force into port a rogue U.S.-owned freighter that for two weeks has refused to relinquish a cargo of battle tanks and other combat gear representing 10 percent of Canada's armored might. Because of recent military spending cuts, Canada has to rely on civilian shipping or air companies to transport its soldiers and gear to peacekeeping assignments around the world. (*Source: Boston Globe – August 1, 2000, Pg. 6, "Canada Warship Shadows Freighter Laden With Cargo Of Arms"*)
- When Radford Army Ammunition Plant, VA, closed 15 years ago, it was hailed as the economic "Downsizing of Government" and we must have saved money! Because we had no plan for the future and didn't maintain the capability at another Ammunition Plant, we can now depend on; Romania, Ukraine, China or Britain, with widely varying prices to meet our requirements. Low bidder is China and the product is TNT the cheapest, safest munitions fill of choice for DOD with an overall consumption of 5.8 million pounds this year. The politicians will not be held accountable, but the taxpayer will. (*Source: Inside the Air Force, January 26, 2001*)
- "Minimizing Outsourcing Risks," an article in the Resource Management, 4th Qtr 2000. PB-48-00-4 by Charlie Ulfing who prepared this paper for the 1999 class of the Army Comptroller Program at Syracuse University. There are several interesting points on private-sector outsourcing:
 - a. "Many companies that have used outsourcing are now facing major problems. Their outsourcing arrangements have failed to yield the savings and competitive advantages that were projected, and/or the contractor is unable to respond to changing business needs. I don't think we would ever, in the foreseeable future, entertain any ideas of large scale outsourcing again," said E.P. Rogers (chief information officer) at Mutual of New York (MONY)."
 - b. "The Insurer this month finished rebuilding its in-house (information systems) structure after terminating a \$210M contract with Computer Sciences Corp. in May, less than halfway through its 7-Year term' (Caldwell, B. and McKee, M.K. 1997). They find themselves in a difficult situation because the cost of contract cancellations and the costs of either finding a new vendor or bringing the processes back in-house are enormous."
 - c. "One reason companies end up in this predicament is that they take a short-term focus on cost savings and fail to anticipate the long-term consequences," states Lam Truong, CIO at the





Milpitas, Calif., chip maker LSI Logic states. "Outsourcing didn't work for us, a Silicon Valley company, because we changed our mind all the time (Caldwell, B and McGee, M.K., 1997). Failure to foresee future needs and to provide for them in contracts often leads to disaster."

