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COMPETITIVE SOURCING

Greater Emphasis Needed on Increasing Efficiency and Improving Performance

GAO-04-367

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Highlights

Highlights of GAO-04-367, a report to the Honorable Robert C. Byrd, the Honorable Susan M. Collins, the Honorable George V. Voinovich, and the Honorable Henry A. Waxman

Why GAO Did This Study

In August 2001, the administration announced competitive sourcing as one of five initiatives in the President's Management Agenda. Under competitive sourcing, federal agencies open their commercial activities to competition among public and private sector sources. While competitive sourcing is expected to encourage innovation and improve efficiency and performance, it represents a major management change for most agencies.

This report describes the progress selected agencies have made in establishing a competitive sourcing program, identifies major challenges these agencies are facing, and discusses strategies they are using to select activities for competition.

What GAO Recommends

GAO is making three recommendations to the Office of Management and Budget (OMB) to help agencies (1) ensure greater consistency in classifying positions as either inherently governmental or commercial, (2) identify functional areas for competition, and (3) focus competition plans more on desired outcomes.

OMB concurred with our recommendations, but disagreed with the conclusion that its recent guidance emphasizes process more than results. The seven agencies GAO reviewed either agreed with the report, had no comments, or offered only technical revisions.

www.gao.gov/cgi-bin/getrpt?GAO-04-367.

To view the full product, including the scope and methodology, click on the link above. For more information, contact William Woods at (202) 512-8214 or woodsw@gao.gov.

What GAO Found

Since the President announced competitive sourcing as a governmentwide initiative, the six civilian agencies GAO reviewed created a basic infrastructure for their competitive sourcing programs, including establishing offices, appointing officials, hiring staff and consultants, issuing guidance, and conducting training. With infrastructures in place and leadership involvement, each agency has developed competitive sourcing plans and conducted some competitions. The Department of Defense (DOD) has had an extensive competitive sourcing program since the mid-1990s. Interagency forums for sharing competitive sourcing information also have been established.

While such activities are underway, each agency GAO reviewed, including DOD, cited several significant challenges in achieving its competitive sourcing goals. Key among these is maintaining workforce inventories that distinguish inherently governmental positions from commercial positions—a prerequisite to identifying potential positions to compete. Agencies also have been challenged to develop competitive sourcing approaches that would improve efficiency, in part because agencies have focused more on following OMB guidance on the number of positions to compete—not on achieving savings and improving performance. Ensuring adequate personnel with the skills needed to run a competitive sourcing program also challenged agencies. Many civilian department-level offices have only one or two full-time staff to interpret new laws, implement new OMB guidance, maintain inventories of competable positions and activities, and oversee agency competitions. The Federal Acquisition Council is currently identifying agency staffing needs to address this challenge. Finally, some of the civilian agencies we reviewed reported funding challenges in implementing their competitive sourcing programs. OMB told agencies to include a line item for competitive sourcing activities in their fiscal year 2005 budget requests.

Several agencies integrated their strategic, human capital, and competitive sourcing plans—an approach encouraged by the Commercial Activities Panel, which was convened to conduct a congressionally mandated study of the competitive sourcing process. For example, the Internal Revenue Service (IRS) used business case analyses to assess the economic benefits of various sourcing alternatives. An IRS official said this approach required minimal investment to determine an activity's suitability for competitive sourcing. The National Institutes of Health, the Army, and the Department of Education also took a strategic approach to competitive sourcing.

OMB's task in balancing the need for transparency and consistency with the flexibility agencies need is not an easy one. While OMB is addressing funding and human capital challenges, it needs to do more to assure that the agencies' inventories of commercial positions and goal-setting processes are more strategic and helpful to agencies in achieving savings and improving performance.

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Abbreviations

FAIR	Federal Activities Inventory Reform Act of 1998
FTE	full-time equivalent
HHS	Health and Human Services
MEO	most efficient organization
OMB	Office of Management and Budget
VA	Veterans Affairs

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G A O
Accountability * Integrity * Reliability

United States General Accounting Office
Washington, DC 20548

February 27, 2004

The Honorable Robert C. Byrd
Ranking Minority Member
Committee on Appropriations
United States Senate

The Honorable Susan M. Collins
Chairman
Committee on Governmental Affairs
United States Senate

The Honorable George V. Voinovich
Chairman
Subcommittee on Oversight of Government Management,
the Federal Workforce and the District of Columbia
Committee on Governmental Affairs
United States Senate

The Honorable Henry A. Waxman
Ranking Minority Member
Committee on Government Reform
House of Representatives

The environment in which the federal government currently operates—with new security threats, demographic changes, rapidly evolving technologies, increased pressure for results, and growing fiscal imbalances—demands that agencies engage in a fundamental review of how they accomplish their missions. Agencies increasingly rely on a range of technical and support services to meet mission objectives. It is important for agencies to decide how best to acquire and deliver such services, including whether to obtain services in-house or through private sources. One way to inform this decision is to use competitive sourcing, a strategy under which agencies open the government's commercial activities to competition among public and private sector sources.

In 2001, the administration identified competitive sourcing as one of five governmentwide initiatives in the President's Management Agenda.[1] This initiative seeks to expand competition between the public and private sectors to encourage innovation, increase efficiency, and to improve performance. But the use of public-private competition represents a major management change for agencies and has raised concerns about the fairness of the process and the potential impact on federal jobs. Therefore, after discussions with your staff, we agreed to (1) describe the progress agencies have made in establishing a competitive sourcing program in response to the President's Management Agenda, (2) identify major challenges agencies are facing, and (3) identify strategies they are using to select activities for competition based on mission-related needs.

Our work focused on the initial implementation efforts of the following seven departments and the agencies within those departments that have the most developed competitive sourcing programs: Agriculture; Defense; Education; Health and Human Services (HHS); the Interior; the Treasury; and Veterans Affairs (VA). Together, these departments account for about 84 percent of the commercial positions among the 26 executive branch agencies implementing the President's Management Agenda. For more on our scope and methodology, see appendix I.

Results in Brief

Each of the agencies we reviewed has laid the foundation for its competitive sourcing program. The Department of Defense (DOD) has had an extensive competitive sourcing program in place since the mid-1990s, and all of the civilian agencies we reviewed have created a basic infrastructure for their competitive sourcing programs since the President announced competitive sourcing as a governmentwide initiative in August 2001. In creating these infrastructures, agencies have established offices, appointed officials, hired staff and consulting contractors, issued guidance, and conducted training. With infrastructures in place and leadership involvement, each agency—defense and civilian—has developed competitive sourcing plans and conducted some competitions. At least two interagency forums for sharing competitive sourcing information also have been established.

[1] The other four initiatives are strategic management of human capital, improved financial performance, expanded electronic government, and budget and performance integration.

Although agencies have made progress, they cited several challenges in implementing their competitive sourcing programs. Key among these challenges is developing workforce inventories that identify commercial and inherently governmental full-time equivalent (FTE) positions.[2] Agencies reported difficulty in classifying positions as inherently governmental or commercial and in applying guidance to categorize activities, making it challenging for agencies to identify potential candidates for competitions. While recent Office of Management and Budget (OMB) guidance has stressed that agencies should tailor their plans to meet mission needs, the emphasis in the guidance is still more on process than results. Agencies have focused on meeting targets to announce and complete competitions and have not assessed broader issues, such as weighing potential improvements against the costs and risks associated with performing the competitions.

Agencies also have been challenged to ensure they have adequate personnel with the skills needed to run a competitive sourcing program. Although DOD has a well-established management structure, many civilian department-level offices have only one or two full-time staff members to interpret new laws, implement new guidance issued by OMB, maintain inventories of competable positions and activities, and oversee agency competitions. According to a cognizant Army official, implementation of OMB's revised guidance for competitions will require approximately 100 to 150 additional personnel in the Army alone, including attorneys, human capital specialists, and contracting officials. Some of the civilian agencies we reviewed also reported funding challenges associated with implementing their competitive sourcing programs.

Despite these challenges, several agencies have developed strategic and transparent competitive sourcing approaches by integrating their strategic and human capital plans with their competitive sourcing plans. The Commercial Activities Panel, which was convened to conduct a congressionally mandated study of the government's competitive sourcing process, supported use of this approach. Through broader functional assessments and comprehensive analyses that include factors such as potential savings, risks, current level of efficiency, market conditions, and current and projected workforce profiles, these agencies are identifying viable activities for competition.

[2] Full-time equivalent (FTE) is a measure of federal civilian employment. One FTE is equal to 1 work-year of 2,080 hours.

We are making several recommendations to OMB to help agencies (1) ensure greater consistency in classifying positions as inherently governmental or commercial, (2) make more strategic and transparent sourcing decisions by identifying broader functional areas for competition, and (3) focus on efficiency and performance outcomes. We provided a draft of this report to OMB and the seven agencies for their review and comment. OMB concurred with our three recommendations, but disagreed with our conclusion that its recent guidance emphasizes process more than results. The Department of Agriculture and the Department of the Interior concurred with the report. The Department of the Treasury said the recommendations were timely and the remaining agencies either had no comments or offered only technical revisions.

Background

Since 1955, the executive branch has encouraged federal agencies to obtain commercially available goods and services from the private sector when the agency determines that it is cost-effective. In 1966, OMB formalized this policy in its *Circular A-76* and, in 1979, issued a handbook with procedures for determining whether commercial activities should be performed in-house, by another federal agency, or by the private sector.[3]

Administrative and legislative constraints from the late 1980s through 1995 resulted in a lull in awarding contracts under A-76 competitions. In 1995, when congressional and administration initiatives placed greater emphasis on public-private competitions to achieve economies and efficiency of operations, DOD gave competitive sourcing renewed emphasis. In our past work, we have found that DOD achieved savings through competitive sourcing, although it is difficult to estimate precisely the amount of savings.[4] By including competitive sourcing as one of five governmentwide initiatives announced in August 2001, the administration directed agencies to implement competitive sourcing programs to achieve increased savings and to improve performance. The administration continues to advocate the use of competitive sourcing, which is addressed in the President's budget for fiscal year 2005.

[3] OMB has updated this circular and handbook several times since 1979. In May 2003, OMB released a revised *Circular A-76*, which supersedes previous versions of the handbook. Office of Management and Budget, *Circular A-76* (Washington, D.C.: May 29, 2003).

[4] General Accounting Office, *Results of A-76 Studies Over the Past 5 Years*, GAO-01-20 (Washington, D.C.: Dec. 7, 2000).

Competitive sourcing has met with considerable controversy in both the public and private sectors. Each sector expressed concerned that, in general, the process was unfair and did not provide for holding the winner of the competition accountable for performance. In response to this controversy, in 2000, the Congress mandated a study of the government's competitive sourcing process under A-76[5]—a study conducted by the Commercial Activities Panel, chaired by the Comptroller General of the United States. The panel included representatives from OMB, DOD, the Office of Personnel Management, private industry, academia, a trade association, and unions. In April 2002, the panel released its report[6] with recommendations that included 10 sourcing principles to provide a better foundation for competitive sourcing decisions in the federal government (see app. II). In particular, the panel stressed the importance of linking sourcing policy with agency missions, promoting sourcing decisions that provide value to the taxpayer regardless of the service provider selected, and ensuring greater accountability for performance. The panel also addressed an area of particular importance for all affected parties—how the government's sourcing policies are implemented. In this regard, one of the sourcing principles was that the government should avoid arbitrary numerical or full-time equivalent (FTE) goals. This principle is based on the concept that success in government programs should be measured in terms of providing value to the taxpayer, not the size of the in-house or contractor workforce.

The panel, in one of its 10 sourcing principles, also endorsed creating incentives and processes to foster high-performing, efficient, and effective organizations and continuous improvement throughout the federal government.[7] On November 6, 2003, the Comptroller General hosted a forum to discuss what it means for a federal agency to be high-performing in an environment where results and outcomes are increasingly accomplished through partnerships that cut across different levels of government and different sectors of the economy. There was broad

[5] Section 832, Floyd D. Spence National Defense Authorization Act for Fiscal Year 2001, P.L. 106-398 (Oct. 30, 2000).

[6] Commercial Activities Panel, *Final Report: Improving the Sourcing Decisions of the Government* (Washington, D.C.: Apr. 30, 2002).

[7] National Defense Authorization Act for Fiscal Year 2004, Section 337, Public Law 108-136 (Nov. 24, 2003) directs the Secretary of Defense to implement a pilot program under which DOD organizations are provided incentives to re-engineer their operations in order to become high-performing organizations.

agreement among participants at the forum on the key characteristics and capabilities of high-performing organizations, which are organized around four broad themes. These four themes are (1) clear, well-articulated, and compelling missions; (2) strategic use of partnerships; (3) a focus on the needs of clients and customers; and (4) strategic management of people.[8]

The competitive sourcing process starts with agencies developing inventories of their commercial positions in accordance with the Federal Activities Inventory Reform (FAIR) Act of 1998.[9] Additionally, OMB requires agencies to identify activities that are inherently governmental, as well as commercial positions that are exempt from competition because of legislative prohibitions, agency restructuring, or other reasons.[10] Only activities classified as "commercial" and not otherwise exempt are potentially competable. In the 2002 FAIR Act inventories,[11] the proportion of competable commercial, non-competable commercial, and inherently governmental FTE positions varied widely among the agencies we reviewed. Governmentwide, competable commercial positions in 2002 accounted for approximately 26 percent of the total federal workforce. Except for the Education Department's 62 percent, the percentage of competable commercial positions in each of our selected agencies was less than 50 percent of the agency's total FTEs (see app. III).

After agencies identify competable commercial positions under the FAIR Act and OMB guidance, they select from these positions which ones to compete. Resulting public-private competitions are guided by OMB *Circular A-76*. In May 2003, OMB released a revised *Circular A-76*. Under this revised circular, agencies must use a standard competition process for functions with more than 65 FTEs. As part of the standard process, agencies identify the work to be performed in a performance work

[8] General Accounting Office, *High-Performing Organizations Forum: Metrics, Means, and Mechanisms for Achieving High-Performance in the 21st Century Public Management Environment*, GAO-04-343SP (Washington, D.C.: Feb. 13, 2004).

[9] P.L. 105-270 (Oct. 19, 1998).

[10] An "inherently governmental" activity is an activity that is so intimately related to the public interest as to mandate performance by government personnel. A "commercial" activity is a recurring service that could be performed by the private sector and is resourced, performed, and controlled by the agency through performance by government personnel, a contract, or a fee-for-service agreement.

[11] The 2002 FAIR Act inventories are the most currently available data for most federal agencies in our review.

statement, establish a team to prepare an in-house proposal to perform the work based on a "most efficient organization" (MEO),[12] and evaluate that proposal along with those submitted by private companies and/or public reimbursable sources. For activities with 65 or fewer FTEs, agencies may use either a streamlined or standard competition. Streamlined competitions require fewer steps than the standard process and enable agencies to complete a cost comparison more quickly.

Agencies Have Established a Foundation for Their Competitive Sourcing Programs

When the President announced competitive sourcing as one of five governmentwide management agenda items in August 2001, few agencies other than DOD had an established competitive sourcing infrastructure—a key component of OMB's strategy for institutionalizing competitive sourcing. Few of the other departments and agencies that we reviewed had competitive sourcing experience. Since that time, all six civilian agencies we reviewed have established a basic competitive sourcing program infrastructure. Leadership involvement and an established infrastructure have enabled each agency that we reviewed to develop competitive sourcing plans and complete a number of initial competitions. Interagency forums for sharing information also have been established.

All Agencies We Reviewed Have Made Progress in Developing Their Infrastructures

Although they lack DOD's A-76 experience, the civilian agencies we reviewed have made significant progress toward establishing a competitive sourcing infrastructure with such actions as establishing an office, hiring staff, obtaining contractor support, creating policies and procedures, and providing training to agency staff involved in the competitive sourcing process. Table 1 provides an overview of civilian agency infrastructure development.

[12] OMB defines a most efficient organization (MEO) as the staffing plan of the agency, developed to represent the agency's most efficient and cost-effective organization.

Table 1: Overview of Civilian Agency Infrastructure Development

Then-year dollars			
Structure and staffing	**Contract support**	**Policies, procedures, and guidance**	**Training and other resources**
Agriculture			
• Established competitive sourcing office under the Chief Financial Officer • Two full-time staff	• $1.16 million in fiscal year 2002 • $8.68 million in fiscal year 2003	• Departmental guidebook and brochures	• Departmentwide training • Web site
Education			
• Directed by Chief Financial Officer as part of One-ED approach • Nine employee teams assessed functions and processes	• $1.87 million to prepare business cases and $456,000 for training and support in fiscal years 2002 and 2003	• Primers on reengineering and competitive sourcing	• 1-day training • Consultants help teams working on studies
Health and Human Services			
• Directed by the Office of the Assistant Secretary for Administration and Management • Three full-time staff	• $7.6 million obligated for competitive sourcing program support and studies in fiscal years 2002, 2003, and 2004	• Fact sheet on competitive sourcing • Policy letters issued and comprehensive guidebook developed	• Department holds monthly outreach meetings with operating division managers • "All-hands" meetings to discuss competitive sourcing and A-76 • Web sites
Interior			
• Directed by Center for Competitive Sourcing Excellence under the Deputy Assistant Secretary for Performance and Management • Two full-time staff	• As of September 26, 2003, $150,000 for support of Center for Competitive Sourcing Excellence, including training, FAIR Act inventory and database	• Guidance on competitive sourcing and labor-management resolution on competitive sourcing • Leadership sent memoranda on its commitment to competitive sourcing	• Departmentwide competitive sourcing workshop • Governmentwide competitive sourcing meetings and conferences • Web site with frequently asked questions and guidance
Treasury			
• Directed by the Office of the Deputy Assistant Secretary for Management and Budget • One full-time staff	• $1.9 million for training on regulations, information technology needs, and other support services as of June 2002	• Office of the Procurement Executive provided policy guidance.	• Departmentwide conference • Seminars and courses • Encouraged attendance at OPM and OMB training on competitive sourcing • Sponsors the Treasury Acquisition Institute

Veterans Affairs			
• Directed by Office of Competitive Sourcing and Management Analysis Service under Office of Policy, Planning, and Preparedness • Two Full-Time Equivalent (plans to recruit at least one analyst if requisite funds are appropriated)	• In fiscal year 2003, VA spent about $663,000 for support items such as communication strategies, a training module, and a Web-based competitive sourcing study tracking system	• Departmental policy directive • Competitive sourcing handbook, communication plan, and human resource guidance pamphlet	• Training material developed, but training not provided because VA's General Counsel determined that use of funds was prohibited by 38 U.S.C. 8110 (a)(5). • Evaluation of pilot training project for practitioners and new hires

Source: Agency information.

In addition, DOD, which has the most competitive sourcing experience in the federal government, has issued numerous policies, procedures, and guidance for implementing OMB's *Circular A-76*. DOD also has established a management structure to oversee the department's A-76 activities.[13] In carrying out its competitive sourcing program, DOD uses both in-house personnel and contractors to provide assistance within the department in developing performance work statements and MEOs. In response to our previous recommendation, DOD also has established a Web site[14] to share competitive sourcing knowledge and experience. This Web site is available governmentwide.[15] The site contains resources such as A-76 policy and procedures, best practices, sample documents, bid protests, and links to other sites with information on *Circular A-76*.

Studies Completed While Infrastructures Were Put into Place

The civilian agencies we reviewed completed their initial rounds of competitive sourcing studies in fiscal years 2002 and 2003 (see app IV). Based on data given to us by five of the six civilian departments,[16] 602 studies were completed in fiscal year 2003. Of these 602 studies, 363 were streamlined competitions and 130 were direct conversions to performance

[13] The Directorate of Competitive Sourcing and Privatization, Office of the Deputy Under Secretary of Defense (Installations and Environment) has overall responsibility for developing these major departmental documents. The Deputy Under Secretary of Defense (Installations and Environment) is the designated Competitive Sourcing Official responsible for implementing OMB *Circular A-76* within the department.

[14] See http://emissary.acq.osd.mil/inst/share.nsf.

[15] General Accounting Office, *DOD Competitive Sourcing: Lessons Learned System Could Enhance A-76 Study Process*, GAO/NSIAD-99-152 (Washington, D.C.: July 21, 1999).

[16] The Department of Interior provided us only aggregated data for 2002 and 2003. As a result, we were unable to segregate the data for these 2 years for inclusion in appendix V.

by a contractor.[17] In addition, DOD completed 126 studies, including 54 direct conversions and 7 streamlined competitions.[18] Collectively, these studies involved over 17,000 FTEs, with almost 57 percent of the FTEs studied by DOD and the remaining 43 percent studied by the civilian agencies. According to agency data, in-house teams won many of the competitions, retaining almost 76 percent of the FTEs covered by the studies. (See app. V for details on the outcome of these studies.) While agencies have been able to complete these studies while establishing their infrastructures, it is too early to assess the impact of the studies in terms of efficiencies or performance improvements achieved.

Efforts to Share Competitive Sourcing Information across Agencies

A number of initiatives have been undertaken to share competitive sourcing information across agencies. In addition to DOD's Web site, at least two interagency forums have been established to facilitate interagency information sharing. For example, staff working in competitive sourcing offices in various agencies and subagencies meet monthly at the civilian agencies' competitive sourcing working group to exchange ideas and information. The Federal Acquisition Council—composed of senior acquisition officials in the Executive Branch—also promotes acquisition-related aspects of the President's Management Agenda by providing a forum for monitoring and improving the federal acquisition system. The Council has published a guide on frequently asked questions and a manager's guide to competitive sourcing.

In addition, OMB is developing a competitive sourcing data tracking system to provide consistent information and to facilitate the sharing of competitive sourcing information by allowing agencies to identify planned, ongoing, and completed competitions across the government. According to OMB officials, future refinements to the system may allow agencies to track and manage their own sourcing activities—a problem for most agencies—as well as provide OMB with consistent information. OMB plans to use the system to monitor agency implementation of the competitive sourcing initiative and generate more consistent and accurate statistics, including costs and related savings, for reporting to the Congress.

[17] While direct conversions were eliminated under the revised circular, OMB granted agencies permission to complete conversions initiated under the previous circular.

[18] These data cover studies completed through September 30, 2003. DOD studies may have started prior to 2002.

Many Agencies Face Challenges in Implementing Competitive Sourcing

Despite their progress in establishing a competitive sourcing infrastructure and conducting initial competitions in varying degrees, the agencies we reviewed continue to face significant challenges in four areas. First, agencies have been challenged to develop and use FAIR Act inventory data to identify and group positions for competition. Second, agencies are operating in a continually changing environment and under OMB guidance focused more on meeting milestones rather than achieving desired outcomes. Third, agencies have reported that they lack the staff needed to carry out the numerous additional tasks required under the new *Circular A-76*. Finally, agencies have reported that they lack the funding needed to cover the substantial costs associated with implementing their programs.

Agencies Experience Difficulties in Developing Their FAIR Act Inventories

The development of accurate FAIR Act inventories is the foundation for determining which functions agencies compete. Agencies reported difficulty in classifying positions as inherently governmental or commercial and in applying OMB-assigned codes to categorize activities, making it challenging for them to identify potential candidates for competitions. This has been a persistent problem as we have reported in the past.[19] Despite changes made to OMB's guidance for constructing FAIR Act inventories, the guidance has not alleviated the difficulties some agencies have had in developing and maintaining useful inventory data.

Classifying Positions as either Inherently Governmental or Commercial Is a Complicated Process

Under the FAIR Act and OMB guidance, agencies annually review and classify positions as either inherently governmental or commercial. This classification process is done using an OMB-provided coding schedule containing nearly 700 functional codes in 23 major categories, such as health services, grants management, and installation services. Civilian agencies are having difficulty applying these functional codes, which were developed by DOD. While intended to promote consistency, the codes are not always applicable to civilian agencies, requiring some to create supplemental codes to match their missions.

[19] Our prior work on this issue includes General Accounting Office, *Competitive Contracting: The Understandability of FAIR Act Inventories Was Limited*, GAO/GGD-00-68 (Washington, D.C.: Apr. 14, 2000); General Accounting Office, *DOD Competitive Sourcing: More Consistency Needed in Identifying Commercial Activities*, GAO/NSIAD-00-198 (Washington, D.C.: Aug. 11, 2000); and General Accounting Office, *Competitive Sourcing: Challenges in Expanding A-76 Governmentwide*, GAO-02-498T (Washington, D.C.: Mar. 6, 2002).

As we have previously reported, selecting and grouping functions and positions to compete can be difficult.[20] For example, the Army has determined that many functions, such as making eyeglasses for troops located in a war zone, are core to its mission even though this function may not be classified as inherently governmental when performed in the United States. Also, some functions may involve both "commercial" and "inherently governmental" tasks. While agencies have had difficulty classifying mixed positions, OMB's guidance allows agencies to take a variety of approaches to address this difficulty. For example, according to agency officials, the Internal Revenue Service classifies mixed positions on a case-by-case basis considering how critical the position is to its mission, not just the percentage of tasks related to that position that may be inherently governmental or commercial.

The process also can be resource intensive. For example, according to agency officials, to determine whether positions should be classified as inherently governmental or commercial, the National Park Service—the largest bureau in the Department of the Interior—used an employee team of approximately 30 individuals that represented all occupational areas, as well as its human resources and acquisition staff. The team used the analysis, in conjunction with payroll system data showing employee time usage, to determine the number of commercial and inherently governmental FTEs.

Agencies Concerned about Consistency and Timeliness of OMB Guidance

Accuracy of inventories depends on agency classification of positions, based on OMB guidance, as well as consistent OMB review of inventories. OMB has updated its FAIR Act inventory guidance annually to address issues identified by agencies (see app. VI) and it consults with agencies to resolve issues identified. For example, in April 2001, OMB created a new requirement to report civilian positions designated as inherently governmental. OMB's guidance gives agencies considerable latitude in preparing their inventories to determine if an activity is commercial.

OMB officials told us they have provided training on *Circular A-76* procedures to its budget examiners, who act as liaisons between OMB and each participating agency. The examiners address questions and provide guidance on an agency-by-agency basis. OMB does not have formal written

[20] General Accounting Office, *Defense Management: DOD Faces Challenges Implementing Its Core Competency Approach and A-76 Competitions*, GAO-03-818 (Washington, D.C.: July 15, 2003).

guidance for reviewing FAIR Act data. Examiners provide verbal guidance on an on-going basis to agencies and discuss concerns agencies have with the FAIR Act and the related competitive sourcing program. Once agencies submit their inventories, OMB officials review the inventories looking for "red flags"—that is, deviations from the norm, such as one agency listing a position as inherently governmental while others classify the same position as commercial—and then consult with agency officials as necessary on these deviations. However, a number of competitive sourcing officials at two interagency forums expressed concern about the process. For example, one official told us that an OMB program examiner said there were too many function codes in one agency's inventory. Then, after the agency resubmitted its inventory, the same examiner said the inventory had too few codes. An official from another agency told us that its OMB examiners did not appear familiar with OMB's own guidance for applying the function codes. Given the lack of formal written OMB guidance on reviewing the FAIR Act inventory data, there is little assurance that OMB's review of inventories will be consistent across agencies.

According to a number of agency officials, implementation of OMB guidance is further complicated due to time constraints. OMB inventory guidance is typically issued in the spring, and agency inventories are due to OMB by June 30. Officials contend that more time is needed to properly implement the guidance. In response, OMB officials pointed out that the basic guidance for developing inventories is set forth in *Circular A-76* and agencies can undertake significant steps to prepare their inventories based on the Circular's guidance.

OMB Guidance Has Focused More on Meeting Targets and Milestones Than on Improving Outcomes

The ultimate goal of the competitive sourcing initiative is to improve government performance and efficiency. To date, however, OMB's competitive sourcing guidance to federal agencies has focused more on targets and milestones for conducting competitions than on the outcomes the competitions are designed to produce: savings, innovation, and performance improvements. Although recent OMB guidance has stressed the need for agencies to be more strategic, the emphasis in the guidance is still more on process than results. The President's Management Agenda established expected results for the competitive sourcing initiative to encourage innovation, increase efficiency, and improve performance of agencies. The Commercial Activities Panel similarly stated that the success of government programs, such as competitive sourcing, should be measured by the results achieved in terms of providing value to the taxpayer.

Since the inception of the competitive sourcing initiative in 2001, agencies have faced continual changes to OMB's targets and guidance for conducting public-private competitions.[21] OMB initially set a target for agencies to compete or directly convert at least 5 percent of their full-time equivalent commercial positions by the end of fiscal year 2002, and an additional 10 percent by the end of fiscal year 2003. They also set a long-term target for agencies to compete at least 50 percent of commercial FTEs. OMB later moved to agency-specific plans that reflect each agency's own mission and workforce mix. OMB also developed a traffic light system (red, yellow, green) for evaluating the progress agencies are making in implementing these plans. Table 2 shows the chronology of these changes.

Table 2: Timeline of Selected Competitive Sourcing Initiative Events

March 2001	August 2001	May 2003	July 2003	December 2003
OMB set 5-percent FTE target for fiscal year 2002 and a long-term goal of 50 percent	OMB set an additional 10-percent target for 2003	OMB released revised *Circular A-76*	OMB replaced governmentwide goals with agency-specific plans	OMB issued guidance on the development of "green" competition plans

Source: OMB documents.

As shown in table 2, in December 2003, OMB released a memorandum with guidance on developing competitive sourcing plans that would receive a "green" rating under its traffic light evaluation system (see app. VII). The guidance notes the need for a long-range vision, strategic action by agencies, and public-private competitions tailored to the

[21] According to several agency officials, numerous pieces of legislation passed by Congress also have added to the complexity of implementing competitive sourcing. Before OMB repealed numerical FTE targets, the Congress, concerned with the arbitrary nature of such goals, passed legislation in January 2003 that applies to the Department of the Treasury, the U.S. Postal Service, and other entities, requiring competitive sourcing goals to be based on considered research and analysis. (Pub. L. 108-7 (Feb. 20, 2003) Division J, Section 647) Since OMB's release of its revised circular, Congress has passed several laws that impose limitations and reporting requirements concerning implementation of the program, e.g., section 340 of the Department of the Interior and Related Agencies Appropriations Act for FY 2004 (Pub. L. 108-108 (Nov. 10, 2003)), section 8014 of the Department of Defense Appropriations Act for FY 2004 (Pub. L. 108-87 (Sept. 30, 2003)), and most recently, section 647 of the Consolidated Appropriations for FY 2004 (Pub. L. 108-199 (Jan. 23, 2004)). Generally, these provisions require affected agencies to develop a most efficient and cost effective organization for activities or functions performed by more than ten government employees. Additionally, conversion to contractor performance must be supported by a determination that savings will equal or exceed the lesser of 10 percent of government personnel costs or $10,000,000.

agency's unique mission and goals. The memorandum also advises agencies to include in their plans their general decision-making process for selecting activities to compete, identification of activities to be competed, potential constraints, and plans for handling activities suitable for competition that the agency does not intend to compete.

Neither OMB's initial FTE-based goals nor its revised competitive sourcing goals and traffic light evaluation system calls for agencies to assess how their plans for competitive sourcing could achieve the broader improvements envisioned by the President's Management Agenda or the Commercial Activities Panel. In this regard, the Panel said that arbitrary competition goals should be avoided. In testimony before the Congress, the Comptroller General has stated that OMB's initial competition targets were inappropriate. Similarly, OMB's revised goals continue to emphasize process milestones such as competitions completed more than enhancing value through performance improvements and efficiencies. For example, for an agency to receive a "green" rating on OMB's scorecard, it must have developed an OMB-approved green competition plan, have publicly announced standard competitions in accordance with the schedule in its green plan, and have completed 95 percent of streamlined competitions in 90 days. The emphasis throughout OMB's most recent guidance is similarly more on process than on results.

Agencies have used a range of criteria to select positions for competition. For most agencies, selection criteria have been based on the size and composition of the workforce, such as attrition rates, skill needs, and difficulty in hiring, as well as the agency's capability to manage the competitions. Because these agencies have focused on meeting targets to announce and complete competitions, they have not assessed broader issues, such as weighing potential improvements against the costs and risks associated with performing the competitions. Some agencies, however, used a broader set of factors such as the function's contribution to the mission, risks associated with the function being contracted out, and the potential return on investment. (See app. VIII for further discussion on the criteria these agencies have used to select positions for competition.)

Human Capital Challenges

Officials in most of the agencies we reviewed expressed concern that they lack sufficient staff to perform the additional tasks included in the recently revised *Circular A-76*. To address this challenge, the Federal Acquisition Council is currently studying agency staffing and skill requirements. As we previously reported, agencies need to build and maintain capacity

to manage competitions, build the in-house MEO, and oversee the implementation of competition decisions[22]—skills that the Commercial Activities Panel recognized may require additional capacity. Adding to this complexity is agencies' need to consider their competitive sourcing staffing capacity in the context of their strategic human capital management, an area we have identified as high-risk governmentwide and one of the five President's Management Agenda governmentwide initiatives. For example, we recently reported [23] that DOD's civilian human capital strategic plan does not address the respective roles of civilian and contractor personnel or how DOD plans to link its human capital initiatives with its sourcing plans, such as efforts to outsource non-core responsibilities. Finally, ensuring and maintaining employee morale is also a challenge for agencies.

OMB's revised *Circular A-76* emphasizes the following key competitive sourcing phases: preparing an inventory of agency's activities, preliminary planning, announcing and conducting the competition, conducting the competition using either a streamlined or standard competition process, implementing the performance decision, and conducting post-competition accountability activities (see fig. 1). Each phase involves a number of tasks.

[22] General Accounting Office, *Competitive Sourcing: Implementation Will Be Key to Success of New Circular A-76*, GAO-03-943T (Washington, D.C: June 26, 2003).

[23] General Accounting Office, *DOD Personnel: DOD Actions Needed to Strengthen Civilian Human Capital Strategic Planning and Integration with Military Personnel and Sourcing Decisions*, GAO-03-475 (Washington, D.C: Mar. 28, 2003).

Figure 1: Major Competitive Sourcing Phases and Related Tasks

Inventory agency activities	Conduct preliminary planning	Announce and conduct competition	Implementation and postcompetition
Prepare inventory,[a] categorizing all activities performed as commercial or inherently governmental	Identify commercial activities and FTE positions to compete Conduct research to determine appropriate groupings of activities as business units Assess availability of workload data and establish data collection systems as necessary: • Quantify outputs of activities and processes • Evaluate agency or industry performance standards • Establish data collection systems Determine baseline costs for incumbent service provider Determine competition type (streamlined or standard) and schedule Set participant roles and responsibilities[b]	Publicly announce competition, which is competition start date For streamlined competitions, calculate costs of agency and private sector performance For standard competitions: • Agency team prepares performance work statement • Agency team develops MEO • Agency issues solicitation Make performance decision Publicly announce decision, which is the competition's end date Agency implements performance decision with either the private sector, public reimbursable provider sector, or agency sector provider	Monitor performance: • Implement quality assurance surveillance plan • Monitor, collect, and report performance costs and information • Manage contract file Maintain database to track each competition Submit competitive sourcing quarterly report to OMB

Source: GAO analysis of OMB circular.

[a]Agency inventory process is not done for each specific competition, but is required under the FAIR Act.

[b]Competitive Sourcing Officials appoint competition officials for each standard competition, and, as appropriate, may appoint competition officials for streamlined competitions. These include: Agency Tender Official, Contracting Officer, Performance Work Statement Team Leader, Human Resource Advisor, and Source Selection Authority.

According to agency officials, many of these tasks require skills and human capital resources beyond those currently available. As we reported in December 2002, in the current environment, acquisition staff can no longer simply be purchasers or process managers. Rather, they need to be adept at analyzing business problems and in helping to develop acquisition

strategies.[24] For example, human capital, job, and market analysis skills are needed to inventory agency activities; benchmarking, and strategic and workforce planning skills are needed to conduct the preliminary planning; organizational analysis, contract management and cost analysis skills are needed to conduct competitions; and financial management and oversight skills are needed in the implementation and post-competition phase. Some skills, such as labor relations and information technology, are required throughout the competitive sourcing process.

Despite these additional personnel requirements, many department-level offices in the civilian agencies we reviewed have only one or two full-time staff to complete FAIR Act inventories, interpret new laws and regulations, and oversee agency selection of positions to compete and the competitions. Officials at the six civilian agencies we reviewed stated it would be helpful to have additional personnel well versed in the use of *Circular A-76*. Even DOD, the leader among federal agencies in competitive sourcing and A-76, may face human capital challenges in running its competition program. According to a cognizant Army competitive sourcing official who has analyzed this issue, the Army's implementation of the revised *Circular A-76* will require approximately 100 to 150 additional personnel, including attorneys, human resources specialists, and contracting officials. A final determination on Army staffing requirements and capabilities has not been made.

As we reported in June 2003, building the capacity to conduct competitions as fairly, effectively, and efficiently as possible will likely be a challenge for all agencies, but particularly those that have not previously been invested in competitive sourcing.[25] The Commercial Activities Panel also recognized in its recommendations that accurate cost comparisons, accountability, and fairness would require high-level commitment from leadership; adequate, sustained attention and resources; and technical and other assistance in structuring the MEO, as well as centralized teams of trained personnel to conduct the cost comparisons. According to officials of the Federal Acquisition Council, its competitive sourcing working group is now inventorying agency resources, skill sets and training needs required to address this challenge.

[24] General Accounting Office, *Acquisition Workforce: Status of Agency Effort to Address Future Needs*, GAO-03-55 (Washington, D.C.: Dec. 18, 2002).

[25] GAO-03-943T.

At the same time, agencies we reviewed are challenged to maintain employee morale. While most agencies have established vehicles for communicating their competitive sourcing goals internally—such as work groups and Web sites—officials from OMB report that it is difficult to convince employees that the current competitive sourcing program is designed to create value and improve efficiency, not to reduce the size of the federal workforce—as was the case with past competitive sourcing efforts.

Funding Challenges

Funding their competitive sourcing programs also has been cited as a challenge for agencies. Officials in some of the agencies we reviewed cited limited funding as a barrier to implementing their competitive sourcing programs. Such program costs can be significant—at both the department and agency levels. For example, USDA reported spending a total of $36.3 million in fiscal years 2002 and 2003 on its competitive sourcing program. The Forest Service, part of USDA, accounted for $18.7 million of USDA's $36.3 million on competitive sourcing. In fiscal year 2003, NIH reported spending approximately $3.5 million on contract support for two competitions involving more than 1,400 positions.[26] The National Park Services' financial needs prompted the agency to ask the Congress for permission to reprogram $1.1 million to help pay for its competitive sourcing program. Other agency officials stated that funding to finance their competitive sourcing initiatives was taken from other agency activities. As we have previously reported,[27] DOD has also been challenged to ensure adequate funding for implementing competitive sourcing under *Circular A-76*. Finally, in August 2003, the Department of Veterans Affairs terminated all competitive sourcing studies as its General Counsel

[26] OMB has developed guidance (which it plans to issue in March 2004) for agencies to use in calculating the incremental "out of pocket" costs of competitions. OMB advises that it has developed this guidance to create greater consistency and understanding in agency reporting and to assist agencies in responding to reporting required by section 647(b) of Division F of the Consolidated Appropriations, Fiscal Year 2004. According to OMB agencies that have previously released cost figures on recent competitions may need to make adjustments to conform to this guidance.

[27] General Accounting Office, *Defense Management*: *DOD Faces Challenges Implementing Its Core Competency Approach and A-76 Competitions*, GAO-03-318 (Washington, D.C.: July 15, 2003).

determined that the prohibition regarding funds from the three health care appropriation accounts under 38 U.S. C. 8110 (a)(5) is applicable.[28]

According to officials from most of the agencies we reviewed, they have funded their competitive sourcing programs using existing funds. However, some officials told us that OMB recently instructed their agencies to include a line item in their fiscal year 2005 budget request for their competitive sourcing programs. Doing so should provide agencies with a more stable fiscal environment in which to plan and conduct competitions.

Some Agencies Used Strategic Approach to Identify and Prioritize Activities for Competition

Several agencies have developed strategic and transparent competitive sourcing approaches by integrating their strategic and human capital plans with their competitive sourcing plans—an approach encouraged by the Commercial Activities Panel. These approaches have gone beyond the requirement to identify positions for competition as called for in OMB's initial FTE targets. These approaches employ broader functional assessments of FAIR Act inventories and more comprehensive analysis of factors such as mission impact, potential savings, risks, current level of efficiency, market conditions, and current and projected workforce profiles. Not only do these agencies' processes identify viable activities for competition, they also provide greater transparency in this critical part of the process. Some of these approaches are summarized below. Appendix VIII contains a more detailed discussion of these approaches. While it is too early to tell whether the various agencies' approaches will be effective, a key to success will be learning from them and adapting them to each agency's unique circumstances.

OMB has recognized the challenges that agencies have faced in implementing their competitive sourcing programs and recently publicly endorsed agencies' use of a more strategic approach to competitive

[28] Title 38 U.S.C. 8110 (a)(5) states: "Notwithstanding any other provision of this title or of any other law, funds appropriated for the department under the appropriation accounts for medical care, medical and prosthetic research, and medical administration and miscellaneous operating expenses may not be used for, and no employee compensated from such funds may carry out any activity in connection with, the conduct of any study comparing the cost of the provision by private contractors with the cost of the provision by the department of commercial or industrial products and services for the Veterans Health Administration unless such funds have been specifically appropriated for that purpose."

sourcing.[29] For example, OMB supported the innovative approaches some agencies have taken to ensure sound planning and effective use of public-private competitions. OMB further stated that consulting with program, human resources, acquisition, budget, and legal professionals facilitates effective communication and a broad-based understanding of competitive sourcing actions within the agency.

NIH Uses Decision Support Software

Officials from HHS' National Institutes of Health told us they used a steering committee of senior-level officials to determine the activities to be competed under its competitive sourcing program. This committee used a systematic approach that considered FAIR Act inventory data, the knowledge and experience of program managers, and a decision support software application to capture the judgments of managers familiar with the commercial activity under study. The software application used a set of evaluation questions that assessed a function regarding NIH's mission, human capital and risk, and recorded and scored managers' responses.

Committee officials then reviewed the scores produced by the software, considering factors such as (1) the activity's impact on NIH's mission, (2) costs, (3) socioeconomic impacts, and (4) potential advantages to competing the activity. NIH officials also stated that once a decision has been made to compete an activity, consideration is given to re-engineering the applicable business process, whether the activity remains in-house or undergoes a public-private competition.

IRS Uses Business Case Analysis

Officials from the Internal Revenue Service, a bureau of the Department of the Treasury, told us they used business case analysis and an enterprisewide approach to determine if a commercial function has the potential to create significant business process improvements and a sizable return on investment. The business case analysis, which is completed in approximately 4 to 6 months, calculates the economic benefits of potential alternatives based on IRS responses to critical questions such as: Is the function core to the mission? What does the function cost? Is there potential to reduce cost and/or improve productivity by competing the function? How does the function fit into other current or planned strategic projects?

[29] Office of Management and Budget, *Competitive Sourcing: Reasoned and Responsible Public-Private Competition* (Washington, D.C.: Sept. 2003).

An IRS competitive sourcing official cited several benefits from the business case approach used during the planning stage

- up-front consideration of major decision variables such as economics, market research, and risk;
- involvement of top-level management and leadership;
- the ability to test candidate projects against strategic goals and performance improvement objectives; and
- low investment of resources to qualify or reject an activity as a competitive sourcing project.

Army's "Core, Non-Core" Approach Is Evolving

The Army's "core, non-core concept" for assessing functions employed a more strategic approach. Initially, the Army's approach for classifying positions for its inventory focused on determining whether functions were core or non-core to the agency's mission. However, the Army found that such a distinction did not, by itself, provide a good basis for a decision, and that other factors, such as risk and operational considerations, also must be considered. A cognizant Army official told us that focusing on positions does not consider how well the function is being performed or who should perform the function—military, civilian, contractor, or some combination of these. In contrast, the Army learned that looking at broader functional areas, such as utilities and family housing, as opposed to positions, should allow them to better identify potential positions for competition. For example, functions such as childcare and equal employment opportunity operations, while not inherently governmental, are exempt from competitive sourcing because they are important for reasons such as military morale and quality of life. According to a DOD competitive sourcing official, the Army's approach is evolving and is unique within DOD.

Officials at four civilian agencies in our review expressed similar concerns that the Army official expressed on developing their inventories. Officials told us that given the investment of time and resources required to develop an inventory, agencies should focus on mission-related functions rather than individual positions.

Education Uses Integrated Approach

The Department of Education's "One-ED" initiative also used strategic approaches in identifying candidates for competition. One-ED covers all elements of major departmental operations, and seeks management changes through integrated human capital reform, competitive sourcing, and organizational restructuring. As part of its broader approach, the

department developed its FAIR Act inventory by analyzing key processes in the activities under consideration. It then used the results of this process to restructure positions as either commercial or inherently governmental and frame a broader analysis of the function's activities.

Conclusion

The ultimate success of the administration's competitive sourcing initiative hinges on the extent to which agencies achieve the efficiencies, innovation, and improved performance envisioned by the President's Management Agenda. Successful implementation of this initiative requires results-oriented goals and strategies; clear criteria and analysis to support agency decisions; and adequate resources. OMB, in its leadership role, has a difficult task in guiding this initiative and must balance the need for transparency and consistency with the flexibility agencies need in implementing significant changes to operations. While OMB is addressing the funding and human capital challenges that agencies face, it needs to ensure that the FAIR Act inventory and goal-setting process is more strategic and helpful to agencies in carrying out their competitive sourcing responsibilities. Recognizing that agency missions, organizational structures, and workforce composition vary widely, the Commercial Activities Panel provided a framework of sourcing principles that provide an implementation roadmap for this initiative. However, OMB's current emphasis on meeting implementation milestones and targets does not fully align with these principles or ensure achievement of the ultimate goal of increasing efficiency and improving the performance of commercial activities. OMB needs to work with agencies to ensure their long-range plans are strategically focused. A more strategic approach focused on achieving improvement outcomes would help focus agency efforts and better achieve the results envisioned at the outset of the competitive sourcing initiative.

Recommendations for Executive Action

To complement efforts already underway that address funding and human capital challenges and to help agencies realize the potential benefits of competitive sourcing and ensure greater transparency and accountability, we recommend that the Director of OMB take the following three actions:

- ensure greater consistency in the classification of positions as commercial or inherently governmental when positions contain a mix of commercial and inherently governmental tasks by reviewing current guidance and developing additional guidelines, as necessary, for agencies and OMB examiners;

- work with agencies to ensure they are more strategic in their sourcing decisions and are identifying broader functional areas and/or enterprisewide activities, as appropriate, for possible public-private competition; and
- require agencies to develop competition plans that focus on achieving measurable efficiency and performance improvement outcomes.

Agency Comments and Our Evaluation

We provided a draft of this report to OMB and the seven agencies for their review and comment. OMB provided oral comments concurring with our three recommendations, but disagreed with our conclusion that OMB's recent guidance on competitive sourcing emphasized process more than results. Based on our review of the factors OMB considers in its review of agency plans, we continue to believe that factors such as the agency's ability to conduct competitions are emphasized more than results such as expected savings and the potential for improved performance as called for in the President's Management Agenda.

On the first recommendation, OMB officials concurred that there needs to be consistency in the classification of positions and stated that OMB will review its current guidance in light of the findings in this report to determine how best to help agencies that have had difficulties in classifying their activities. OMB officials stated that they would consider additional guidelines as necessary.

OMB officials, while agreeing with the second and third recommendations, emphasized that long-range "green" plans are intended to ensure that agencies think strategically in choosing activities for review and routinely take into account the type of factors that will ensure successful application of competition. OMB reiterated that before an agency may receive a green score on the President's Management Agenda scorecard, the agency must have an approved green competition plan.

OMB stated that its evaluation of plans will not be one-dimensional, but instead will account for each agency's unique mission and workforce needs and demonstrated ability to conduct reviews in a reasonable and responsible manner. OMB will also review agency plans to understand how the agency has selected activities and their potential for savings and performance improvements. However, while OMB's guidance mentions the importance of improving the cost effectiveness and quality of commercial operations, we note that the guidance does not cite the potential for savings or improved performance as factors OMB will look for when reviewing agency green plans.

The Department of Agriculture and the Department of the Interior concurred with our report. The Department of the Treasury stated that the report's recommendations were timely. The Department of Education and DOD did not have any comments. The Department of the Interior, HHS, OMB and VA provided technical comments, which were incorporated as appropriate.

We are sending copies of this report to other interested congressional committees; the Director, Office of Management and Budget; the Administrator, Office of Federal Procurement Policy; and the Secretaries of Agriculture, Defense, Education, Health and Human Services, the Interior, the Treasury, and Veterans Affairs. We also will provide copies to others on request. This report will also be available at no charge on GAO's Web site at http://www.gao.gov.

If you have any questions about this report, please contact me at (202) 512-4841 or John K. Needham at (202) 512-5274. Other major contributors to this report were Robert L. Ackley, Christina M. Cromley, Thomas A. Flaherty, Rosa M. Johnson, Nancy T. Lively, William M. McPhail, Karen M. Sloan, Marilyn K. Wasleski, and Anthony J. Wysocki.

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Appendix I: Scope and Methodology

To describe the progress DOD and the civilian agencies have made in establishing the competitive sourcing program in response to the President's Management Agenda, we interviewed officials at the Department of Agriculture; DOD; and the Departments of Education, Health and Human Services, the Interior, the Treasury, and Veterans Affairs. We selected the agencies based on the number of commercial positions in their 2001 FAIR Act inventories. The agencies selected represent 84 percent of the 2002 FAIR Act inventory of commercial positions among the 26 executive branch agencies implementing the President's Management Agenda. We selected the Department of Education because OMB highlighted its unique approach to implementing the competitive sourcing initiative. We obtained and reviewed pertinent documents from the seven government agencies. We also met with members of the Civilian Agency Competitive Sourcing Working Group, executive members of the Federal Acquisition Council and its Working Group on Competitive Sourcing, and attended several competitive sourcing conferences and workshops. We reviewed statutes and circulars governing this program and reports on competitive sourcing. We also reviewed reports on related subjects such as human capital, costs, and savings that were issued by academic and independent research organizations.

To identify what, if any, challenges exist for the agencies in implementing the competitive sourcing initiative, we interviewed senior-level officials at the seven competitive sourcing programs. In identifying the challenges agencies face, we also reviewed OMB and agency guidance as well as criteria and data used to develop inventories and select the activities to study and compete. We discussed management expertise, training requirements, planned contract support and contract oversight, timeline and budget impact to achieve fiscal year 2003 goals as well as intra-agency interactions, including budget and human resources offices.

To identify strategies agencies are using to identify activities for competition, we discussed extensively the alternatives and strategies agencies used to take a more strategic approach and obtained contractor documents, if available. These studies, conducted in support of a "compete/no compete" decision, gave us insight regarding decision criteria, competitive sourcing strategies, and costs involved.

We did not evaluate savings from completed competitions during this review as the program is new and such data are limited. The FAIR Act inventory data used in this report have been reviewed by OMB, reported to Congress, and made available to the public and covers the years 2000,

2001, and 2002. We did not independently verify this information. OMB-reviewed data for 2003 were not available for all agencies at the time of our review.

We performed our review between April and December 2003 in accordance with generally accepted government auditing standards.

Appendix II: Guiding Principles for Competitive Sourcing

In 2000, Congress enacted legislation creating the Commercial Activities Panel and mandating a study of the government's competitive sourcing process.[1] The Commercial Activities Panel's mission was to devise a set of recommendations that would improve the government's sourcing framework and processes so that they would reflect a balance among the taxpayer interests, government needs, employee rights, and contractor concerns.

In April 2002, the panel released its report[2] with recommendations that included 10 sourcing principles to guide federal sourcing policy. The panel believed that federal sourcing policy should

- support agency missions, goals, and objectives;
- be consistent with human capital practices designed to attract, motivate, retain, and reward a high-performing federal workforce;
- recognize that inherently governmental functions and certain others should be performed by federal workers;
- create incentives and processes that foster high-performing, efficient, and effective organizations throughout the federal government;
- be based on a clear, transparent, and consistently applied process;
- avoid arbitrary FTE or other arbitrary numerical goals;
- establish a process that, for activities that may be competitively sourced, would permit public and private sources to participate in competitions for work currently performed in-house and work currently contracted to the private sector as well as new work;
- ensure that competitions are conducted fairly, effectively, and efficiently;
- ensure that competitions involve a process that considers both quality and cost factors; and
- provide for accountability in all sourcing decisions.

[1] Section 832, Floyd D. Spence National Defense Authorization Act for Fiscal Year 2001, Pub. L. 106-398 (Oct. 30, 2000).

[2] Commercial Activities Panel, *Final Report: Improving the Sourcing Decisions of the Government* (Washington, D.C.: Apr. 30, 2002).

Appendix III: 2002 FAIR Act Inventories

		Total commercial FTEs		Competable commercial FTEs	
Agency	Total FTEs	Number	Percent of total FTEs	Number	Percent of total FTEs
USDA	99,902	53,394	53.4	35,600	35.6
DOD[a]	596,570	410,699	68.8	239,001	40.1
Education	4,710	3,062	65.0	2,903	61.6
HHS	62,604	32,095	51.0	11,641	18.6
Interior	69,147	32,900	47.6	26,545	38.3
Treasury	148,100	27,103	18.3	12,313	8.3
VA	221,541	190,546	86.0	4,870	2.2

Source: GAO analysis of 2002 FAIR Act data.

Note: Full-time equivalent (FTE) is a measure of federal civilian employment. One FTE is equal to one work-year of 2,080 hours. As of January 23, 2004, OMB had publicly released 2003 FAIR Act inventory data for only three of our selected agencies.

[a]According to DOD, these FAIR Act inventory numbers do not include military, foreign nationals. depot-level maintenance and repair commercial activities, DOD Inspector General, civilian performance of any commercial activities that have already been contracted out, and the DOD intelligence community.

Appendix IV: Competitive Sourcing Studies Initiated and Completed in 2002 and 2003

			Results of Completed Studies (FTEs)[a]			
	Positions Studied (FTEs)		Remain in-house		Contract-out	
Agency	**2002**	**2003**	**2002**	**2003**	**2002**	**2003**
USDA	379	7,111	6	3,776	373	660
DOD	8,477	3,434	16,886[b]	7,826[b]	7,185[b]	2,167[b]
Education	0	230	0	Pending	0	Pending
HHS	775	2,192	165	1,592	610	600
Interior[c]						
Treasury[d]	4,170		234		487	
VA	0	1,380[e]	0		0	120[f]

Source: GAO analysis of agency data.

[a]Full-time equivalent (FTE) is a measure of federal civilian employment. One FTE is equal to one work-year of 2,080 hours.

[b]For DOD, these numbers include studies initiated prior to 2002 or 2003.

[c]Interior provided only aggregated data for 2002 and 2003. Over this 2-year period, 2,483 FTEs were studied. Of those FTEs, 968 remained in-house and 1,515 were contracted out.

[d]Data represent bureaus remaining after transfer made to the Department of Homeland Security. Actions on 3,449 FTEs are underway; some are in the planning stage, while others await senior management approval before results are announced.

[e]Studies of these positions were initiated but not completed because VA's General Counsel determined that use of funds for this purpose was prohibited by 38 U.S.C. 8110 (a)(5).

[f]Veterans Affairs had one formal A-76 competition—Veterans Benefits Administration Property Management Services. This study began in 1999, competition was announced in 2001, and the contract was awarded in August 2003.

Appendix V: Disposition of Competable Commercial FTEs Where Studies Completed

Table 3: Disposition of 2002 Competable Commercial FTEs Where Studies Have Been Completed

	Direct conversions[a]	Streamlined competitions	Full competitions	Other[b]	Total
USDA					
Number of studies	11	0	0	0	**11**
Total FTEs studied	379	0	0	0	**379**
In-house wins	6	0	0	0	**6**
Contract out	373	0	0	0	**373**
HHS					
Number of studies	133	33	0	0	**166**
Total FTEs studied	599	176	0	0	**775**
In-house wins	0	165	0	0	**165**
Contract out	599	11	0	0	**610**
DOD					
Number of studies	58	5	112		**175**
Total FTEs studied	1,153	171	22,148		**23,472**
In-house wins	121	171	16,565		**16,857**
Contract out	1,032	0	5,583		**6,615**
Education					
Number of studies	0	0	0		**0**
Total FTEs studied	0	0	0		**0**
In-house wins	0	0	0		**0**
Contract out	0	0	0		**0**
Treasury					
Number of studies	6	3	0		**9**
Total FTEs studied	109	72	0		**181**
In-house wins	0	70	0		**70**
Contract out	109	2	0		**111**
Total					
Number of studies	208	41	112		**361**
Total FTEs studied	2,240	419	22,148		**24,807**
In-house wins	127	406	16,565		**17,098**
Contract out	2,113	13	5,583		**7,709**

Source: GAO analysis of agency data.

Note: The Interior Department provided aggregated data for 2002. Over this 2-year period, 2002 and 2003, it studied 2,483 FTEs. On these, 968 were retained in-house and 1,515 were contracted out.

In addition, VA did not initiate any studies in 2002.

[a]Direct conversions are not competitions, but are included in this table as they represent federal employee positions whose work has been outsourced to the private sector.

[b]Includes various OMB approved approaches.

Table 4: Disposition of 2003 Competable Commercial FTEs Where Studies Have Been Completed

	Direct conversions	Streamlined competitions	Full competitions[a]	Other[b]	Total
USDA					
Number of studies	15	307	3	92	**417**
Total FTEs studied	150	3,256	410	620	**4,436**
In-house wins	0	3,250	290	236	**3,776**
Contract out	150	6	120	384	**660**
HHS					
Number of studies	96	45	7	0	**148**
Total FTEs studied	569	645	978	0	**2,192**
In-house wins	0	614	978	0	**1,592**
Contract out	569	31	0	0	**600**
DOD					
Number of studies	54	7	65		**126**
Total FTEs studied	873	298	8,822		**9,993**
In-house wins	105	298	7,423		**7,826**
Contract out	768	0	1,399		**2,167**
Education					
Number of studies	0	1	4		**5**
Total FTEs studied	0	10	220		**230**
In-house wins	0	Pending	Pending		**0**
Contract out	0	Pending	Pending		**0**
Treasury					
Number of studies	19	10	2		**31**
Total FTEs studied	290	145	47		**482**
In-house wins	0	145	19		**164**
Contract out	290	0	14		**304**
VA					
Number of studies	0	0	1		**1**
Total FTEs studied	0	0	270c		**270**
In-house wins	0	0	0		**0**
Contract out	0	0	120		**120**

	Direct conversions	Streamlined competitions	Full competitions[a]	Other[b]	Total
Total					
Number of studies	184	370	82	92	**728**
Total FTEs studied	1,882	4,354	10,747	620	**17,603**
In-house wins	105	4,307	8,710	236	**13,358**
Contract out	1,777	37	1,653	384	**3,851**

Source: GAO analysis of agency data.

Note: The Interior Department provided aggregated data for 2003. Over this 2-year period, 2002 and 2003, it studied 2,483 FTEs. On these, 968 were retained in-house and 1,515 were contracted out.

In addition, VA did not initiate any studies in 2002.

[a]The winning MEO can require fewer FTEs than were originally performing the function.

[b]Includes various OMB approved approaches.

[c]This activity had 270 FTEs at the time the study was announced in 1999. The Most Efficient Organization provided for 120 FTEs if the work was retained in-house. VA awarded the contract to the private sector in 2003.

Appendix VI: Evolution of OMB's FAIR Act Guidance

1998	• FAIR Act passed and required agencies to provide OMB an annual inventory of their FTE positions that are not considered inherently governmental. • The first submission of inventory data was 1999.
2001	• Directed agencies to also submit a separate report listing their inherently governmental positions.
2002	• Directed agencies to provide a single inventory submission that reflects both the agency's inherently governmental FTE positions and its commercial FTE positions. Once reviewed by OMB, agencies must provide a listing of their commercial FTE positions to the Congress and the public. • Instructed agencies that they should anticipate the possibility that after their list of inherently governmental positions has been reviewed, it too may be released to the public.
2003 (March)	• Directed agencies to submit their FAIR Act inventory in two parts—(1) a list of commercial activities performed by FTE civilian personnel and (2) a list of inherently governmental activities performed by FTE civilian personnel. After OMB reviews these lists, both will be released to the Congress and the public. • FTE civilian personnel. After OMB reviews these lists, both will be released to the Congress and the public. • Instructed agencies in developing their 2003 inventories to justify in writing all commercial positions that they consider as not being appropriate for private sector performance.
2003 (May)	• Provided guidance for preparing inventories, directs agencies to annually submit inventories of (1) their commercial activities performed by government personnel, (2) inherently governmental activities performed by government personnel and (3) a summary report that identifies aggregate commercial and inherently governmental inventory data. (Contained in revised *Circular A-76*) • Instructed agencies to justify in writing all inherently governmental positions and all commercial positions classified as not appropriate for private sector performance. (Contained in revised *Circular A-76*)

Source: GAO analysis of OMB information.

Appendix VII: OMB Scorecard Criteria for the Competitive Sourcing Initiative

Yellow status	Green status
Agency has • an OMB approved "yellow" competition plan to compete commercial activities available for competition; • completed one standard competition or publicly announced standard competitions that exceed the number of positions identified for competition in the agency's yellow competition plan; • in the past two quarters, completed 75% of streamlined competitions in a 90-day timeframe; and • in the past two quarters, canceled less than 20% of publicly announced standard and streamlined competitions.	Agency has • an OMB approved "green" competition plan to compete commercial activities available for competition; • publicly announced standard competitions in accordance with the schedule outlined in the agency "green" competition plan; • since January 2001, completed at least 10 competitions (no minimum number of positions required per competition); • in the past year, completed 90% of all standard competitions in a 12-month time frame; • in the past year, completed 95% of all streamlined competitions in a 90-day timeframe; • in the past year, canceled fewer than 10% of publicly announced standard and streamlined competitions; and • OMB-approved justifications for all categories of commercial activities exempt from competition.

Source: OMB.

Appendix VIII: Strategic Approaches to Competitive Sourcing

Several agencies used approaches that considered and balanced multiple agency interests within the competitive sourcing environment. The following discussion provides a more detailed description of these approaches.

HHS' National Institutes of Health Used Transparent Criteria to Identify Candidates for Competitive Sourcing

NIH has developed a more strategic competitive sourcing approach that includes use of software and integration of the agency's human capital and strategic plans. According to NIH officials, in 2002, NIH appointed a Commercial Activities Steering Committee, comprised of 14 senior level officials, to work with NIH's 27 centers to determine the activities to be competed under its competitive sourcing program. The committee used FAIR Act inventory data, knowledge and experience, and a decision support software application that provides objective and analytical results. The software, enabled managers to respond to NIH-developed questions related to mission effectiveness, human capital, as well as demand and risk.

Mission effectiveness	Human capital	Demand and risk
• Criticality of the function's role in relationship to NIH's mission • Current state of tools and technology used by the function • Current level of effectiveness of the processes used by the function • Current level of customer satisfaction • Current level of efficiency in the activity under study • Expected cost to maintain an acceptable level of performance	• Annual rate of staff turnover • Number of staff performing the function • Match between workforce skills and program/service function needs • Percent of staff in function who are true masters of their art • Percent of staff in function from underrepresented groups • Openness of staff in the function toward conducting a cost comparison study	• Current capacity relative to current demand for the function • Long-term trend of demand for function • Normative periodic fluctuation in demand for function (i.e. stability of demand) • Availability of function in the marketplace • Risk to program integrity and control of sensitive information if the function were outsourced. • Degree of difficulty expected for NIH to manage the consequences of losing a cost competition

Source: GAO analysis of NIH data.

The software assigns weights to each response—using NIH-developed values—and generates scores for each activity under study. Committee officials then review the scores, considering factors such as (1) the activity's impact on NIH's mission, (2) costs, (3) socioeconomic impacts, and (4) potential advantages to competing the activity. NIH officials also stated that once a decision has been made to compete an activity, consideration might be given to re-engineering the applicable business process, whether it remains in-house or undergoes a public-private competition. Once the Steering Committee has made its competitive

sourcing decision, the Commercial Activities Review Team, with contractor assistance, implements the committee's decisions.

Further, in an effort to add rigor to its competitive sourcing process, NIH in a recent competition used a contractor to mitigate potential risks. NIH convened a panel of nine experts from the Georgia Institute of Technology to analyze and evaluate a request for proposal and its related performance work statement concerning real estate property management services at six installations—the estimated value of which exceed $100 million each year. In light of the risks it could encounter if the contract were deficient from a scope, technical, business, and/or legal standpoint, NIH asked the panel to review the request for proposal developed in-house and determine whether or not the contract documents were properly conceived, logically organized, clearly written, and sufficiently complete and accurate. As a result of its analysis, the panel identified several areas where the request for proposal and performance work statement subjected NIH to risks. NIH officials reviewed the risk and made appropriate changes to these documents.

Finally, NIH officials sought advice and coordinated with HHS' Office of Strategic Management and Planning and Human Capital Office to link their competitive sourcing program to HHS' strategic and human capital plans.

Internal Revenue Service Uses Business Case Analysis and an Enterprisewide Approach

According to an IRS official, IRS, a bureau within the Department of the Treasury, developed a strategic approach to competitive sourcing, using a business case analysis methodology used by leading industry firms to determine if commercial function(s) within a business division have the potential to create significant business process improvements along with a sizeable return on investment. Based on the results of the business case analyses, the Strategy and Resources Committee, headed by the Deputy Commissioner of Operations and Support decide to compete (public-private competition) or not compete the functions. According to IRS officials, this process enhances the opportunities to make smart business decisions aligned and supportive of the IRS Strategic Business Plan. IRS has focused its competitive sourcing efforts primarily on more strategic and enterprise-wide competitions because it has determined that this approach makes more economic sense than identifying candidates in smaller groups.

The official stated that the IRS's initial step for identifying the functions that will be considered to undergo a business case analysis is its review of the FAIR Act inventory, which has been merged with IRS personnel

staffing database in a software application.[1] This application, unique in terms of the agencies that we reviewed, crosswalks the FAIR Act inventory data with personnel staffing data to provide a comprehensive analysis of the various commercial function groupings across the IRS. After identifying these groupings, the bureau's subject matter experts and high-level managers along with hired contractors conduct business case analyses of these positions. As we reported, the business case analyses, which are completed in approximately 4 to 6 months,[2] calculate the economic benefits of potential alternatives based on IRS responses to a number of critical questions:

- Is the function core to the mission?
- How much does the function cost?
- Is there potential to reduce cost and/or improve productivity by competing the function?
- How does the function fit into other current or planned strategic projects?

Based on the responses to these questions, and analyses of current operations, market research and an MEO design, IRS calculates and considers the economic benefits of each potential alternative and the upfront and recurring investments required to achieve and maintain efficiencies. IRS then makes a decision to compete or not compete based on weighted values assigned to IRS strategic business alignment, investment risks, return on investment, FAIR Act goal alignment, and alignment with President's Management Agenda goals. A key success factor to this approach is an expert validation of the assumptions used in the business case as well as the inclusion of significant direct and indirect costs associated with the function.

According to an IRS official, if competing a function makes the best business sense, IRS appoints a team leader who selects a team and obtains

[1] In its report *The Accuracy of the Federal Activities Inventory Can Be Improved* (Reference Number: 2003-10-181, Washington, D.C.: Aug. 2003), Treasury's Office of the Inspector General found that overall the IRS needs to improve its compliance with FAIR Act requirements and recommended that the Director, Competitive Sourcing Program provide the business units with specific guidance for categorizing activities as commercial or inherently governmental, including supplemental definitions to assist business units in using Function Codes properly and consistently IRS-wide. Other recommendations included the development of an IRS –wide process for assembling the FAIR Act inventory and a methodology for properly calculating FTEs.

[2] According to an IRS official, the average contractor cost to support business case studies ranges from $150,000 to $350,000, depending on the number of FTE positions analyzed.

contractor support to plan and develop the performance work statement. Throughout the entire business case analysis and competitive sourcing lifecycle, the IRS Office of Competitive Sourcing is engaged and provides support to the various teams.

Officials from IRS' competitive sourcing program cited many benefits from the business case approach used during the preliminary planning stage: up-front consideration of major decision variables such as economics, market research and risk; involvement of top level management and leadership at the very early stages of the process; an opportunity to test candidate projects against strategic goals and performance improvement objectives; and a low investment requirement to qualify or reject an activity as a competitive sourcing project. According to an IRS official, while the time and cost to make a decision to compete or not to compete may seem excessive, once IRS conducts a public - private competition, they have confidence in the business case projected return-on- investment and an understanding of why conducting a particular set of business functions fits into the IRS strategic plan for business improvements and human capital goals.

Army's "Core-Non-Core" Approach for Classifying Positions

The Army's experience in using a strategic approach to classify positions offers lessons for other agencies in identifying positions for competitive sourcing studies. The Army's attempt to focus on determining whether functions were core or non-core to the agency's mission found that such a distinction did not, by itself, adequately inform sourcing decisions. For example, the Army's core competency review showed that designating a function as "core" does not necessarily mean that in-house employees should perform a function or necessarily preclude competitive sourcing of the function. As we reported, Army officials found that other factors, such as risk and operational considerations, must also be considered.[3]

The Army's effort assumed that all commercial positions were non-core to its mission and thus potential candidates for performance by the private sector or other government agencies. However, Army officials recognized that, in many instances, these "non-core" functions would require additional analysis to determine potential risks if the function were contracted. There are four categories of risk analysis: force management,

[3] GAO-03-818.

operational, future challenges, and institutional.[4] For example, Army officials determined that many medical functions, which are not classified as inherently governmental, could be considered core in some circumstances. Although medical functions typically do not require unique military knowledge or skills, medical activities in theater need to be performed by in-house personnel because contracting for medical support in host nations could present significant risk to U.S. armed forces. Consequently, the Army has determined that the in-theater medical mission is a critical element of the Army's ability to accomplish its core competencies. Other medical functions could be considered both core and non-core. For example, optical fabrication—the ability to produce replacement spectacles and protective mask inserts—is considered a core competency in support of the operational forces close to the point of need in the area of engagement. However, the same function performed in the United States is not core. The Army also determined that its casualty and mortuary affairs function is not a core or an inherently governmental function. However, national policy dictates that Army officials notify families of a casualty in-person.

Education's "One-ED" Approach Seeks to Integrate Competitive Sourcing with Other Initiatives

In June 2002, the Department of Education launched, with OMB approval, an ambitious management reform known as the "One-ED" concept. One-ED seeks to transform departmental operations through the integration of human capital reform, competitive sourcing, and organizational restructuring.

As part of its One-ED approach the Department developed its FAIR Act inventory by first analyzing key processes. It then used the results of this process to restructure positions as either commercial or inherently governmental. As a result of this process, Education's reported inventory

[4] Force management risk includes the ability to recruit, retain, train, and equip sufficient numbers of quality personnel and sustain the readiness of the force while accomplishing its many operations tasks. Operational risk concerns the ability to achieve military objectives in a near-term conflict or other contingency. Future challenges risk involves the ability to invest in new capabilities and develop new operational concepts needed to dissuade or defeat mid- to long-term military challenges. Institutional risk entails the ability to develop management practices and controls that use resources efficiently and promote the effective operation of the defense establishment.

data have changed significantly in the past few years,[5] and according to senior officials, the data are now more accurate and concise.

One-ED reviews cover selected elements of major departmental operations and are being implemented in four phases over a period of three years. In each phase, the Department (1) identifies specific business functions for review, (2) conducts a business case analysis of each function, and (3) decides whether to re-engineer the function or compete it with the private sector.

Phase I, which concluded in mid-2003, focused on agency-wide support functions, such as human resources, payment processing, and legal review. As a result, five agency-wide support functions will be competed with the private sector and four will be re-engineered and retained in-house. In making this decision, nine teams—comprised of approximately sixty employees knowledgeable about the function being studied and assisted by contractor personnel trained in developing business case analyses reviewed the functions and reported their findings to senior management. These teams considered such factors as the

- skill sets and competencies required to perform the functions being reviewed,
- potential risks associated with outsourcing the position, and
- relationship of the business function to the Department's strategic planning.

[5] In the 2000 inventory, department employees were placed into 225 functional categories; today, 65 percent of the Department of Education employees fall into only 15 functional categories.

An Executive Management Team—chaired by the Deputy Secretary and staffed by senior Department officials—made the final determination using the information developed by the teams as well as other data. The Department initiated four standard competitions and one streamlined competition in fiscal year 2003. In addition, the Department is in the process of implementing proposals related to those business functions that were identified for in-house re-engineering. These projects were not completed at the time of our review. The Department's Office of Inspector General will report on its assessment on the implementation of the One-ED initiative in early 2004.

Appendix IX: Comments from the Department of Health & Human Services

DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General

Washington, D.C. 20201

FEB 24 2004

Mr. William T. Woods
Director, Acquisition and Sourcing Management
United States General Accounting Office
Washington, D.C. 20548

Dear Mr. Woods:

The Department has reviewed your draft report entitled, "Competitive Sourcing: Greater Emphasis Needed On Increasing Efficiency and Improving Performance," and has no comments at this time.

The Department provided several technical comments directly to your staff.

The Department appreciates the opportunity to comment on this draft report before its publication.

Sincerely,

Dara Corrigan
Acting Principal Deputy Inspector General

The Office of Inspector General (OIG) is transmitting the Department's response to this draft report in our capacity as the Department's designated focal point and coordinator for General Accounting Office reports. OIG has not conducted an independent assessment of these comments and therefore expresses no opinion on them.

Appendix X: Comments from the Department of the Interior

United States Department of the Interior

OFFICE OF THE SECRETARY
Washington, DC 20240

TAKE PRIDE IN AMERICA

FEB 2 0 2004

Mr. William T. Woods
Director, Acquisition and Sourcing
Management
United States General Accounting Office
441 G Street, NW
Washington, DC 20548

Dear Mr. Woods:

Thank you for providing the United States Department of the Interior (DOI) with the opportunity to review and comment on the General Accounting Office's (GAO) draft report entitled, *Competitive Sourcing: Greater Emphasis Needed on Increasing Efficiency and Improving Performance*.

We concur with the report's conclusions and recommendations. However, we submit for your consideration, the following information for inclusion in the final report:

1. Page 6, Table 1: Overview of Civilian Agency Infrastructure Development; Interior section. Representatives from the Center for Competitive Sourcing Excellence and Department of the Interior bureaus and offices spent a considerable amount of time describing to GAO auditors significant actions taken in issuing policies, procedures, and guidance, and providing training and other resources, that we feel are not adequately reflected in Table 1.

Please find enclosed, a copy of the DOI Center for Competitive Sourcing Excellence's home page (http://www.doi.gov/perfmgt/competitivesourcing/). Guidance developed by the Center includes guides, success stories, Frequently Asked Questions, and other helpful information. We do not believe that the draft report's description of DOI accomplishments under Table 1's section on "Policies, procedures, and guidance" captures the Center's accomplishments in this area, and ask the first bullet be re-worded to state: Memoranda, Guides, labor-management resolution regarding competitive sourcing, Frequently Asked Questions, and other guidance.

Related to this, we ask that the following be added to Table 1 under the "Training and other resources:"

- Hosted Government-wide competitive sourcing meetings and conferences; and

- Launched website featuring Frequently Asked Questions and guidance.

2. We also wish to reiterate that Table 1's "Contract support" section identifies funding for support of the Center for Competitive Sourcing Excellence, and not bureau/office contractor expenditures made in support of competitive sourcing initiative.

We are preparing additional statistics to provide more detail on Interior information shown on the tables on pages 23 through 25 of the draft report, and will provide that as soon as it is available.

Thank you for providing us with the opportunity to comment on the draft report. If you have any questions regarding our response, please contact Jennings Wong, Center for Competitive Sourcing Excellence, on 202-208-6704.

Sincerely,

Scott J. Cameron

for P. Lynn Scarlett
Assistant Secretary – Policy,
Management and Budget

Enclosure

Appendix XI: Comments from the Department of Veterans Affairs

THE SECRETARY OF VETERANS AFFAIRS
WASHINGTON

February 18, 2004

Mr. William T. Woods
Director
Acquisition and Sourcing Management Team
U. S. General Accounting Office
441 G Street, N.W.
Washington, DC 20548

Dear Mr. Woods:

The Department of Veterans Affairs (VA) has reviewed your draft report, ***COMPETITIVE SOURCING: Greater Emphasis Needed On Increasing Efficiency and Improving Performance*** (GAO-04-367). VA supports the President's Management Agenda strategy under which agencies open commercial activities to competition with the private sector. However, as your report observes, legal impediments have precluded VA's pursuing its plan to implement the President's goals.

In August 2003, VA's General Counsel determined that VA's competitive sourcing activities were prohibited based on 38 U.S.C. 8110(a)(5) which precludes the expenditure of VA's appropriated health care funding for any studies that would compare the provision of commercial-type functions between VA employees and private sector employees in the absence of a specific appropriation for such comparisons. Accordingly, the Department terminated all competitive sourcing studies at that time.

This also affects VA's ability to implement earlier recommendations from two previous GAO reports, ***VA HEALTH CARE: Expanding Food Service Initiatives Could Save Millions*** (GAO/HEHS-00-178) and ***VA HEALTH CARE: Consolidations and Competitive Sourcing of Laundry Service Could Save Millions***, (GAO-00-61). Until the Department receives the requisite specific appropriation, VA will not be able to pursue the President's Management Agenda of Competitive Sourcing.

The enclosure provides technical corrections and clarifying edits. VA appreciates the opportunity to comment on your draft report.

Sincerely yours,

Anthony J. Principi

Enclosure

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