

Congressional Perspective

The Honorable **Ciro D. Rodriguez**, U.S. House of Representatives, 28th District,
Texas

(Statement not available at the time of printing)

Panel 1: Union Views

Wes Cloud, Exec. Vice President, AFGE Local 2427, Naval Air Station, Fort Worth, Texas – The Naval Air Station in Fort Worth, Texas has seen considerable downsizing because of outsourcing of many actions of fewer than 10 workers. The A76 studies require an incredible amount—tens of thousands of manhours—of unproductive work in research and “bean-counting.” Too many inherently governmental functions are being outsourced and the contracts are being extended from 3 to 5 years. There is also a concern that the government is inappropriately passing out information to privatization contractors who may also be subcontractors to the private-sector A76 bidders.

Bruce Thorne, Exec. Vice President, AFGE Local 2142, Army Depot, Corpus Christi, Texas – Most government employees do not understand the complicated A76 process. The agency is not obligated to provide training so that a worker can compete for his own job. Government workers are not afraid to compete with the private sector, but they want the process to be less complicated.

Mario Villarreal, Exec. Vice President, AFGE Local 1749, Laughlin Air Force Base, Del Rio, Texas – The application of an arbitrary 12 percent overhead factor is unfair because it inappropriately increases the cost of the in-house alternative. The intent of A76 appears to be to force federal workers into the private sector.

Eloise Stripling, 1st Vice President, AFGE Local 1367, Lackland Air Force Base, San Antonio, Texas – The A76 study at Lackland was tainted by violations of the A76 process, inequities, and conflicts of interest. Workers have no protest and appeal rights before GAO and the federal courts. The Air Force violated the process in reversing the appeal authority decision favoring the workers, and the appeal authority was lower in rank than the source selection authority, which created a conflict of interest.

Yolanda Taylor, Exec. Vice President, AFGE Local 1920, Fort Hood, Texas Given the very high cost of conducting A76 studies., it is questionable that the government can realize savings. The study concerning the Foot Hood Directorate of Public Works has spent \$2.8 million on a study for 435 positions since 1998.

Steve Halloway, President, AFGE Local 779, Sheppard Air Force Base, Wichita Falls, Texas – There needs to be a level playing field for government workers to compete for work considered for outsourcing. Federal employees do not have access to a dedicated, trained A76 workforce to assist with the studies. There are numerous agency rule changes that impact the process, but without a cadre of experts the MEO is often at a disadvantage in managing these changes. Alternatives such as a reorganization to improve MEO performance are often not pursued. Direct conversions are used too frequently, preventing competition and accountability. When the A76 studies are performed, their cost often outweigh savings. MEO performance is scrutinized after winning, but contractors’ performance is not. Finally, contractors may legally challenge the MEO bid as an “interested party,” but the MEO does not the same ability to challenge the private sector.

Panel 1: Union Views (continued)

Garold Lawson, NAGE National Representative, Fort Leonard Wood, Missouri

The Directorate of Public Works at Fort Leonard Wood was outsourced in 1988. Despite urging from the workforce, it is not being considered for a study to see if lower cost and government expertise might bring it back in-house. In a similar situation, the Directorate of Logistics was outsourced, but then brought back in-house in 1994. Then, after only 26 months, the Directorate of Logistics was being studied to be outsourced again. The details of the Most Efficient Organization, in-house cost estimates, and methodology used to arrive at these estimates were made available to contractors over the internet. However, the base workforce was told that they could not receive this information because it would compromise the cost study.

Panel 2: Interested Parties' Views on A-76 (Morning)**Sam Kleinman, Vice President and Director of the Resource Analysis Division, The CNA Corporation**

Competition in making sourcing decisions saves the government money, and these are long-term savings. A76 should be seen as a competition program instead of an outsourcing program. The government's policy should be that any service provider, public or private, should demonstrate that it is providing the best value to the government. Problems associated with A76 include: (1) competitions that are too long, (2) a large number of cancelled studies, (3) poor follow-on tracking of winners, (4) too few competitors, (5) perceived bias in the process, and Transition periods that are too long and degrade performance. A76 competitions have to be better managed. Improvements include: (a) reduce the cost advantage to 5 percent, (b) improve separation pay, (c) award fees for in-house winners, (d) establish a cancellation authority, and (e) allow competitors to package solutions within new organizational structures.

Lawrence Martin, Associate Professor, Columbia University

Competitions under A76 should be conducted on a level playing field because the public and private sectors must have confidence in the process. Based on a 1999 study, Prof. Martin found that the A-76 process approximates, but does not achieve a level playing field. Recommendations to improve the process include: (a) using a parallel, rather than sequential process, (b) separating more clearly the government's purchaser and provider functions, (c) conducting cost comparisons using the Texas approach, (d) dealing more equitably with contract administration and monitoring costs, and (e) including penalties for public sector failure to perform.

Alan Hungate, Chairman, Financial Executives International

Standards for comparing sourcing solutions should reflect sound accountancy and a fair process. Public-private competitions should employ transparent and neutral procedures, unbiased competitive evaluations, and be fundamentally fair. Recommendations for improving the process include:

- (a) eliminating all bias (and the appearance of bias) in the source selection process through greater use of third-party evaluators,
- (b) eliminate the two-step process where the private sector winner is first determined who must then compete with the public sector MEO,
- (c) evaluate the MEO according to the same rules as private industry bidders, and
- (d) hold the MEO accountable for performance using the same rules as private companies.

Joan Fiorino, Esq., Thurman & Phillips, P.C.

Accountability in A76 cost studies begins with a well-written solicitation that is equally suited to the MEO and private sector offers. This includes the use of performance-based work statements. The appearance of conflicts must be avoided by eliminating self-conducted cost comparison studies and ensuring the independence of evaluation teams. Evaluation of the technical performance plan (TPP) must be based on the solicitation criteria. Best value and source selection decisions should also apply equally.

Panel 3: Department of Defense**Brigadier General Joseph Stein, Director of Manpower and Organization, U.S. Air Force**

(Statement not available at time of printing)

James Wakefield, A-76 Policy Manager, Competitive Sourcing Office, U.S. Army

The A-76 process is no more complex and in need of change than most other processes used by large organizations. The reason A-76 Studies are problematic is because employees often lose their jobs. A-76 remains a powerful tool for increasing efficiency because of the competition with the private sector. There is no way to eliminate the prospect of losing jobs in achieving savings. However, most workers land on their feet. One part of the A-76 process that is troublesome is the adjustment of the in-house offer to match the in ceased performance of the selected contractor offer. Implementing a one-step comparison has some appeal. However, a downside is that it would also introduce subjectivity when evaluating the in-house offer against the private-sector.

Captain Thomas Schaefer, Senior Policy Analyst—Infrastructure, Organization, Management and Infrastructure Team, U.S. Navy

The Department of the Navy is constrained by budgetary shortfalls, a continued high tempo of operations, and a need to make large investments in modernization. The Navy set a projected goal of saving approximately \$5 billion for the period FY 1997-2005. Competitive sourcing and A-76 studies alone cannot achieve the level of savings needed. A broader, more systematic approach is necessary. The Navy believes that Strategic Sourcing is the solution. Strategic Sourcing reviews an entire organization's operations to determine how related functions should be organized.

Frank Sowa, Director, Strategic Initiatives, Shore Readiness Division, U.S. Navy

Initial Navy efforts to use commercialization of business practices have been focused on the A-76 process. However, continued use of A-76 alone will yield sub-optimal results because many business units have been integrated into the base support infrastructure and were not easily segregated into discrete business units. The Navy emphasizes the use of the Strategic Sourcing model, which incorporates existing DoD manpower management processes that provide for a complete functional or organizational assessment of activities that are both commercial and inherently governmental to achieve an optimal balance between performance and cost. The A-76 process involves numerous disciplines, each with their own framework of rules and regulations. Coordination of these numerous functions is very difficult. Lessons learned to improve the A-76 process include: (1) time is of the essence, (2) there is a need for clear and consistent rules and policy, (3) leadership is critical, and (4) an environment for win/win competition must be developed.

Panel 3: Department of Defense (continued)

Jerry Stark, A-76 Program Manager, U.S. Marine Corps

The A-76 process is a compromise between the Marine's in-house work force and private industry in deciding the most economical provider for commercial services. A-76 is a proven cost-cutter. Currently, the Marines are competing 4,171 billets and expect to save \$6.5 million per year. The Marines support the A-76 process, but would like to see improvements:

1. The length of the process must be shortened—it takes too long to realize savings.
2. Consistent rules and functional definitions are needed to determine which functions are inherently governmental and which are commercial.
3. The use of Activity Based Costing should be expanded.
4. Accurate and consistent coding of billets.
5. Soft landing provisions for long-term Marine employees should be developed.

Panel 4: Industry Views**Paul Lombardi, CEO, DynCorp**

Conflicts of interest in the A76 process guarantee delays in the award decision and increasing mistrust. Two types of conflict of interest are noteworthy. First, the checks and balances that are supposed to confirm that the MEO is right-sized and meets performance requirements are inadequate because the evaluators are too-willing to accept the MEO's plan. Some MEO plans lack management and key personnel positions needed to ensure performance. Second, individuals responsible for compiling the costs of the MEO are also tasked with developing the conversion costs to be added to the private sector proposal. This enables government personnel to add cost to the contractor's proposal while at the same time competing against that proposal. Universally, conversion costs have been based on inflated estimates and undocumented assumptions. The process should be changed to require evaluating the MEO according to the criteria in the solicitation using the same source selection board reviewing contractor proposals at the same time. To ensure that only legitimate conversion costs are added to proposals, all costs should be documented, subject to audit and evaluated by independent, knowledgeable reviewers.

John Delane, CEO, Del-Jen

Federal workers often fair well after changing over to the private sector, and Mr. Delane invites the Panel to talk to JEL-DEN employees. The absence of union leadership at an installation does not equate with degradation in employees' welfare. The government should perform core functions, but all commercial activities should be outsourced. A76 cost studies are increasingly subject to political pressures to achieve specific results, which injures the overall process. Recommendations include: (a) better training for the acquisition workforce, (b) the use of full government costing in MEO cost estimates, (c) follow-on audits on MEOs to ensure performance, (d) activities should adhere to adverse GAO decisions, and (e) the development of a single set of guidelines for the study process, appeals and protests, including established time limits for all phases.

George Finley, President, CC Distributors

Contractors need the government workers displaced by outsourcing. According to a DOL/NCEP study, the successful contractor hires over half of outsourced jobs, 24-percent transferred to other jobs, 7-percent retired, and only 7-percent needed to find new employment. In addition, private-sector benefits are often comparable to federal benefits. The manner by which the government accounts for costs requires more visibility to ensure that all direct and indirect costs are properly reflected, including technical monitoring, insurance and health benefits, the 'time value of money,' depreciation, and the use of military personnel. Costs between contractors and MEOs also need to be normalized to reflect indemnification premiums and state and local taxes. Accuracy of the FAIR Act inventories needs to be improved, including calling out inherently governmental functions. Depot maintenance rules should also be revised.

Panel 4: Industry Views (continued)

Bryan Hochstein, Vice President of Business Development, Quickhire

(Statement not available at time of printing)

Gary Craft, Vice President, Operations, CH2M HILL Services

Credibility needs to be restored to the A-76 process so that private-sector firms, such as CH2M HILL, will consider participating. Typically, the government does not apply consistent processes in the evaluation of contractors' proposals, certification of the MEO, leveling of the two, or accountability for execution within the proposed price. Contractors have had their proposals challenged by DCAA as being too low during price reasonableness audits. If successful in winning an outsourcing activity, a contractor is bound to the cost provisions in the contract. Government MEOs are not bound by the same requirements. Cost comparability is being applied on a piecemeal basis. DoD needs to formulate consistent guidance on comparing contractors' long-term costs to the government long-term "should-cost."

Mike Donnelly, Vice President, Business Development, EG&G Technical Services, Inc.

The A-76 process is clearly broken. The process takes far too long and is, therefore, too expensive. There is also the issue of a level playing field. There is a varying degree of reluctance to provide the contractor with good information to use in bidding—information available to the MEO. The process of comparing contractors' proposals based on best value followed by a best-cost comparison with the MEO is unfair. Adjusting the MEO's proposal and costs to match the private sector's proposal is extremely difficult and easily challenged.

Panel 5: Guam's Experiences with A-76**Felix Camacho, Senator, Guam**

Guam has served the strategic interests of the United States through World War II, and the Korean and Vietnam wars. As late as 1980, Guam was exempt from A-76 studies because of its geographic isolation, unique economic situation and strategic importance. However, Guam has been subject to downsizing began after the end of the Cold War. Many Guam business leaders initially welcomed the outsourcing of civil service jobs as an opportunity for local small businesses. Instead, seven major off-island subcontractors have received millions of dollars while Guam's citizens have seen negative results—record high unemployment, a collapsing housing market, and disintegrating families.

Manuel Cruz, President, Guam AFGE

Outsourcing decisions made by DoD have caused long-term damage to Guam's island economy and hurt the relationship between the Navy installation and local businesses. When Raytheon Technical Services assumed the Navy contract, most workers were forced into early retirement or forced to leave the island. Raytheon hired a subcontractor from the mainland without any experience in Guam. Many of the workers who signed up with Raytheon are working for reduced wages. Another major issue is the "bundling" of contracts commensurate with the outsourcing of activities in Guam.

Jerry Parres, President, Guam Chamber of Commerce

(Statement not available at time of printing)

Panel 6: Technology and A-76**Roland Harris, III, General Manager, Public Sector, IBM Global Services**

All government organizations are facing change. Financial constraints, the need to do more with less, cross-functional teams, and empowered workers all affect agencies' ability to compete and survive. Citizens are asking for better, faster, and economical services. The federal government has a mandate to transform its business processes using Internet and e-business technologies. A-76 may be appropriate for those functions where "best value" equates to low cost. However, low cost does not equate with "best value" when considering IT infrastructure and applications necessary to transform agency processes. The government can leverage the private sector's capabilities and avoid up-front capital requirements by using the private sector to accomplish agency transformations. In addition, the private sector has greater ability to absorb, train and utilize government employees, keeping them technologically current and competitive.

Stephen Rohleder, Managing Partner, USA Government, Accenture

The most innovative private-sector organizations engage in collaborative outsourcing to create high performance support operations. Some bold organization use outsourcing partnerships to drive enterprise transformation, leading to reduced costs, improved service levels, and greater organizational flexibility. The A-76 process often hinders federal managers from making sound decisions, rather than empowering them:

- The A-76 process does not provide a model that places a value on solving agency needs.
- The A-76 process does not make sense when the existing workforce does not have the "right" skills to transform the agency. In many federal agencies, the workforce cannot manage commercial, state-of-the art technology.
- The public-private competition process takes too long to complete, from 18 to 36 months. Technology used in business applications may change with upgrades several times within this timeframe.

Alternatives that should be considered include:

- Provide guidance that would allow outsourcing to be exempt from A-76 or eligible for waivers.
 - Encourage innovative financing arrangements, such as joint ventures.
- Adopt share-in savings to outsourcing.

Panel 7: Interested Parties' Views on A-76 (Afternoon)**Robert Eckhart, Director of Business Development, Warden Associates, Inc.**

The fundamental rules and processes of the current A-76 system are not broken. Rather, these rules need to be focused and enforced. There are several fundamental tools to fix the process:

- Changing the MEO's legal status will increase fairness in terms of proposal development, evaluation, access to review and implementation of accountability.
- There should be a centralized source for the interpretation of rules to end inconsistent interpretations by different organizations.
- Management and implementation of the A-76 program should be centralized away from managers who have a stake in the outcome, including managers who are simply distracted by other responsibilities.
- A-76 acquisitions should be centralized into specialty offices to focus expertise, ensuring dedicated and trained personnel.
- Greater flexibility should be provided in implementing A-76 studies, including:
 - (1) case specific cost factors
 - (2) the ability to propose changes in scope to improve performance-based solutions
 - (3) the ability to request a review of unrealistic MEO decisions
 - (4) rights of discovery within a revised Administrative Appeal process

Scott King, Principal, UMS Group

Successful A-76 studies rely on three crucial partners – manpower officials, functional area personnel, and the contracting staff. In most studies these partners do not function as an integral team, causing DoD to lose the benefits of consolidated and cross-functional efforts and raising A-76 management costs. Under the Pick-a-Base concept, AETC demonstrated the basic tenets of its business plan:

- Hire experts and partner with them. Take the advice of experts under contract rather than direct performance.
- Consolidate requirements and specify outcomes to allow supplier expertise to constantly generate process improvement.
- Use performance incentives and contract structure and pricing to effectively generate continuous savings while improving quality.
- Allow the supplier to take on the role of primary performance manager.

Deborah Root, Executive Director, Plans & Programs, Maxwell AFB, AL

Statement will include: (1) statistical impact of the A-76 study at Maxwell AFB, (2) financial cost of the study versus projected savings from the service provider, (3) suggested changes to improve the process from both unit commanders and MEO teams. *(Full statement not available at time of printing.)*

Panel 7: Interested Parties' Views on A-76 (Afternoon - continued)

Shannon Lahey, Washington Representative, California Correctional Peace Officers Association and Corrections, U.S.A.

- The Department of Justice, Bureau of Prisons contracts with private firms to house convicted criminals. Private prisons are dangerous and threaten public safety. Between 1995 and 2000, there have been at least 200 escapes from private prisons. Privately run facilities contracted by the Bureau of Prisons have a 25-percent higher escape rate than similar Bureau of Prison facilities. Independent assessments of cost and quality of services provided by Wackenhut at Taft, California show that contracting out does not save money. State governments have no input on the importation of federal inmates within their borders, limiting state sovereignty. Finally, the federal government could use available spaces in state and local government-run facilities to house inmates, allowing states to recoup costs, but have opted otherwise.

Individual Speakers

Juan Castro, Lackland AFB – The use of contractors represents a security problem for the government. Military personnel and civil servants swear an oath when hired. In contrast, contractors perform in accordance with the terms of their contract. At Randolph AFB, several contractors did not have resident work status “green cards.” Recently, a letter bomb exploded at Medina base, an annex to Lackland AFB. One person was injured and the base was put on Threatcon Bravo, a heightened level of security. While on Threatcon Bravo, a contractor was advised to move his vehicle to clear a parking lot. The contractor simply drove off base.

If the government were serious about contracting out, it should present more lucrative buyout offers to employees. If a five-year/\$50,000 severance package were offered as part of an A-76 restructuring, most CSRS federal employees would elect to leave federal employment.