

**COMPETITION FOR COMMERCIAL ACTIVITIES IN
THE FEDERAL GOVERNMENT**

HEARING

BEFORE THE

SUBCOMMITTEE ON OVERSIGHT OF
GOVERNMENT MANAGEMENT, RESTRUCTURING,
AND THE DISTRICT OF COLUMBIA

OF THE

COMMITTEE ON
GOVERNMENTAL AFFAIRS
UNITED STATES SENATE

ONE HUNDRED FIFTH CONGRESS

SECOND SESSION

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JUNE 4, 1998
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CONTENTS

Opening statements:	Page
Senator Brownback	1

WITNESSES

THURSDAY, JUNE 4, 1998

J. Christopher Mihm, Acting Associate Director, Federal Management Work- force Issues, U.S. General Accounting Office, accompanied by Bill Reinsberg and Marilyn Wasleski	2
G. Edward DeSeve, Acting Deputy Director, U.S. Office of Management and Budget	7
Hon. Craig Thomas, a U.S. Senator from the State of Wyoming	12
John Berry, Assistant Secretary for Policy, Management and Budget, U.S. Department of the Interior	16
W. Scott Gould, Chief Financial Officer and Assistant Secretary for Adminis- tration, U.S. Department of Commerce	19

ALPHABETICAL LIST OF WITNESSES

Berry, John:	
Testimony	16
Prepared statement	55
DeSeve, G. Edward:	
Testimony	7
Prepared statement	48
Gould, W. Scott:	
Testimony	19
Prepared statement	63
Mihm, J. Christopher	
Testimony	2
Prepared statement	27
Thomas, Hon. Craig:	
Testimony	12

COMPETITION FOR COMMERCIAL ACTIVITIES IN THE FEDERAL GOVERNMENT

THURSDAY, JUNE 4, 1998

U.S. SENATE,
OVERSIGHT OF GOVERNMENT MANAGEMENT, RESTRUCTURING,
AND THE DISTRICT OF COLUMBIA SUBCOMMITTEE,
OF THE COMMITTEE ON GOVERNMENTAL AFFAIRS,
Washington, DC.

The Subcommittee met, pursuant to notice, at 10:06 a.m. in room SD-342, Dirksen Senate Office Building, Hon. Sam Brownback, Chairman of the Subcommittee, presiding.

Present: Senator Brownback.

Also present: Senator Thomas.

Senator BROWNBACK. The hearing will come to order.

OPENING STATEMENT OF SENATOR BROWNBACK

Senator BROWNBACK. Welcome to all of you this morning.

I'd like to welcome everyone here today for this important oversight hearing to examine the current OMB process and policy, also known as OMB Circular A-76, for establishing a competition for commercial activities within the Federal Government. We are here to address OMB's leadership role in this area and to see how we can improve it.

Under A-76, Federal agencies are required to identify commercial activities performed in-house and provide an inventory of these activities. These activities must then be competed.

Implementation of A-76, however, has been inconsistent throughout the Federal Government, as seen in the displayed chart. We can provide that to people who would like to see it. We brought this up at the prior hearing about the inconsistencies of the A-76 process and we will be happy to hear responses to this from the OMB as we go through it. As you can see, some agencies fully engage—actually, not even fully engage but are much more engaged than others. Some down at the bottom, the Commerce Department, no engagement whatsoever, and I am looking forward to our Commerce witness to tell us why they do not believe they should or why they do not or just why the lack of competition or implementation of A-76.

The Subcommittee held a hearing earlier this year on draft legislation which would address the weaknesses of A-76, the Fair Competition Act, S. 314. It would establish a level playing field for competing commercial activities performed by the Federal Government. Under the current draft both private industry and Federal employees would be able to compete for these activities.

We have heard the frustration expressed with the current competition process, the A-76 process, from all sides of this issue. Federal employee representatives say that agencies ignore A-76 and directly contract out commercial activities. Private industry representatives say that Federal agencies ignore A-76 and keep commercial functions in-house. We will continue to work on this legislation to address these and other concerns raised about A-76.

I have also asked GAO to study how OMB A-76 is working under OMB's leadership, specifically with the U.S. Departments of Commerce and the Interior. Preliminary results indicate that Federal agencies are simply disregarding OMB's competition policy. Furthermore, OMB's own competition policy, A-76, is not a significant priority within OMB. We will have a GAO witness testify and speak about the findings that they have found under their study.

The purpose of today's hearing is to get to the bottom of this. Why is the current competition process not working? Why are agencies ignoring the current guidelines contained in A-76? Why is OMB's own policy not a priority within OMB and this administration? Why is implementation of the OMB circular inconsistent from one Federal agency to the next?

We will be hearing from representatives from the GAO, OMB, the Department of Commerce and the Department of the Interior, who I hope will answer these important questions. I want to emphasize that our final goal is to make sure we are getting the most for each taxpayer's dollar.

With that we have three panels of four total witnesses that will testify today. As I noted in here, this is actually the third hearing on this overall issue, although this one we will focus specifically on the A-76 process.

With that I would like to call up the first panel witness, J. Christopher Mihm, Acting Associate Director, Federal Management Workforce Issues with the U.S. General Accounting Office, who will testify today regarding the GAO study that was recently completed.

Mr. Mihm, thank you very much for joining us. Please identify the other two people who are at the table with you.

TESTIMONY OF J. CHRISTOPHER MIHM,¹ ASSOCIATE DIRECTOR, FEDERAL MANAGEMENT AND WORKFORCE ISSUES, U.S. GENERAL ACCOUNTING OFFICE, ACCOMPANIED BY BILL REINSBERG AND MARILYN WASLESKI

Mr. MIHM. Yes, sir. Mr. Chairman, I am very fortunate to be joined today by two of my colleagues, first Bill Reinsberg, who has been leading much of our work, looking at managed competition in civilian agencies, and Marilyn Wasleski, who leads much of our work at the Department of Defense, looking at A-76 and outsourcing issues.

Senator BROWNBACK. Welcome.

Mr. MIHM. It is a pleasure to be here today. With your permission, Mr. Chairman, I ask that my written statement be included in the record and I will take just a few minutes to hit some of the highlights.

Senator BROWNBACK. Without objection.

¹The prepared statement of Mr. Mihm appears in the Appendix on page 27.

Mr. MIHM. Thank you, sir.

This morning I would like to cover three major points. First, A-76 can be an effective management tool for improving operational efficiency and reducing costs. Second, within civilian agencies, A-76 has been little used in recent years and OMB accordingly, in our view, needs to augment its leadership efforts. And third, I will point out the elements that we have found to be necessary for a more active A-76 program.

Turning to the first point, with the agreement between Congress and the administration to balance the Federal budget, agencies must increase their efforts to ensure that their operations are as efficient as possible. In that regard, A-76 is one of a series of tools that managers can use to make sound business decisions and to enhance performance through competition and choice.

Experience with A-76 suggests that competition is the key to realizing savings, whether the functions are eventually performed by the private sector or remain in-house. Savings achieved through A-76 are the result of closely examining the work to be done and then reengineering those activities to perform them with fewer personnel.

Reported savings estimates, in some cases as much as 20 percent, must be taken with caution, but nevertheless there appears to be a clear consensus that savings will be achieved when agencies undertake a disciplined approach such as that called for under A-76, to reviewing their operations and implementing needed changes or contracting out services.

Turning to my second point, strong OMB leadership is needed to invigorate civilian agencies' A-76 programs. As shown in the table in my written statement, there has been very little activity among civilian agencies since the late 1980's in A-76. OMB's March 1996 revision of the A-76 supplement streamlined procedures and made other much-needed reforms. Since then, however, OMB has not consistently worked with agencies to ensure that the provisions of A-76 are being effectively implemented.

For example, OMB has not aggressively followed up with agencies that fail to submit commercial activity inventories, with the result being that as of April 1998, six of the 24 largest agencies still had not provided inventories.

OMB has also not systematically reviewed the inventories to determine if agencies are missing opportunities to generate savings.

And finally and most important, it is not clear how consistently OMB has raised questions during the budget process about agencies' implementation of Circular A-76. That integration into the budget process is really where A-76 can get its teeth.

As I understand Mr. DeSeve will discuss, OMB has recently taken some steps that, in our view, are a move in the right direction. However, sustained OMB commitment and follow-through will be vital to the success of that effort.

Turning now to my third and final point this morning, several elements are needed for a successful A-76 effort across Federal agencies. First, as I have just noted, leadership commitment to use A-76 is important. Consistent and forceful leadership from OMB is essential to provide incentives for managers to subject themselves to the rigors of A-76.

Second, A-76 will be most effective when it is integrated within a performance-based approach to management accountability. The annual performance plans that agencies are to develop under the government Performance and Results Act, which was passed under the leadership of this Committee, provide a ready-made annual vehicle that agencies and Congress can use to consider whether or not the most cost-effective strategies are in place to achieve agency goals.

As part of this consideration, Congress can ask an agency about the tools the agency is using to increase effectiveness, including the status of its A-76 programs, and the specific choices that are being made about whether to keep a commercial activity or contract it out. In other words, Congress has a vehicle for beginning to raise these types of issues up on its radar screen.

Third, improved cost data are critical. The government's lack of complete cost data, particularly for indirect costs, has increased the difficulty of carrying out A-76 because the government is not able to accurately determine the cost of activities it plans to compete. Continuing efforts to implement the Chief Financial Officers Act and the Federal Accounting Standards Advisory Board or FASAB managerial cost accounting standards are central to ensuring that agencies resolve their long-standing problems in generating vital information for decision-making.

Fourth, an effective A-76 effort requires considerable contract management capability. An agency must have adequate capacity and expertise to successfully carry out the solicitation process and effectively administer and monitor contracts once they are awarded. Our work has shown that contract oversight and monitoring has been a consistent weakness in Federal efforts.

In summary, Mr. Chairman, A-76 has shown itself to be an effective management tool for increasing efficiency of the Federal Government and saving scarce funds. However, despite its proven track record, A-76 is seldom used in civilian agencies. OMB needs, in our view, to more consistently strong send messages to the agencies that A-76 is a priority management initiative.

Its recent efforts are an encouraging first step, but only a first step. Thorough implementation and follow-through will be needed to get A-76 on track. Agencies' development and Congress' use of annual plans under the Results Act provides an opportunity to consider A-76 and other competition issues within the context of the most efficient means to achieve agency goals.

Mr. Chairman, this concludes my statement and I would be pleased to respond to any questions that you may have.

Senator BROWNBACK. Thank you. Thank you for your statement, your study and the conciseness of it.

It does seem very puzzling in your chart, that the Defense Department has 760,000 total agency FTE's and they are reporting 445,000 plus involved in commercial activities. One would think that the military does not have that many functions necessarily associated with commercial activities.

Then you go down to the Commerce Department, 34,900 employees, far less, and zero involved in commercial activities. Did they just choose not to participate in the activity?

Mr. MIHM. I can speak to your question, Mr. Chairman. The chart I am referring to is a slightly different chart that comes from our testimony. I can bring you up a copy of that. It talks about the total FTE's that have been studied.

Senator BROWNBACk. Well, let's use your chart. I thought this one was. I'll look at your chart.

Mr. MIHM. Ours is on page 7 of the written statement.

Senator BROWNBACk. So you go with united agencies, then. Why do you think, then, that civilian agencies—are just not participating in this. Do they not think that there are people that are doing commercial activities or performing commercial activities within their agencies?

Mr. MIHM. I think there is a combination of reasons and we have had quite a few discussions with officials across the government, in particular the Departments of Commerce and Interior. Over the last few years they have perceived that there are higher priority management improvement initiatives, such as those led by the National Performance Review. They view A-76, in this sense correctly in our view, as one of a series of tools that they can use to improve effectiveness.

Now, what concerns us is even viewing it as one of a series of tools, one would expect that there would be greater opportunities identified to apply that particular tool.

There has also been concern expressed by officials in these agencies that they do not have the staff with the capacities or the knowledge, skills and abilities in order to do the systematic reviews that are needed to compete commercial activities, to let the contracts and to manage the contracts once they have been awarded.

In our view, what has to happen is that OMB needs to really be making it very clear to agencies that A-76 is a priority initiative and it needs to drill this right into the budget process and, through the government Performance and Results Act, to start setting up some quite rigorous expectations that OMB will be looking at commercial activities and, where appropriate, agencies should be using A-76 to contract out.

Senator BROWNBACk. You seem to be pointing out a clear systems failure or some type of failure in the civilian agencies in the use of A-76. Is that correct?

Mr. MIHM. Yes, sir. It just has not been a priority initiative.

Senator BROWNBACk. And you are citing several different reasons to this, but that we have had a failure of this law. Has it always been this way since A-76 has been in place? Have we always had the civilian agencies not participating or not seeing this as any sort of priority?

Mr. MIHM. No. As a matter of fact, in the late 1980's and the early 1990's, as the top of the chart shows, there was some significant action that was taking place within civilian agencies. You can see there that 2,000—in some cases 5,000 in 1988—civilian FTE's were studied. The Department of Commerce had a large percentage of that. The General Services Administration did a large number of studies, as well as the Department of Transportation. Since then, as the data also indicates, there has been a great fall-off in the interest and use of A-76 among civilian agencies.

What we think needs to happen again is getting this into the normal decision-making processes that OMB uses and really drilling this into the budget process, using the Government Performance and Results Act as one vehicle.

Senator BROWNBACk. For instance, in 1988 how many employees did the Department of Commerce say they had involved in commercial activities? Did you look at that?

Mr. MIHM. We did look at that. I don't have that readily available. With your permission, Mr. Chairman, we will make sure we supply that for the record.

INFORMATION FOR THE RECORD

The Department of Commerce's last complete update of its commercial activities inventory, done in 1983, showed over 5,000 Full-time Equivalent (FTE) positions performing commercial activities.

Senator BROWNBACk. And what did they say in the most recent study that they had of FTE's performing commercial activities?

Mr. MIHM. The last time the Department of Commerce did a complete update of its inventory of commercial activities was 1983, so it does not have a recent list of its commercial activities.

One of the things that we view as being particularly important about the current OMB call for agencies to review their inventories is that the Department of Commerce and other cabinet agencies will be going through again and updating their list of commercial activities and the number of FTE's that are working in them.

Senator BROWNBACk. You have made a number of suggestions as to how its implementation can be improved. Are there other things, beyond its implementation, that you have studied, whether it needs to have more enforceability, more requirements associated with it? Have you studied any of those aspects?

Mr. MIHM. No, sir. We really haven't looked at that. We have looked at similar initiatives that have taken place in State and local governments. In fact, some of the testimony that we have provided in front of this Subcommittee and other subcommittees talked about some of the lessons learned that we saw in various States and in the City of Indianapolis as to how they ran their privatization effort, which included A-76-like activities, but we have not looked at the issues that you are raising.

Senator BROWNBACk. But in conclusion on your study, basically the civilian agencies just are not doing this.

Mr. MIHM. Yes, sir. We do not see that it is being used. We understand and fully agree with the position that A-76 is one of a series of tools that managers need to use. However, when we see zero FTE's being studied, and in some cases agencies not doing any studies over the last 10 or 11 years, that leads us to wonder whether or not A-76 is being fully appreciated as one of the tools that agencies can use.

Senator BROWNBACk. Good. That is an excellent study. I very much appreciate your willingness to study and look at this aggressively because in my estimation since we have been looking at and studying the bill that is brought forward, there has just been a systems failure of the current system and we needed to look and understand was that estimation on mine and a number of other people's parts accurate or inaccurate? And your study certainly gives

us the factual basis of information to conclude that there has been a systems failure under the current system.

I also note that you think there is some improvement taking place and some positive steps here recently, but we have had a systems failure over the last number of years, particularly of the civilian agencies.

Mr. MIHM. Yes, sir. And the key to success for the steps that are taking place now, in particular the memo that the OMB director sent out in mid-May, will be effective implementation and follow-through on the part of OMB and the agencies.

Senator BROWNBACk. Thank you very much. Thank you for doing the study. I don't know if there is a chance for you to stay around. I hope for the hearing not to last too long but it might be good to have you here to be able to respond if we have additional questions later on.

Mr. MIHM. I would be pleased to, sir.

Senator BROWNBACk. Thank you very much. Thank you for conducting the study and I thank your cohorts, as well.

The second panel will be the Hon. G. Edward DeSeve, the Acting Deputy Director of the U.S. Office of Management and Budget. Mr. DeSeve, we welcome you back to the Subcommittee yet again.

**TESTIMONY OF G. EDWARD DeSEVE,¹ ACTING DEPUTY
DIRECTOR, U.S. OFFICE OF MANAGEMENT AND BUDGET**

Mr. DESEVE. Mr. Chairman, I am delighted to be here.

Senator BROWNBACk. Well, these can be tough inquiries and I am sure they are not days that you look forward to. Maybe you would rather go to the dentist on days like this than be here. But we do have serious things that we need to look at. We are having difficulties and failures in this system and I want to hear why it is we are seeing these sorts of systematic failures taking place because I sure think we need to address them.

Thank you for joining us and the floor is yours. If you hear any of these comments that you would like to address quickly as they are fresh in your mind, feel free to do that; then we can take your full testimony later, if you would like to.

Mr. DESEVE. I thought I would just give you a verbal statement which summarizes my full testimony and then respond to your questions.

Senator BROWNBACk. OK.

Mr. DESEVE. I am pleased to be with you today to discuss OMB Circular A-76 and how the Federal Government acquires commercial support activities.

As I noted in my testimony before you on March 24, we share the goal of seeking the most efficient and cost-effective source for provision of commercial support activities. The CFO Act, the Government Performance and Results Act, the Federal Acquisition Streamlining Act and the Clinger-Cohen Act and the A-76 process, all taken together, reflect important efforts to improve our effectiveness while recognizing the complexities of our financial, operating and management systems.

¹The prepared statement of Mr. DeSeve appears in the Appendix on page 48.

The Defense Department is clearly setting the pace in the implementation of A-76. The Department is evaluating which functions are commercial in nature and subject to competition. The Department is now providing its employees the training and resources necessary to develop historical workload data, performance and evaluation criteria, the ability to perform results-oriented contracts and to compete within the private sector and with its own employees for functions currently being performed by civilian and military personnel.

We are now engaged in the largest effort undertaken to compete commercial activity support services. More than 200,000 FTE's have been scheduled for review within the Defense Department. This represents more than twice the total number of FTE studies under A-76 by all agencies since 1981.

The studies are expected to generate \$6.4 billion in savings by the year 2002 and are in addition to the other acquisition, restructuring, consolidation, utility and family housing privatization initiatives that have also been undertaken by DOD.

To put this in a somewhat broader reinvention context, as of the end of 1997, the administration had cut the civilian workforce by more than 316,000 employees using various reinvention tools, creating the smallest Federal workforce in 35 years and, as a share of total civilian employment, the smallest Federal workforce since 1931.

In May of this year, OMB issued its 1998 A-76 inventory call. This inventory, which is due to OMB no later than October 31, 1998, will be reviewed by the President's Management Council, the Chief Financial Officers Council, will be published in the Federal Register and will be submitted to Congress.

In conjunction with these reviews, an interagency panel will compare agency submissions to achieve consistency in the determination of what is inherently governmental and what is commercial in nature. It is critical that agencies like Commerce and Interior retain the flexibility to focus on any of a series of reinvention priorities, including certainly the use of A-76.

Coordinating these competitions with other reinvention tools now available is a complex effort, particularly as we strive to ensure that the interests of our employees, the agencies, the private sector and the taxpayer remain protected.

Over time, we believe that civilian agencies will come to rely more heavily on public/private competitions in order to increase savings. The March 1996 revision of A-76 was carefully crafted to encourage and permit agencies to incorporate into their reinvention and restructuring plans the work of A-76. It does no good to require cost comparisons of activities that can or should be discontinued, divested or fundamentally restructured.

We need to reflect new technology and changes in mission requirements. Regionalization, consolidation, termination, closing of unneeded facilities, application of electronic commerce and other techniques may be more appropriate reinvention approaches and agency managers must reflect discretionary authority to implement these changes while remaining good employers.

If changes are made to Circular A-76, they must contribute to the reinvention process and move it forward. Our principles for the review of proposed A-76 changes are quite clear.

First, they must promote competition to achieve the best deal for the taxpayer, not simply undertaking out-sourcing.

Second, it must not increase the level of judicial involvement in the government's management decision-making as to whether to out-source or not.

Third, they must recognize that current guidance to promote a level playing field is in place.

Fourth, the complexities of public/public and public/private competition must be reflected in such changes.

Fifth, any changes must be fair and equitable to all interested parties.

Sixth, out-sourcing must be viewed in the context of the larger reinvention effort.

Finally, it is inappropriate and may be detrimental to require the head of an agency to undertake competitions in accordance with a schedule mandated by law.

Thank you very much, Mr. Chairman. That concludes my statement. I would be happy to answer any questions the Subcommittee has.

Senator BROWNBACK. Mr. DeSeve, thanks for the statement and any written record you would like to put in, we would be happy to have as part of the record.

Really to get to the point of it, in looking at the chart on page 7 of the GAO study, and I don't know if you would like to get a copy.

Mr. DESEVE. I have a copy.

Senator BROWNBACK. OK. You look at 1988. DOD FTE's involved in this competition, civilian agency FTE's, and you then go down through this chart and it looks like particularly on the civilian agency area, that they have just said, "Look we are not doing this anymore." The old mule just laid down in the middle of the road; "We are just not moving. We are not going to do this."

And, for whatever reason, DOD says, "OK, we will do this. We will fully engage." And DOD is providing you the leadership on this, not OMB. And certainly these agencies, many of them, and certainly the Commerce Department not having any FTE's involved in commercial activity, really strikes me as an odd statement.

Why have they just stopped participating in this?

Mr. DESEVE. I am going to let Department of Commerce give its own reason for not filling out the inventory form. I do not think that is acceptable. We are trying, by putting a new call for inventory out now, to work with each of the agencies to make sure that everybody responds and that we carefully review the commercial functions and inherently governmental functions. It needs to be done and the process for doing that is in place.

In terms of agencies using A-76 as one of a set of tools, I think they chose other tools during that period. In the reinvention process we said to the agencies, "First decide if you have to be in that business at all. We do not want to pave the cowpath. We do not want to out-source something where you should not be in the business at all."

So we saw OPM, for example, divesting its investigations function. This Subcommittee had a series of hearings in which I participated and you participated. We talked about creating a private corporation, an ESOP, where that function would spin off. As a result of that and getting rid of their function of training—they did not out-source it; they got rid of it, they got out of the business—OPM has cut its workforce by more than 50 percent.

The same set of choices was made by other domestic agencies, such as GSA which eliminated almost a third of its workforce along the way. So they chose a hatchet in some cases, as opposed to a machete. OMB A-76 might be categorized as a machete and some of the other efforts might be described as hatchets.

The cutting was done, after all, and I think that is what we were trying to get at. We were trying to reduce the cost of government and eliminate unneeded functions.

At the same time, DOD, which had also engaged in the same kinds of activities, found that A-76 was particularly valuable to them. It is, however, a cumbersome tool. It is a tool that we believe takes at least 2 years from the point of initiation to the point of realization.

Some agencies wanted to see different tools used to produce more short-term results, whether those were RIFs, elimination through attrition, whether they were buy-outs, whether they were divestitures, whether they were downsizing or devolution to State and local governments, those tools were chosen in place of A-76.

We think that is not enough. We think A-76, as better understood and better implemented, can, in fact, yield great results. DOD was not alone. We worked very closely and need to work very closely with DOD in setting its priorities and undertaking OMB A-76 reviews. I can't tell you the number of conversations I and my staff have had with them and we've encouraged them and they have been very receptive.

Senator BROWNBACK. So for me to understand your system of A-76, it is basically whether or not the agency wants to do it and you really do not care. I mean, you would like to see them participate but if they do not and they choose another set of tools, that is fine by you as OMB. Is that correct?

Mr. DESEVE. That is correct. It is like the Government Performance and Results Act. We want to see the result. We want to see the outcome of a smaller, more efficient government. The means and strategies an agency uses should be consistent with the agency's individual plans. We are certainly working to encourage greater understanding, streamlining and use.

A-76 has really been something that agencies have shied away from because of the time it takes and the complexity involved in the process.

Senator BROWNBACK. I am sure you have heard the charge that you have stated frequently that there has been a decline in the workforce of the Federal Government during this administration and I am sure you have heard the charge that most of that has come from the Department of Defense. And your numbers here seem to suggest that there is a lot more pushing on the Department of Defense to do some of these things than there is on a number of the civilian agencies that are involved.

Clearly the charts that we have here, the information put forward by the GAO suggest that at least on the A-76 processes that you or others are strongly encouraging the Department of Defense to do this but are very much laissez faire with regard to anybody else.

If one were to study the end product and try to determine why we got to this point, the Department of Defense is doing this, the others are not, and there appear to be no consequences whatsoever to the civilian agencies. If they want to participate, fine; if they do not want to, that is fine. But you do see this taking place in the Department of Defense.

I note all that for you, Mr. DeSeve, because it looks like to me, and now you have the GAO study saying it, as well, that there is a systems failure on A-76 taking place amongst the civilian agencies. You just heard the testimony that we had and it had been my hunch for some time that that was the case. It turns out that that is indeed the case.

You have the Department of Defense, the military agency that is participating greatly in this, according to GAO numbers, according to your numbers. We have the Department of Commerce which has many commercial competitive activities and the OMB saying, "That is fine; we are not going to push you on this at all. And if you choose other tools, if you choose to add employees, if you choose to continue to compete, that is fine."

That strikes me as a real systems failure if one is looking to try to identify commercial activities that are competing with the private sector, that we do not have any OMB leadership on this. The agency can choose, decide if they want to or do not want to participate in this, and the GAO confirms that, that we have a complete systems failure taking place.

What has happened, for instance, in the number of FTE's at the Department of Commerce, total, over the last—if you have a good period of time on there, over the last 5 years?

Mr. DESEVE. From 1993 to 1996 actually they have lost 2,900 FTE, which is about 8 percent of their workforce. If you extend that to 1997, they have lost a total of 4,100 or 11.2 percent of their workforce without using OMB Circular A-76. The choices—

Senator BROWNBACK. How did they do that?

Mr. DESEVE. I am going to ask Mr. Gould to comment on that. I think what you will find is that through buy-outs, through reductions in force in selected areas and through contracting mechanisms not entailed in A-76. A-76 is the prescribed mechanism for competing FTE. Other contracting, either for new work, for expanded activity, is not covered by A-76, so that out-sourcing, privatization and contracting can be accomplished in other ways than through the formalized A-76 mechanism.

Senator BROWNBACK. Let me follow up on that and I want to ask another question regarding that but I have used my time and I want to pass to Senator Thomas for him to ask a few questions.

Senator THOMAS. Thank you very much.

Senator BROWNBACK. Thanks for joining us.

Mr. DESEVE. Senator, it is good to see you.

**OPENING STATEMENT OF SENATOR CRAIG THOMAS, A U.S.
SENATOR FROM THE STATE OF WYOMING**

Senator THOMAS. How are you, sir? Nice to see you.

First of all, I appreciate very much having this hearing. I think the point of the whole program, of course, is to take a look at the purpose of A-76, which is, as I understand it, to take commercial activities within the government and give the private sector an opportunity to see if they can, in fact, perform them more efficiently. Isn't that what you consider to be the purpose of it?

Mr. DESEVE. No, sir, I don't.

Senator THOMAS. Don't you? Tell me what it is, will you, please?

Mr. DESEVE. Yes, Senator. I believe it is a chance to provide lower cost, a savings for the taxpayer, whether the private sector wins the competition or the public sector wins the competition.

Senator THOMAS. I think that is what I said. Do it more efficiently.

Mr. DESEVE. I misunderstood. I thought you said——

Senator THOMAS. Well, why don't we do that, then? Why isn't that happening? Now, this policy has been in place since President Eisenhower; isn't that right?

Mr. DESEVE. I would have to look. That is probably——

Senator THOMAS. Well, I will tell you it is.

Mr. DESEVE. I will rely on you for that.

Senator THOMAS. It has been in place a very long time and still we have a million people on the Federal payroll doing things that are commercial in nature, most of which the private sector has not had an opportunity to compete for. Now, do you call that success?

Mr. DESEVE. No, sir, I call that the status quo and I don't think it's——

Senator THOMAS. That is exactly what I call it, too, and we in Congress are trying to do something about that.

Mr. DESEVE. I agree with you and I think the Defense Department is providing great leadership in that area.

Senator THOMAS. I do, too.

Mr. DESEVE. And I believe that other domestic agencies will see that process work in DOD and——

Senator THOMAS. How long does it take, for heaven's sake? How long has this policy been in place?

Mr. DESEVE. Unfortunately, A-76 itself takes about 2 to 2½ years.

Senator THOMAS. I am talking about how long does it take to implement a program, a concept that has been in place for a very long time?

Let me just say I am a little impatient. We have been through this before and the feeling I get is that there is resistance from your agency and the rest of the Federal Government. You just don't want to do anything any differently from what you are currently doing. And even though GAO pretty clearly points out in their testimony that A-76 is not a high priority among the civilian agencies, pointing out here that many of the agencies do not even respond to OMB's A-76 inventory requests, and yet I hear from you, "Oh, things are OK. We don't need to do anything. We are doing it."

Now, that is really hard for me to understand.

Mr. DESEVE. Let me be very clear. Things are not OK and the reason we put out a new inventory call was to get the agencies' inventories up to date, to encourage them to properly characterize their functions——

Senator THOMAS. "Encourage" bothers me a little. Obviously encouraging does not get the job done, and that is why we in Congress are talking about some kind of statutory authority. I have met with you several times in an effort to make it as reasonable as we can. We are willing to continue to work with you.

I am focused on results, the bottom line. I get awfully impatient with the idea of talking all the time about what we are doing when the measurement of result is really the issue, and the results do not show that it is being done.

Mr. DESEVE. And again, Senator, I do not mean to belabor or restate the issue. When we look at results, as we would under the Government Performance and Results Act, we look at the total reduction in the size of the workforce——

Senator THOMAS. Wait a minute. That is not the issue. The issue is to take commercial activities and to see if they can be done more efficiently, not the number of FTE's. The number of FTE's are down because of the Department of Defense downsizing and the savings and loan cleanup, and we all know that.

So numbers down is not the only issue, is it?

Mr. DESEVE. No, sir, but I think cost savings——

Senator THOMAS. What about the Army Corps of Engineers? Tell me a little about how they have reduced their number of FTE's.

Mr. DESEVE. I don't know the answer.

Senator THOMAS. Well, I will tell you the answer.

Mr. DESEVE. I do not have it in front of me.

Senator THOMAS. Their budget has gone down substantially and the number of employees have not.

Mr. DESEVE. I will be happy to look at the data and supply it for you.

Senator THOMAS. Well, isn't that your job, to look at that?

Senator BROWNBACK. The witness needs to be allowed to answer fully.

I think, Mr. DeSeve, as you can tell, we are both pretty frustrated about what we——

Senator THOMAS. We have had these types of answers, Mr. Chairman, before.

Senator BROWNBACK. I know, but I am trying to be nice about it.

Senator THOMAS. And I appreciate that.

Mr. DESEVE. And Senator Thomas and I do not disagree on a lot of these issues and I understand his frustration in this area.

Senator THOMAS. So we are trying to create a statutory basis for accomplishing the same goals that you and I have talked about, and I don't understand the objection to that.

Mr. DESEVE. I don't think we have objected to that, Senator. I think we set out a set of principles that we would like to see a statute adhere to. I do not believe we have objected to the statute. I do not believe we have objected to the ideas that you put forward, as long as they stay within the principles.

There have been some bills out there at one time—not now but at one time—that would have simply out-sourced everything, regardless of cost. That was not a good idea, so we objected to that.

Senator THOMAS. Agreed.

Mr. DESEVE. But we have indicated a willingness to work with the Subcommittee to try to understand your frustrations and try to do something about a bill.

Senator THOMAS. Maybe, Mr. Chairman, I should have had this as a statement rather than questions. I apologize if I haven't given you a chance, Mr. DeSeve.

What about the May 12, 1998, memorandum? Why doesn't it provide a timetable for competition? What are you going to do differently to make this inventory call work, since the past two have not?

Mr. DESEVE. I guess what we are going to do differently is we are going to say that agencies have done many good things; here is another chance, again especially with DOD breaking a path for us and showing us how to do things a little better in some of the areas. Agencies have not had a good roadmap themselves.

So first we are going to say go back again and look much more carefully now at your workforce; tell us what is inherently governmental; tell us what is not. Let's get some of your peers who have been successful to review what you have done and perhaps give you some suggestions where you can think more thoughtfully about what that inventory looks like.

And then we are going to strongly encourage agencies in the balanced budget world. After the Balanced Budget Act, the strictures are still on place. We talked about surpluses. But the caps in the domestic side are still in place and we believe agencies are looking for new and expanded tools to meet those caps.

So that is our process from now through the budget season to try to get them to move in that direction.

Senator THOMAS. OMB Circular A-97 implements the Intergovernmental Cooperation Act that requires local governments to certify to OMB that services cannot be produced reasonably and expeditiously through ordinary business channels before a Federal agency can provide such services. How many such certifications have you on file?

Mr. DESEVE. I would have to look. I do not have that data before me. I didn't come prepared to testify on that. I just do not know.

Senator THOMAS. I believe the answer is zero. Mr. Chairman, thank you. I will wait a while.

Senator BROWNBACK. Mr. DeSeve, thanks. We just look at the world differently, I guess is the problem here. The GAO study verifies what I suspected for some period of time, that we just weren't seeing the OMB leadership with the civilian agencies. You are verifying that by saying it is one of several tools.

I think you can gather from Senator Thomas and I and many members of the legislative body that we think it should be clearly a very aggressively used tool. That is not happening. Commercial competition with Federal agencies decreased over the past 10 years. We do not think it is getting done.

I am glad to hear your number of workforce decline in the Department of Commerce taking place. I want to look at it and com-

pare it to some other agencies. Our point with that would be, as well, that that is not the whole issue here. We are talking about the FTE numbers is a good indicator. I think it is a very positive indicator if it is going in the right direction. But here you have a competition with private sector by the public sector that regardless of the issues of FTE size, should be clearly evaluated and we should not be having this head-to-head competition in places if it can be done more efficiently.

And you have most of your civilian agencies really not participating in this at all by GAO studies, by your own numbers. And neither of us think that that is an acceptable way to go. Apparently the OMB—it is fine and there are no consequences for going a different way.

Now, if that is different, if there are consequences for them not participating, I would sure like to know about it.

Mr. DESEVE. Sir, there is an absolute budget cap that comes from the Balanced Budget Act for discretionary spending or military spending and we allow the agencies the flexibility to choose the path in meeting that cap, whether it is divestiture to State and local government, whether it is getting out of the business entirely, whether it is downsizing the workforce in other ways or using A-76.

So we try to manage in such a way to give them the flexibility within their overall target, and the targets are very aggressive. This year, for example, if there is a 3 percent pay increase, that is 3 percent less in S&E budget. That cheese is going to bind, as my grandfather used to say, at some point and we believe that having them be much more familiar with A-76 and our continuing to focus on it—and we heard your message. The inventory call, and the new procedures for evaluating the inventories were certainly reflective of the kinds of issues that you have put forward.

We agree with them and believe in them and I cannot defend the pace of change in this tool. I can only put it in the context of broader reinvention.

Senator BROWNBACK. Well, thank you for coming here today. You can go get your root canal now and get relieved from the two of us. We have a difference of opinion here.

Mr. DESEVE. I know this is going to sound masochistic but I honestly enjoy coming because I think that both you and Senator Thomas and other Members of this Subcommittee are honestly trying to make things better.

Senator BROWNBACK. We are.

Mr. DESEVE. This is not a personal attack and it is not even an attack on the fundamentals. It is really a difference of opinion about whether we should use, as I said earlier, the machete or the ax. We believe there is a time for the machete and we are going to continue to work with the agencies to try to show you how that can work.

Senator BROWNBACK. I don't view it as either machete or an ax but something that we clearly should be doing and that, if appropriately done, like the Department of Defense is doing, can be quite a positive tool. I have run a government agency before and if you let them just avoid it and choose their own path, they are not going to do this. And I think the proof is in the pudding. We are seeing

that taking place. So machete or ax or plastic knife, call it what you would like.

Thank you very much for joining us.

Mr. DESEVE. Thank you very much, Mr. Chairman. Thank you, Senator Thomas.

Senator BROWNBACK. The third panel will be the Hon. John Berry, Assistant Secretary for Policy, Management and Budget, U.S. Department of the Interior. The other panel member is the Hon. W. Scott Gould, the Chief Financial officer and Assistant Secretary of Administration for the U.S. Department of Commerce.

Gentlemen, thank you very much for joining us. We have lots of questions for you. We would be happy to take your statements into the record and we appreciate your being willing to join us.

Mr. Berry, you are first up.

**TESTIMONY OF JOHN BERRY,¹ ASSISTANT SECRETARY FOR
POLICY, MANAGEMENT AND BUDGET, U.S. DEPARTMENT OF
THE INTERIOR**

Mr. BERRY. Mr. Chairman, thank you for this opportunity. If I could I would like to start with just a short overview of the Interior. I know Senator Thomas is here and this may be a little boring to him but I will only take 30 seconds or so on it to give you the context of where we are and where we are trying to get to.

Interior manages over 450 million acres of Federal land on the continental United States and 3 billion acres offshore on the outer Continental Shelf, which essentially boils down to one-sixth of our nation's land mass. We have over 57,000 buildings, dams, equipment and aircraft. We have 66,000 people and they are operating at over 2,000 sites around the United States.

We are as close as the bottom of the hill and we are as far away as the islands of Micronesia, to give you a sense of the scope and scale of our Department.

We are one of the most streamlined agencies in the Federal Government. You could not find a more streamlined agency. We manage that Department which I just described and that mission with no undersecretaries, no deputy undersecretaries, only five assistant secretaries and eight bureau directors. There is not one other Department in the Federal Government that can make that claim to you.

Since 1993 we have cut 11,700 employees out of the Department of the Interior. That is a 15 percent reduction and the second largest in the domestic Federal Department cabinet agencies.

In the D.C. area, in the headquarters, just so you do not think we are cutting these from the field, the bulk of this cut has come from the headquarters. We have taken 16 percent of our D.C. management headquarters out. Again that is the second greatest cut in domestic cabinet agencies, so we are very proud of that.

The question is how have we done this? Essentially accomplishing this at the same time when our recreational load is going up on public lands, on the Bureau of Land Management, Fish and Wildlife Refuges. The public demands for the use of the outdoors

¹The prepared statement of Mr. Berry appears in the Appendix on page 55.

has increased over this same period of time where we have had a decline.

The question is and our response is how have we done this? We have done it two ways: essentially trying to operate smarter and by building strong partnerships with the private sector. Let me touch on smarter for a second.

Smarter, for example, is using purchase cards, electronic purchase cards that have allowed us to cut our procurement staff 24 percent since 1993 and a 35 percent cut in the personnel in our central office finance functions. That is just by shifting those functions over to the private sector using cards that private sector companies can tell us and manage that data for us easier than we can ourselves. So we have been able to achieve significant reductions in our central office finance functions.

We have put in place 34 reinvention labs that have eliminated red tape, habitat conservation plans which work with private sector landowners to accomplish goals of important Federal laws that Congress has adopted, and have cost-avoided through those measures over \$100 million.

Finally, we work very closely with the Congress, with the GAO and the IG on identifying areas where we can be better, we can be smarter. The Appropriations Committee and our authorizing committee—Senator Thomas could take a great deal of pride in this—brought a concern to a number of hearings, concern over the cost of how much it was taking to do things in the National Park Service. Our construction projects were just taking too much.

We organized a study with the consent of the committees, with the National Academy of Public Administration—that will be in June—that is going to essentially require us in our Denver service center to get out of the contracting business and to shift those functions, reducing our Denver workforce significantly and shifting more functions in Denver over to the private sector.

I can tell you now ahead of schedule, having been briefed by NAPA on that report, that we are going to carry out those recommendations. We are going to do it and you will be very proud and pleased to see the results at the end of it.

The second area which I wanted to just touch on very quickly, Mr. Chairman, is partnership with the private sector. Forty percent of our budget authority—our BA for the Department of the Interior is \$10 billion, so that means \$4 billion is spent on outside contracts with private contractors, grants or agreements with State and local government. Over 17 percent of that is specifically with private companies.

Over the last 5 years 95 percent of our procurement actions have been awarded competitively, and that is the highest rate in the U.S. Government.

We use over double our workforce in volunteers. In the National Parks we have over 90,000 volunteers. On Fish and Wildlife lands we have over 30,000 volunteers. We are essentially doubling our workforce. And these are not folks who are just standing answering questions. They are people who are out in the field actually accomplishing work. They are retirees who we are trying to bring back in with their skills to accomplish our mission.

Then finally, and this is something I know that is close to Senator Thomas' heart, is how we deal with concessions contracts in the Park Service, BLM, Bureau of Reclamation and Fish and Wildlife. In the National Park Service alone we have over 600 contracts, concessionaire contracts, that employ over 25,000 private sector people on our National Parks, enjoying gross receipts of over \$700 million and the taxpayers get back from that very profitable association over \$48 million return every year from the private sector.

Concessionaires and our contracts at some of our parks greatly outnumber the employees at our parks. Yosemite is a good example of that. Yosemite, our concessionaire at Yosemite, a private sector contract, has 1,650 employees. The National Park Service employees at Yosemite are only 750, less than half of our number of employees there.

And we have a wonderful relationship with our concessionaires in that they have actually, at Yosemite, for example, helped us rebuild after the massive floods we suffered 2 years ago.

If I could, I would just put in a pitch for Senator Thomas' bill. Senator, we are deeply appreciative of your efforts this year on moving some concession reform standards and really are grateful for your efforts with the Secretary on S. 1693. If we can eliminate some of that preferential right on the concession stuff, it is really going to help us do more on that concession and move more of these functions into the private sector, so we are really pleased with your efforts in that regard. Thank you.

Finally, A-76. It is one of our good tools. Under Secretary Babbitt's administration we have performed nine studies, most of them in the aircraft service areas. We have taken a photo lab from the Rocky Mountain Mapping Center and put that into the private sector. Our computer operations for the USGS in Reston, we have had great results in all those efforts. We are very impressed with it, very pleased.

We have completed our inventories and have done that annually and submitted those to OMB and we will again this year resubmit, as directed by Mr. DeSeve, our inventory this summer, as directed.

The most recent A-76 survey of the Department found 58 commercial activities with more than 10 employees; 53 of those 58 are in the National Park Service and the total is about 5,000 FTE's in terms of the impact.

But the bottom line in how I look at it is what we ought to be about is achieving the most efficient result we can. If the private sector can do it better, then by God, they ought to be doing it, and we ought to be getting that work transferred over to them as soon as we can, and we are about that.

For example, this NAPA study and the Denver service study, I am not going to wait 2 years. That will be implemented within 6 months of June. We will draw down those people using creative things like buy-outs, early-out authority, which hopefully we are going to get from the Congress this year to help us do those things more creatively, with less pain to our Federal employee workforce. But the end result will be a leaner Federal workforce that will be much more heavily reliant on private contractors to carry out design, construction management in how we do things in the Na-

tional Park Service. And we are going to be about accomplishing that in 6 months, not 2 years.

So there is no question of our heavy reliance on the private sector. A-76 is one way of getting there. Reinvention is another. Using increasing concessionaires is another. And finally, management reforms is one basic one.

So with that, Senator, I apologize for going a little—I saw the red light and I apologize. I appreciate your indulgence.

Senator BROWNBACK. Thank you very much for that upbeat report. We will have some questions but I do appreciate that and how you have presented it.

Mr. Gould, welcome to the Subcommittee.

**TESTIMONY OF W. SCOTT GOULD,¹ CHIEF FINANCIAL OFFICER
AND ASSISTANT SECRETARY FOR ADMINISTRATION, U.S. DE-
PARTMENT OF COMMERCE**

Mr. GOULD. Mr. Chairman, Senator Thomas, thank you for the opportunity to appear before you today to discuss commercial activities specifically as they relate to the use of OMB Circular A-76 at the Department of Commerce. I would like to ask that my written statement be entered into the record and I have a short oral statement I would like to give.

Senator BROWNBACK. Without objection.

Mr. GOULD. Thank you. Over the past several decades and continuing under the leadership of Secretary Daley, the Department has taken steps to ensure that Americans receive the best value for the tax dollars they spend on our programs. To accomplish this we need to apply the principles of competition and the free market to ensure that required services are provided at the best value to the taxpayer.

This means identifying work that may be performed by an in-house organization, a contractor or through an interservice support agreement and ensuring that all parties are given the opportunity to compete to perform the work.

A-76 is one valuable tool among many for achieving our cost efficiency and management performance goals. I wish to emphasize that over the past 6 years we have added many such tools to our toolbox as we collectively explore ways to make government more efficient and effective.

Congress has also acted to promote improved government performance by passing the CFO Act, the Clinger-Cohen Act, GPRA and the Federal Acquisition Streamlining Act.

Throughout the first Clinton administration, while the Office of Management and Budget was revising the A-76 supplemental handbook, we at Commerce shifted our emphasis to the principles of government-wide reinvention. During those years we explored new methods for cost savings and improving government performance, such as downsizing, reengineering, reinvention labs, performance-based organizations, franchise funds and customer service improvement.

As a result of our efforts, overall from 1992 to 1997 we achieved a 7.4 percent reduction in our total FTE's. We reduced the number

¹The prepared statement of Mr. Gould appears in the Appendix on page 63.

of managers and supervisors across the Department by 23 percent from December 1992 through December of 1997 and we have placed relatively greater staff power on the front lines, delivering services directly to our customers.

In the early 1990's OMB indicated that a comprehensive revision of the supplemental handbook was under way. A-76 activity as undertaken not only by the Department but I also believe by many other Federal agencies was reduced, pending a review of policy concerns with the old version of the circular.

In March of 1996 the supplemental handbook was reissued. Shortly afterward in June of 1996, OMB requested that each Federal agency prepare and submit an updated inventory. Very little activity at the Department of Commerce was identified for inclusion in that inventory.

In September of 1997 we responded to OMB's request and identified one of our NOAA ships for review. Additionally, we are conducting a study of our finance and accounting functions to determine how its efficiency and effectiveness can be improved.

Under the leadership of Secretary Daley, the Department has aggressively worked to strengthen internal management and ensure the effective use of public funds allocated for carrying out its mission. I would like to share just some of these efforts and successes with you.

We are merging polar orbiting environmental satellites in cooperation with DOD and NASA to share technology and data. This cooperative effort is estimated to save over \$1 billion during the life of the program.

Since Secretary Daley was confirmed, we have reduced the number of political appointees by 100, over a third. We have proposed using statistical sampling to help us conduct the most accurate and cost-efficient 2000 census possible. We estimate that the use of sampling will save at least \$276 million in fiscal year 1999 alone.

We are adopting an integrated program management approach to acquisitions called the "Concept of Operations" to reengineer the acquisition process, improve the quality of what we buy and reduce the time needed to make purchases.

And finally, next month we will complete testing on a fully operational pilot of an integrated core financial system known as the Commerce Administrative Management System.

We have also taken an active role in overseeing NOAA's efforts to identify alternatives to the NOAA fleet. In fiscal year 1997 NOAA out-sourced 25 percent of its total requirement. Over the past years NOAA has decommissioned one-half of its hydrographic fleet and is moving ahead with plans to contract with the private sector for much of its hydrographic data requirements. In addition, we have downsized the NOAA corps from 415 in fiscal year 1994 to 299 in fiscal year 1997, resulting in savings of \$6 million a year.

These are just some of the examples of activities demonstrating our commitment to improve management processes within the Department and its operating units, and increase the efficiency and effectiveness with which we administer our programs. It provides, I believe, an important context for understanding that A-76 is one tool among many that can be used to achieve greater efficiency in government.

As stated earlier, we do believe that A-76 is an important technique in helping us improve program management. Secretary Daley and Deputy Secretary Mallett are committed to reengineering and reinvigorating the Department's program. We have heard your message. Several fundamental issues should be considered in order to maximize the effectiveness of the A-76 program as one of our management tools.

First, it is critical that accurate and timely data measuring the true cost of operations is readily available and reflected in inventories of commercial activities. Only by having consistently reliable information, both with respect to financial resources and FTE's, can we expect to make the type of sound business decisions that the circular is intended to foster. Further, this information is essential to understanding the full benefits achieved as we proceed to implement the circular.

A cost comparison study performed under the rubric of A-76 can and should be considered an effective strategy for maximizing quality of service delivery.

Finally, it should be noted that the importance of effective oversight of our procurement activities increases as we increase our level of contracting with the private sector for commercial products and services. The responsibility for ensuring that Federal funds are expended appropriately once they are in the hands of the private sector is very significant.

Focussing on the Department of Commerce and our plans for moving forward in this area, very simply, again we have heard you. We will develop an updated inventory of our commercial activities. We will develop a practical list of out-sourcing opportunities based on the findings of that inventory history and will expeditiously identify resources to make those studies happen.

In summary, Mr. Chairman, I want to reiterate Secretary Daley's commitment to this program, ensuring that the Department of Commerce works toward the benefit of American businesses and citizens. Thank you. This completes my remarks and I am glad to answer, I am sure, the many questions you may have.

Senator BROWNBACK. Thank you very much, Mr. Gould, and Mr. Berry.

So that I understand, the Department of Commerce will be participating this year fully in A-76?

Mr. GOULD. That is correct.

Senator BROWNBACK. OK. Because you haven't in the past so I want to make sure that you will be this year.

This Subcommittee has had a number of hearings on different functions within the Department of Commerce that compete with commercial sectors or have commercial sector activities. We have had quite a few studies done on it—GAO studies. Are you familiar with those?

We had a hearing on the Weather Service. We have had them on NOAA, corps fleet. There have been GAO studies on NOAA. You really have quite a few activities over at the Department of Commerce that are competing with commercial sector already and have been identified and studied previously. Are you going to fully address those now?

Mr. GOULD. Yes, Mr. Chairman. If I may just add a point that my colleague Mr. Berry mentioned, presently 50 percent of our budget authority does go in either grants or contracts to the private sector. So half of what we are appropriated every year already ends up in the hands of nonfederal entities.

So we feel we do have some substantial experience there in contracting out and procurement and using the competitive process to be able to deliver the best value for the taxpayer.

Senator BROWNBACK. Why have you chosen not to participate in A-76 in the past?

Mr. GOULD. Well, I would identify the following reasons. First, we have deliberately directed our efforts to a full toolbox, an array of opportunities to lower costs, decrease FTE's and shrink our budget, and we believe the facts speak for themselves.

You just heard the numbers, the reduction in FTE's, 7.4 percent in a 5-year period. Those are the types of results that we think are the goal of A-76. We believe they can also be achieved through other means and we have demonstrated that.

Senator BROWNBACK. I don't mean to challenge you on your numbers because Mr. DeSeve's numbers were very positive for the Department of Commerce and your numbers are not quite as—it is pretty close to what his were.

But I was looking at the budget for fiscal year 1999 Federal employment, Executive Branch. Now, they are showing your percentage as increasing 20 percent. Now, is that because of projected FTE requests that you have in?

Mr. GOULD. That is correct and let me give you three snapshots on numbers.

Senator BROWNBACK. What is your current FTE that you have at the Department of Commerce?

Mr. GOULD. Thirty-two thousand, five hundred. What you are seeing is the enormous spike effect of our ramp-up for the decennial census, which will grow the size of the Department of Commerce for a brief period to conduct the decennial, from in the low 30's to the mid 70,000 FTE's. We are beginning to see that effect in the ramp-up for the decennial census.

But we believe that if you look at the base, from 1993 to 1996 you see a reduction of 7 percent and if you work off a 1993 base when the administration began to 1997, you actually come into the 11.2 percent figure that Mr. DeSeve cited a moment ago.

So I believe that all of those numbers, in fact, are consistent and acknowledge the fact that in aggregate, the addition of those people that will be needed to conduct the decennial census, an extraordinary amount of people, 260,000 part-time positions and when you divide those by a full-time equivalent, you come out into the mid 70,000 FTE's.

Senator BROWNBACK. I am glad you explained that. I would also note for the record the Department of Defense, which neither of you would necessarily be aware of, had a reduction in force of 23.9 percent during that same period of time, so more than double the Department of Commerce, from a far larger group, a far larger number that was in place there.

My big concern for both of you is, I think, we agree that the government should be involved in more steering than growing. I guess

that is the philosophy. People that think about these things think it is correct, as well, for particularly the Department of Commerce. I will hand off to Senator Thomas, the Department of the Interior, which he would know far more about than I would, has not engaged that philosophy.

I want to be real blunt with you because we have done hearings on this, studies on this and there seems to be a real hesitancy in that Department that is reflected in this chart here. We are asking about the Department of Commerce because it reflects so many other civilian agencies' attitude towards this competition.

The FTE number is an important number. It is a good indicator number. It is a good indicator of being prudent, I think, with resources, but it really does not get at this issue here, which is competition with the private sector. And it seems as if the Department of Commerce, the agency that in my estimation should be leading the charge of letting the private sector do what it does and the government do what it does, is being the one that is being the most resistant to it. That is why we probably look at you more than any other, because it seems to me you should be the one leading this effort, and you have not been.

So I hope you are reflecting a change in attitude. I still stand by earlier statements that we have had a systems failure on A-76 because if we were not having these hearings, I don't know that we would have anything taking place. Maybe we would have some—that is an overstatement, but we need to have improvements because the GAO studies and others are pointing out the current system just does not consistently work, and that is why both of us are so interested in improving that.

Senator Thomas.

Senator THOMAS. Thank you, sir.

Thank you, gentlemen. I appreciate it very much.

Interior, of course, has done some good things and hopefully will do much more. I think, as Senator Brownback said, the FTE number is not really the issue. We all want to do it as efficiently as possible. The real issue is that we ought to give an opportunity for the private sector to see if they can perform these activities at a higher quality and for a lower price.

So the idea that half of your money goes for grants or goes to procurement or those kinds of things really is not what we are focusing on here.

The Denver service center is a good example, isn't it, of how that might be changed? It basically does engineering, does planning. Companies do it in the private sector generally by contract.

Mr. BERRY. There is no question. When I came and why I was happy to be very quick to do the NAPA study is when I looked at the percentage number of overhead in Denver on what we were charging—the Park Service was charging itself for contract management and for contract oversight and things like that, it was not in line with what I was familiar with what was going on in the private sector. It was significantly higher.

So I knew that this study was going to come out and was going to be helpful in terms of how do we get those numbers more in synch with the private sector. And the response is one that I think

we anticipated, and that is it is going to be by relying on the private sector.

So what you are going to see in Denver is that whereas Denver now does everything, from cradle to grave on these projects, on the construction projects that you authorize, Denver will now be focussed on predesign and then contract management of the private contractors.

So you are going to see—the report is probably going to recommend—there are 500 people now in Denver and I suspect when this is done and we are at the end of the day a year from now we will be around 300 people in Denver. So it is going to be a significant change in terms of how Denver is going to operate and function.

Senator THOMAS. That is good.

Mr. BERRY. Thanks to your leadership and Congressman Regula's leadership on that, as well.

Senator THOMAS. I think the Senator said about steering and rowing—there has to be then some adjustment in agencies to do contract oversight.

Mr. BERRY. Absolutely.

Senator THOMAS. And to the extent that we just take an agency and contract out something and leave the agency as it was, then you have not accomplished a great deal.

Mr. BERRY. Part of that effort, Senator, if I could, is the NAPA report is recommending and we will be following through on retraining for the employees that are left, that we can refocus those skills in terms of contract management.

Senator THOMAS. It is discouraging when the purpose of the park is to preserve the resource and you need people who are experts in that and then you go and see the guys in the green shirts emptying garbage and doing things that do not need that kind of special expertise. So hopefully we can make some positive changes.

Commerce—OMB asked you, I think, to update your commercial activities. The agency has indicated it is unlikely to change from 1983. Interesting. Your commercial activities are not going to change from 1983?

Mr. GOULD. No, I do not think that is a reasonable perspective. We did our first master inventory in 1983 and came up with 174 commercial activities, a very comprehensive review. My sense is the organization sort of lived off that into 1991, and 1992. We did a lot of studies, some out-sourcing, discovered that it was a blind alley down one way, another was productive, and actually went ahead and did the studies, completed them and out-sourced to the private sector.

Then, as I have said, 1992, and 1993 we began to switch over to a broader range of tools in the toolbox. A-76 largely remained dormant. When we were asked last by OMB to provide an update, we had one thing—the NOAA ship *Ka'Imimoana*, which is actually involved in ocean research and buoy tending and the like.

It did not work. The private sector came back with no bid. There are a number of reasons for that but we just did not get a hit there and we need to take a look at that master inventory again. We need to ask the question, are there other things that we can be out-sourcing?

Again if I may, Senator, there is an example of a blind alley I just went down in the last 6 months that may be helpful to you in your inquiry. Do I have a moment to describe that, the financial and accounting area?

Senator THOMAS. Please.

Mr. GOULD. In the quickest possible terms, we thought that outsourcing the finance and accounting function in the Department had some merit. We had 70 percent of our assets with a disclaimer of audit opinion, 30 with a clean audit, and that is not a situation, as CFO, that I can abide for long.

I needed to create a driver for change in the organization and thought that competition to which you have referred would be a useful tool. We brought in an outside contractor. We examined that.

In the end I was confronted with an interesting problem. I have a goal to achieve clean financial audits in the Department across the board by fiscal year 1999 and I could out-source some finance and accounting mechanisms in one of my major bureaus. But the time it would take me to do that would cause me to fall short of the goal to get the clean financial audits and, in my view, I have gone at the idea of getting the clean financial audits as a paramount value for the Secretary and a priority for him to have clean financial audits for the Department.

So there is a simple and a small example of where having the freedom to choose about whether to go forward with A-76 and do that study or not was important to us and it has led to, I believe, a strategy that will result in clean financial audits for the Department across the board by fiscal year 1999.

Senator THOMAS. Well, let me restate what we are trying to do, the goal here and the language in the bill itself that we are talking about.

It simply requires that there be an identification of things that are commercial in nature. Then there is hopefully an opportunity to conduct a public/private competition. It does not require that the function be contracted out. It just says we ought to take a look at which entity produces the best result for the taxpayers.

As I exhibited my impatience a little while ago and you both have talked about the merits of this concept, as I think most anybody would. The fact is, however, that it has been in place for over 40 years. Because it is not statutory, there has been no way to enforce it, so it has not been done. This opportunity to compete has not been implemented, and that is all we are seeking to do.

You may decide that the private sector is not the best option in every case, but I hope we don't see more *Icemans*—the Department of Agriculture doing work for the FAA. But that is off the point?

You took almost 2 years to do the NOAA ship study?

Mr. GOULD. Yes, sir.

Senator THOMAS. And you did not get a bid? That is interesting.

Mr. GOULD. Yes, sir. Six months in preprocurement planning and the balance, 13, in basically going through the procurement process, and we did not get a bid.

Senator THOMAS. I think all of us share the same goal. We intend, frankly, to move forward with this bill and draft it in such a way that it works for you and it also is meaningful. It would take

an inventory of commercial activities and give the private sector a chance to compete for them and see if they can do them better.

That is about the size of it. Thank you, sir.

Senator BROWNBACK. Thank you, Senator Thomas.

Thank you both, gentlemen, for being here. I will note I appreciate both of your Federal service. Having been a Federal employee before, I appreciate what all of you do and what everybody does. I have not found anybody that I know of working for the Federal Government that does not do it with a good heart and they want to do what is right.

We are confronted—we both believe and many of us do—that the taxpayer burden on this country is such that we have just got to get it down and that we need to be far more efficient with taxpayer dollars. We need to do the things we should do. We need to do them well and right. I think there are just a lot of things that we could be looking at.

Having run a small agency before, I know if there is not really a push on the system, not a whole lot of things happen because the inertia of it takes over pretty easily. And this is not to castigate any employees.

I also want to advise Senator Thomas and others that I am going to be looking, as well, on Capitol Hill for things that should be competed. We did that on the House side and had a fair number of things competed. I think if we are going to talk it, we need to do it. So there will be a few interesting things that will take place with that.

Thank you all very much for joining us. If there is any other additions that need to be added to the record, the record will be kept open for 1 week from today.

The hearing is adjourned.

[Whereupon, at 11:21 a.m., the Subcommittee was adjourned.]

APPENDIX

United States General Accounting Office

GAO

Testimony

Before the Subcommittee on Oversight of Government
Management, Restructuring and the District of Columbia
Committee on Governmental Affairs
United States Senate

For Release on Delivery
Expected at
10:00 a.m. EDT
Thursday
June 4, 1998

OMB CIRCULAR A-76

Oversight and Implementation Issues

Statement of J. Christopher Mihm
Associate Director, Federal Management and
Workforce Issues
General Government Division



GAO/T-GGD-98-146

Mr. Chairman and Members of the Subcommittee:

I am pleased to be here today to discuss the extent to which the Office of Management and Budget's (OMB) Circular A-76 is being used by executive branch agencies. As you know, A-76 provides the policy guidance and implementation procedures for government agencies to use in deciding whether to contract out for commercial activities—a product or service that could be obtained from a private sector source.

As agreed with the Subcommittee, my statement will cover three major points. First, I will discuss the purpose and usefulness of A-76 in the current federal environment. Second, I will show that A-76 is not being used extensively by civilian agencies and then will discuss the effectiveness of OMB's efforts to lead the implementation of A-76, which, in our view, could be enhanced. Finally, I will provide some observations regarding the necessary elements of a more active A-76 program. My comments today are made on the basis of recent work we have done at the request of the Subcommittee, primarily at OMB and the Departments of Commerce and the Interior, as well as other work we have done on competitive contracting.

THE A-76 PROCESS CAN BE AN EFFECTIVE MANAGEMENT TOOL FOR IMPROVING
OPERATIONAL EFFICIENCY AND REDUCING COSTS

With the agreement between Congress and the administration to balance the federal budget and the widespread demands by the American people for a less costly government, agencies are being challenged as never before to ensure that their operations are as efficient as possible. Efforts by Congress and the administration are leading or have led to a broader focus on results, significant reductions in the size of the federal workforce, simplified administrative and management procedures, and additional mechanisms to improve efficiency. Within this context, interest has grown over the last several years in using contracting out as one of the central tools available to agencies to reduce costs in a balanced budget environment.

The executive branch's long-standing policy, spanning several administrations, has been that, to the extent it is cost-effective, agencies should rely on the private sector for needed goods and services. The federal government therefore makes extensive use of the private sector to meet federal program goals. This is particularly true for agencies created in the past 2 or 3 decades, such as the Department of Energy, the National Aeronautics and Space Administration, the Environmental Protection Agency, and the Health Care Financing Administration, which typically have relied from the start on contracting out much of their work rather than performing it directly. Contractors also have almost completely replaced federal employees in some functions, such as cleaning

services, travel management, and most recently personnel security investigations. As an indication of the degree to which the federal government uses the private sector, total civilian personnel costs for fiscal year 1997 were about \$113 billion, as compared with about \$110 billion that federal agencies spent on commercial service contracts.

The issue of whether to contract out federal functions has always been challenging. In an effort to help agencies make better decisions in this regard, OMB issued Circular A-76 in 1966 and updated it several times, most recently in 1983. A-76 provides federal policy for the government's performance of commercial activities. OMB issued a supplemental handbook to the circular in 1979 that included detailed procedures for competitively determining whether commercial activities should be performed in-house; by another federal agency, through an interservice support agreement; or by the private sector. OMB updated this handbook in 1983 and again in March 1996. This latest revision was intended to streamline the cost comparison process and reduce the A-76 administrative burden and thereby ease the use of A-76 within the executive branch.

According to OMB, the purpose of A-76 is not to convert work to or from in-house, contract, or interservice support agreement performance. Thus, a senior OMB official stressed, OMB does not view its role as requiring agencies to undertake A-76 cost comparisons. Rather, OMB encourages agencies to understand and use A-76 as one of a series of tools federal managers can employ to make sound business decisions and to enhance federal performance through competition and choice.

Circular A-76 and its supplemental guidance require agencies to evaluate their activities to determine whether they are governmental or commercial and complete an inventory of all commercial activities. A-76 requires, in certain circumstances, that agencies conduct cost comparisons to determine the most efficient means to carry out commercial activities. Under A-76, agencies are to use a three-step process to determine whether recurring commercial activities will be performed in-house or by contractors. The process consists of (1) developing a performance work statement that defines the technical, functional, and performance characteristics of the work to be performed; (2) conducting a management study to determine organizational structure, staffing, and operating procedures for the most efficient and effective in-house performance of the commercial activity, referred to as the Most Efficient Organization or MEO; and (3) accepting formal bids and conducting a cost comparison between the private sector and the government's Most Efficient Organization in order to make a decision on whether an activity will be performed by the government or the private sector.

Agencies' experiences with A-76 suggest that competition is a key to realizing savings, whether functions are eventually performed by private sector sources or remain in-house.¹ We have found that savings achieved through the A-76 competitive process were largely personnel savings, the result of closely examining the work to be done and reengineering the activities in order to perform them with fewer personnel, whether in-house or by

¹Base Operations: Challenges Confronting DOD as It Renews Emphasis on Outsourcing (GAO/NSIAD-97-86, Mar. 11, 1997); and Privatization: Lessons Learned by State and Local Governments (GAO/GGD-97-48, Mar. 14, 1997).

contractor.² OMB has reported that savings from reviewing an agency's operations and making changes to implement the Most Efficient Organization have averaged 20 percent from original costs. We have noted in past work that such reported savings must be viewed with caution because statements about savings have often been heavily premised on initial estimates that were not later updated to reflect actual amounts. However, there appears to be a clear consensus, which we share, that savings are possible when agencies undertake a disciplined approach, such as that called for under A-76, to review their operations and implement the changes to become more efficient themselves or contract with the private sector for services. In fact, in DOD's case, about half of the competitions were won by federal employees.

STRONGER OMB LEADERSHIP IS NEEDED TO INVIGORATE CIVILIAN AGENCIES'
A-76 PROGRAMS

Although the evidence suggests that the A-76 process provides the opportunity to achieve savings, A-76 does not appear to be a high priority within OMB or civilian agencies, and as a result, little effort is under way to use the A-76 process. There has been minimal A-76 activity among many agencies since the late 1980s, with some major civilian agencies,

²Outsourcing DOD Logistics: Savings Achievable But Defense Science Board's Projections Are Overstated (GAO/NSIAD-98-48, Dec. 8, 1997); Base Operations: Challenges Confronting DOD as It Renews Emphasis on Outsourcing (GAO/NSIAD-97-86, Mar. 11, 1997); and Defense Outsourcing: Challenges Facing DOD as It Attempts to Save Billions in Infrastructure Costs (GAO/T-NSIAD-97-110, Mar. 12, 1997).

such as the Departments of Education, Housing and Urban Development, and Justice, reporting that they have not studied any positions under A-76 in the past 11 years.

Moreover, despite OMB's intention that the March 1996 revision to the A-76 Supplemental Handbook would make A-76 a more attractive vehicle for agencies to use, no significant increase in efforts under A-76 among civilian agencies are readily evident. As shown in table 1, for fiscal year 1997, DOD was the only federal agency that reported to OMB that it had completed any A-76 studies of federal positions.³

³In fiscal year 1997, the Department of the Interior completed one A-76 cost comparison regarding the an aircraft purchase that did not involve any full time equivalents (FTE). According to OMB guidance, a FTE or work year generally includes 260 compensable days or 2,080 hours. These hours include straight-time hours only and exclude overtime and holiday hours.

Table 1: Reported Number of FTEs Staff Years Studied Under A-76 During Each of the the Past 10 Years

Fiscal year	Total FTEs	DOD FTEs	Civilian agencies FTEs
1988	17,249	12,000	5,249
1989	8,469	6,100	2,369
1990	9,547	6,989	2,558
1991	2,026	1,243	783
1992	564	496	68
1993	509	441	68
1994	1,691	1,623	68
1995	2,386	2,128	258
1996	5,267	5,241	26
1997	25,255	25,255	0

Note: As reported by OMB, civilian agencies data for 1992-1995 are based on annual averages for that time period. Not all agencies are included, but OMB stated that the number excluded is insignificant. We did not independently verify the accuracy of the data provided by OMB.

Source: OMB

For the future, DOD projected that it can save about \$6 billion by 2003 and \$2.5 billion each year thereafter by subjecting more of its business and support activities to competition using the A-76 process. Currently, DOD plans to subject over 220,000 positions to the A-76 process. DOD has not fully achieved estimated savings in the past, and we question DOD's ability to achieve all estimated savings in the future. However, if DOD is able to complete its ambitious A-76 plans, significant savings are likely.

To gain more perspective on A-76 activity within civilian agencies, we examined the program's use at the Departments of Commerce and the Interior. Both departments had A-76 efforts in the 1980s. For example, between 1986 and 1990, Commerce estimated that it saved \$8.6 million through these efforts. Interior reported estimated savings of about \$1.9 million during that period through its A-76 efforts. However, since then, A-76 efforts at Commerce and Interior have dwindled along with those at other federal agencies.

The Department of Commerce has not done a complete update of its inventory of commercial activities since 1983 and recently completed what had been its only ongoing study. That study covered the operation and support of a National Oceanic and Atmospheric Administration (NOAA) ship. NOAA officials told us that the study was done because of pressure from Congress, OMB, and the Department's Inspector General to explore alternatives to an agency-designed, -owned, and -operated fleet for acquiring marine data. However, the study did not result in any commercial offers in response to NOAA's solicitation. In addition, the study took almost 19 months and required nearly 10 staff years to complete. It would have required even more resources if NOAA had received offers to perform the work.

The Department of the Interior has a current inventory which it updates periodically, and has identified over 5,000 FTEs as devoted to commercial activities. These activities include such functions as administrative support services and automated data processing-related services. The Department reports that although it has not conducted many formal

A-76 studies in recent years, it has undertaken a number of A-76 cost comparisons of its aircraft services, including examinations of aircraft maintenance and decisions on whether to lease or purchase aircraft. However, most of these studies did not involve any federal positions, and therefore are not reflected in OMB's governmentwide data on FTEs studied.

Officials at the Departments of Commerce and the Interior provided similar explanations for the limited effort under A-76. They said that they perceived that the priorities in management reform initiatives had changed and that greater emphasis was being given to implementation of more fundamental, mission-based initiatives arising from the National Partnership for Reinventing Government, formerly known as the National Performance Review (NPR) and the Government Performance and Results Act (the Results Act), among others. According to the officials, these shifting management priorities, along with the significant time and money needed to do the studies under A-76 and the need for sufficient staff with the necessary technical skills, have all contributed to reduce A-76 efforts.

OMB Leadership On A-76 Issues Has Been Limited

As I noted, OMB's March 1996 revision of the A-76 Supplemental Handbook was intended to ease the administrative burden on agencies in doing A-76 studies. This supplement was issued subsequent to the expiration of several legislative provisions that temporarily

limited agencies' A-76 efforts, particularly those of DOD. OMB's revision of the supplement had the potential to re-focus attention on A-76. However, since issuing the revision, OMB has not consistently worked with agencies to ensure that the provisions of A-76 are being effectively implemented. For example, OMB made only limited efforts to gather and use the commercial activities inventories that agencies are to develop under A-76. In June 1996, OMB requested that agencies submit not later than September 13, 1996, a summary of their updated inventory of commercial activities as required by A-76. According to OMB, it did not receive inventories from all agencies, and of those that it did receive, many were based largely on previous inventory efforts. In June 1997, after not receiving responses from several agencies, OMB followed up with another request for the commercial inventory information. Several months later, in April 1998, we found that 6 of the 24 largest agencies still had not complied with OMB's initial and follow-up requests to provide updated commercial activities inventories.

OMB also has not systematically reviewed the inventories of commercial activities that it did receive to determine whether agencies are missing opportunities to generate savings. OMB generally has not attempted to determine whether agencies have inappropriately omitted some commercial activities. OMB also does not compare commercial activities among agencies to identify inconsistent application of A-76 guidance across the federal government. As a result, some agencies may not be identifying commercial activities that are similar to those included in other agencies' commercial activities inventories, thereby missing opportunities to use the A-76 process to achieve cost savings.

Lastly, and most importantly, it is not clear how consistently OMB has raised questions about agencies' implementation of A-76 during the budget process. OMB officials told us that the primary mechanism for monitoring agencies' A-76 efforts is through the budget review process.⁴ They pointed to guidance requiring agencies to incorporate A-76 considerations into their budget submissions. However, we found that OMB's guidance to agencies was very limited. For example, the over 300-page OMB Circular A-11, which governs the preparation of agencies' budget requests to OMB, appears to contain only three paragraphs that directly concern A-76, and these paragraphs instruct agencies that their savings estimates should reflect the probable results generated by cost comparisons or conversions.

OMB officials stated that they rely primarily on program examiners in the OMB Resource Management Offices (RMO) to review agencies' A-76 efforts in conjunction with the budget review and approval process. In 1996, the OMB Deputy Director for Management asked the RMOs to examine competition initiatives, such as A-76, as part of their continuing program management and budget reviews. The Deputy Director highlighted agencies' strategic plans and streamlining plans as being especially appropriate vehicles for examining agencies' efforts to compete their support service requirements. However, since then, OMB has not provided its program examiners with more recent written

⁴In 1994, OMB reorganized to integrate its budget analysis, management review, and policy development roles, in an initiative called "OMB 2000." This reorganization was the most recent of a series of attempts to bolster OMB's management capacity and influence. See Government Management: Observations on OMB's Management Leadership Efforts (GAO/T-GGD/AIMD-98-148, May 12, 1998).

requirements or guidance on the need to review agencies' A-76 efforts. OMB officials said that, despite the lack of current guidance, some review has been done on an ad hoc basis in conjunction with budget reviews. According to these officials, examiners were given copies of agencies' commercial activities inventories where they existed and were instructed to keep in mind all reinvention efforts, including A-76, as they reviewed agency budget requests. However, given the absence of inventory information for several of the largest federal agencies and the absence of ongoing studies in virtually all agencies other than DOD, the effect of examiners' efforts, if any, is questionable.

Recent OMB Plans, If Implemented, Appear Promising

OMB has very recently indicated that it intends to devote more attention to the implementation of A-76. In a May 12, 1998, memorandum to the heads of executive departments and agencies, the Director of OMB asked agencies to submit updated lists of commercial activities by October 31, 1998. The Director said that OMB plans to share these lists with the President's Management Council.⁵ The Director said that OMB also plans to examine agencies' lists to seek consistency in inventories across agencies. The memorandum said OMB will seek to complete this effort by November 30, 1998, and that final lists of inventories will be made available for congressional and public review by

⁵The President's Management Council (PMC) was established in 1993 to advise and assist the President and the Vice President in improving overall executive branch management, coordinating management improvement-related efforts, and ensuring adoption of management practices in executive branch agencies. Agencies generally are represented on the PMC by their Deputy Secretary or equivalent.

January 1999. An OMB official said DOD's A-76 efforts over the last several years could provide a rich body of experience from which to build effective A-76 programs in civilian agencies. The official also noted that because commercial activities inventories can provide detailed information about an agency's structure and functions, these inventories can be valuable not only for A-76 purposes, but also for identifying other reinvention opportunities.

This plan for renewed OMB commitment, if effectively implemented, is an important and noteworthy development that could lay the groundwork for a reinvigorated A-76 program. Given OMB's past experience with requesting and using inventories of commercial activities from agencies, it is clear that sustained OMB commitment and follow-through will be vital to the success of the effort. We plan to continue to monitor OMB's and the agencies' efforts in this area.

OBSERVATIONS CONCERNING THE NEEDED ELEMENTS FOR A MORE ACTIVE A-76 PROGRAM

Over the last couple of years, there has been interest in Congress in establishing a statutory basis for A-76 and for making other changes intended to expand the degree to which agencies compete their commercial activities. We have been pleased that Congress

has turned to us for assistance as it has considered various legislative proposals.⁶ Irrespective of any decisions that Congress may make about the A-76 program, our work suggests that several elements are needed for a successful A-76 effort across federal agencies. Today, I will highlight four elements that I believe merit special attention.

Leadership Commitment to Use A-76

The sustained commitment of agency and administration leadership is a necessary element to ensure the success of any management improvement effort, including A-76. As the current level of activity suggests, consistent and forceful leadership from OMB may be needed to create incentives for agencies' managers to subject themselves to the rigors of the A-76 process. By comparison with the rest of the federal government, DOD has maintained much larger levels of activity because it has incentives to generate savings through A-76 to fund its modernization efforts.

⁶Competitive Contracting: Information Related to the Redrafts of the Freedom From Government Competition Act (GAO/GGD/NSIAD-98-167R, Apr. 27, 1997); Privatization and Competition: Comments on H.R. 716, the Freedom From Government Competition Act (GAO/T-GGD-97-185, Sep. 29, 1997); Privatization and Competition: Comments on S. 314, the Freedom From Government Competition Act (GAO/T-GGD-97-134, June 18, 1997); and Federal Contracting: Comments on S. 1724, the Freedom From Government Competition Act (GAO/T-GGD-96-169, Sept. 19, 1996).

Integration of A-76 Within a Performance-Based Approach to Management and Accountability

In recent years, Congress has put in place a statutory framework—with the Results Act as its centerpiece—for performance based management and accountability. Under the Results Act, each executive branch agency is to issue strategic plans that, among other things, lay out the long-term goals the agency will pursue and the strategies the agency will use to achieve those goals. The first of these strategic plans were provided to Congress last fall. Each agency is then to develop annual performance plans that identify the agency's annual goals and strategies and the resources that will be used to achieve those yearly goals. The first of these plans, to cover fiscal year 1999, were submitted to Congress this spring.

An agency's efforts on its annual performance plans provides the opportunity to consider A-76 within the broader context of what the agency is trying to achieve and how best to achieve it. At the request of congressional leaders and to assist Congress in using annual performance plans for making decisions, we issued a guide in February 1998 for Congress to use in assessing annual performance plans.⁷ In that guide, we noted that Congress could examine the plans from the standpoint of whether they show evidence that various approaches, such as establishing partnerships with other organizations and contracting,

⁷Agencies' Annual Plans Under the Results Act: An Assessment Guide to Facilitate Congressional Decisionmaking (GAO/GGD/AIMD-10.1.18, Version 1, Feb. 1998).

were considered in determining how best to deliver products and services. More directly, the annual performance plans can provide a ready-made, annual vehicle for Congress to use to inquire about agencies' efforts to ensure that the most cost-effective strategies are in place to achieve agencies' goals. As part of this inquiry, Congress can ask agencies about the tools the agencies are using to increase effectiveness, including the status of A-76 programs, and the specific choices the agencies have made about whether to keep a commercial activity in-house or contract it out.

Improved Cost Data

The government's lack of complete cost data, particularly for indirect costs, has increased the difficulty of carrying out the A-76 competitive process, because the government is not able to accurately determine the cost of the function or activity it plans to compete. The cost data needed to develop indirect costs or standard cost factors that represent these costs, such as overhead rates, are not readily available. In our audit of the consolidated financial statements of the U.S. government for fiscal year 1997, we noted significant financial management deficiencies.⁸ We found that financial systems weaknesses; problems with fundamental recordkeeping; incomplete documentation; and weak internal controls, including computer controls; prevent the government from accurately reporting a large portion of its assets, liabilities, and costs. These deficiencies affect the

⁸Audit of the Consolidated Financial Statements of the U.S. Government for Fiscal Year 1997 (GAO/AIMD-98-127, Mar. 31, 1998).

government's ability to accurately measure the full cost and financial performance of programs and to efficiently manage its operations. For example, in January 1998, we reported that DOD has no reliable means of accumulating actual cost data to account for and manage resources.⁹ Moreover, in a February 1998 report, we noted that it will likely be many years before DOD is capable of providing accurate and reliable cost data.¹⁰

Efforts are under way to improve government cost data and supporting systems, but for some agencies it could be several years before significant improvements are made. Continuing efforts to implement the Chief Financial Officers Act are central to ensuring that agencies resolve their long-standing problems in generating vital information for decisionmakers. In that regard, the Federal Accounting Standards Advisory Board (FASAB) has developed a new set of accounting concepts and standards that underpin OMB's guidance to agencies on the form and content of their agencywide financial statements.¹¹ As part of that effort, FASAB developed managerial cost accounting standards. These managerial cost accounting concepts and standards require that federal agencies provide reliable and timely information on the full cost of federal programs and on their activities and outputs. Specifically identified in the standards is the need for

⁹Federal Management Issues (GAO/OCG-98-1R, Jan. 9, 1998).

¹⁰Defense Outsourcing: Better Data Needed to Support Overhead Rates for A-76 Studies (GAO/NSIAD-98-62, Feb. 27, 1998).

¹¹FASAB was created in October 1990 by the Secretary of the Treasury, the Director of OMB, and the Comptroller General to consider and recommend accounting principles for the federal government. If accepted by Treasury, OMB, and GAO, the standards are adopted and issued by OMB and GAO.

information to help guide decisions involving economic choices, such as whether to do a project in-house or contract it out. Such information would allow agencies to develop appropriate overhead rates for specific operations. These cost accounting standards became effective for fiscal year 1998. Some agencies' Chief Financial Officers have expressed concern about their agencies' ability to comply with the cost accounting standards this year.

Contract Management and Oversight

An effective contracting effort requires considerable contract management capability. An agency must have adequate capacity and expertise to successfully carry out the solicitation process and effectively administer and monitor contracts once they are awarded. We noted in our report on privatization lessons from state and local governments that, when a government's direct role in the delivery of services is reduced through privatization, the need for aggressive monitoring and oversight grows.¹² Oversight was needed not only to evaluate compliance with the terms of the privatization agreement, but also to evaluate performance in delivering goods and services to help ensure that the government's interests were fully protected. Officials from most state and local governments said that the monitoring of contractor performance was the weakest link in their privatization processes.

¹²Privatization: Lessons Learned by State and Local Governments (GAO/GGD-97-48, Mar. 14, 1997).

Oversight and monitoring have been consistent weaknesses in federal efforts as well. In numerous past reports on governmentwide contract management, we have identified major problem areas, such as ineffective contract administration, insufficient oversight of contract auditing, and lack of high-level management attention to and accountability for contract management. For example, long-standing contractor oversight problems at several agencies, including DOD, the Department of Energy, and the National Aeronautics and Space Administration have, in our view, put these agencies at high risk for waste, fraud, abuse, and mismanagement.¹³ Although each of these agencies have taken actions to improve their contractor oversight and monitoring functions, these remain high-risk areas that we continue to monitor closely.

In summary, Mr. Chairman, A-76 has shown itself to be an effective management tool in increasing the efficiency of the federal government and saving scarce funds. However, despite its proven track record, A-76 is seldom used in civilian agencies. OMB has not consistently sent strong messages to the agencies that A-76 is a priority management initiative. While OMB's May 12, 1998, memorandum is an encouraging first step, thorough implementation and follow-through will be needed to get A-76 on track. In addition, agencies will need to continue their efforts to ensure both that they have the sound program cost data needed to make comparisons and that mechanisms are in place to

¹³High-Risk Series: An Overview (GAO/HR-97-1, Feb. 1997).

monitor and oversee contracts. Finally, we believe that agencies' development and Congress' use of annual performance plans under the Results Act provide an opportunity to consider A-76 and other competition issues within the context of the most efficient means to achieve agency goals.

Mr. Chairman, this concludes my prepared statement. I would be pleased to respond to any questions you or other Members of the Subcommittee may have.

(410200)

**STATEMENT OF
G. EDWARD DESEVE
ACTING DEPUTY DIRECTOR FOR MANAGEMENT
OFFICE OF MANAGEMENT AND BUDGET**

**BEFORE THE
SENATE COMMITTEE ON GOVERNMENTAL AFFAIRS, SUBCOMMITTEE ON
OVERSIGHT OF GOVERNMENT MANAGEMENT, RESTRUCTURING, AND THE
DISTRICT OF COLUMBIA**

**HEARING
ON
COMMERCIAL ACTIVITIES IN THE FEDERAL GOVERNMENT**

JUNE 4, 1998

INTRODUCTION

Thank you Chairman Brownback. I am pleased to be with you today to discuss the OMB Circular A-76 process and how the Federal Government acquires commercial support services. We understand that the focus of today's discussion is on the General Accounting Office's (GAO) review of OMB Circular A-76 and, in particular, its implementation at the Department of Commerce and the Department of the Interior.

As I noted in my testimony before this Subcommittee on March 24, 1998, we share the goal of seeking the most efficient and cost-effective source for the provision of commercial support activities. To achieve this goal, we have worked with you to improve our financial and management systems through the implementation of the Chief Financial Officers Act, improve our performance standards through the Government Performance and Results Act, reduce the burdens, delay and costs associated with the Federal procurement system through the Federal Acquisition Streamlining Act and the Clinger-Cohen Act and, have worked with you on a number of other reinvention initiatives. These are important efforts that recognize the scope and the complexities involved in improving Federal financial, operating and management systems.

I will not reiterate the history of OMB Circular A-76 or the magnitude of the savings that have been, or are expected to be, achieved. Our focus today lies in how these and other management improvement tools are working together to expand the opportunities for reinvention.

In 1996, the Defense Sciences Board called for increased use of public-private competition to increase the efficiency of all non-inherently governmental functions within the Department of Defense. Improved performance, improved management information, better opportunities for innovation, and significantly increased cost savings were expected. The Board concluded that successful U.S. companies have increasingly turned to competitive outsourcing to gain access to superior technology, qualified personnel and, to free up the time and energies of management to focus on their core competencies. As a result, the Department of Defense is re-evaluating its entire logistics support base to determine which functions are commercial in nature and subject to public-private competition. More than 200,000 FTE have been scheduled for review within the Department of Defense alone, which are expected to generate \$6.4 billion in savings by the year 2002.

In May, OMB issued its 1998 A-76 Inventory data call - the first since June of 1996. The March 1996 Revision requires agencies to develop an annual inventory of in-house FTE performing commercial functions. In June of 1996, OMB requested that agencies develop a summary of their A-76 inventories of commercial functions. However, these summaries were based largely on previous inventory efforts and often did not reflect the opportunities presented by the Revision. In our May 1998 inventory request, agencies have been asked to review their full and part time positions to determine which support activities are: (1) inherently governmental; (2) commercial, but specifically exempt from the cost comparison requirements of the Circular; (3) commercial and should be competed with the private sector; and (4) commercial, but must be retained in-house and the reason why.

This inventory is due to OMB no later than October 31, 1998. The inventory will be reviewed with the President's Management Council and the Chief Financial Officer's Council, will be published in the Federal Register and will be submitted to the Congress. In conjunction with these reviews, an interagency panel will compare the agency inventory submissions with Office of Personnel Management (OPM) employee classification data to achieve consistency in the application of the definitions provided by the Circular and Office of Federal Procurement Policy (OFPP) Policy Letter 92-1, on "Inherently Governmental Functions," dated September 23, 1992. We believe that these inventories will give senior agency management and OMB the information necessary to identify opportunities not only for competition, but also other reinvention opportunities.

Even without this new and more complete inventory, the A-76 program is already expanding. We are now engaged in the largest effort ever undertaken to compete commercial support services with the private sector and with other public offerors. As I said previously, more than 200,000 FTE have been scheduled for review within the Department of Defense alone. This represents more than twice the total number of FTE studied under A-76 by all agencies since 1981. Coordinating these competitions with the other reinvention tools now available to Federal agencies is a complex effort, particularly as we strive to ensure that the interests of our employees, the agencies, the private sector and the taxpayer remain protected.

DOD IS SETTING THE PACE

The Defense Department is clearly setting the pace. The Department is evaluating its entire acquisition process to determine which functions are commercial in nature and subject to public-private competition. The Department is providing its employees the training and other resources necessary to develop historical workload data, performance and evaluation criteria, the ability to prepare performance oriented solicitations and to compete with the private sector for commercial functions currently being performed by both civilian and military personnel.

With more than 35,000 in-house FTE now scheduled for competition with the private sector each year, the A-76 program and the resources required to implement it are more than three-times larger than its highest level year throughout all of the 1980s. Public-private competitions have already yielded significant savings. Through 1996, DOD competed functions involving some 90,000 FTE under the A-76 guidelines. These studies have generated savings of \$1.5 billion per year, are expected to generate an additional \$6.4 billion in savings by the end of FY 2002, and are in addition to the other acquisition, restructuring, consolidations, utilities and family housing privatization initiatives that have also been undertaken by DOD. To put this competition in a somewhat broader context, it is important to remember that as of the end of FY 1997, the Administration had cut the civilian Federal workforce by more than 316,000 employees, creating the smallest Federal workforce in 35 years and as a share of total civilian employment, the smallest Federal workforce since 1931. Cabinet Departments have cut their work forces by an average of 15.2 percent. It is critical that agency heads retain the flexibility to focus on any of a series of reinvention priorities, whether or not that involves the use of A-76.

Over time, the civilian agencies will also come to rely more heavily on public-private competitions in order to increase savings. We expect, as a result of the entrepreneurial incentives that are now in place for reimbursable support activities, that they will also test the other reinvention efforts that they have begun. Although budgetary surpluses are projected in the aggregate, we must continue to exert discipline to control and stabilize outlays, receipts and our personnel resources. Budget caps will continue in place and provide for a high degree of FTE discipline.

In the interim, the executive branch will continue to develop new and improved guideline performance work statements (solicitations), develop and test new procurement and source selection techniques, implement the cost accounting standards developed by the Federal Accounting Standards Advisory Board, and implement and test related financial, operations management and information systems that can be transferred to and used by the civilian agencies as they undertake A-76 cost comparison studies.

TAKING THE LONG-TERM VIEW

We have come to view the A-76 process not as a project or something that we need to get through in accordance with a specified schedule, but rather, as an ongoing management improvement process that will continue to combine the benefits of reinvention and restructuring with the opportunities presented by competition. A-76 is included as a part of the OMB Circular A-11 Budget Review Process.

The March 1996 Revision was carefully crafted to encourage and permit agencies to incorporate it into their other reinvention, and restructuring plans. It does us no good to require cost comparisons of activities that can or should be divested or fundamentally restructured to reflect new technologies or mission requirements. Regionalizations, consolidations, terminations, or the application of electronic commerce may be a more appropriate reinvention approach and agency managers must retain the discretionary authority to implement these changes while remaining good employers.

Within the Commerce Department, for example, the National Weather Service (NWS) has completed the privatization of specialized weather services including agriculture, fruit frost and fire weather for non-federal non-wildfire land management and specialized event forecasts. The National Oceanic and Atmospheric Administration (NOAA) recently awarded an innovative fixed price contract valued at over \$600M for the next series of Geostationary weather satellites which allows for evolutionary technology infusion, while maintaining budget stability. NOAA is also expanding the use of private contractors and cooperative arrangements with universities for ship support and data collection and has completed contracts for hydrographic surveys. By the end of FY 1999, NOAA will reduce its workforce by 13.6% from FY 1993 levels, eliminating over 1,950 FTEs through phased annual reductions in the NOAA streamlining plan. The NOAA Corps has also shrunk from 415 officers to 260, yielding savings of approximately \$6 million per year. These efforts are important and they require the dedication of resources independent of the outsourcing question.

If changes are to be made to the Circular A-76, they must contribute to the reinvention process and move it forward. Efforts to require mandatory cost comparison schedules, to skew the cost comparison process to the benefit of one interest group or another, to add new and unrelated costs to the in-house offer as a matter of law, to seek statutory prohibitions against converting work from contract to in-house performance - even if that conversion would result in a lower overall cost to the taxpayer - are not helpful and, quite frankly, will not survive.

Our principles for the review of potential changes to A-76 are quite clear. First, they must promote competition to achieve the best deal for the taxpayer - not simply to outsource. Second, they must not increase the level of judicial involvement in the Government's management decision as to whether or not to outsource. Third, they must recognize that current and extensive guidance to promote a level playing field of competition is in place. Any changes to the management documentation, employee participation, costing and source selection rules for the competitions must be well understood so as to be enforceable and impartial. Fourth, the complexities of public-public and public-private competitions must be reflected in such changes. Government systems and missions are fundamentally different than those of the private sector. Fifth, any changes must be fair and equitable to all interested parties. One way competition is unacceptable. Sixth, outsourcing must be viewed in the context of our larger reinvention effort. It is only one management tool to reinvent and improve Government performance. We should not treat competition as a variable independent from our other reinvention and management improvement efforts. And finally, it is inappropriate and may, in fact, be detrimental, to require the head of each agency to undertake competitions in accordance with a schedule mandated in law. Such schedules may be unduly burdensome and may preclude a mix of reinvention, re-engineering, consolidation, privatization, and cost comparison efforts.

CONCLUSION

As we accelerate the level of public-private competition, we will look to our commercial competitors - and partners - for support. In the end, we are both winners. We are competing for the same objectives - producing better performance at lower cost. Competition can help us to do that. Yet, we must ensure that Federal and contract employees have the opportunity to compete on a fair and level playing field. This means that the managerial complexities of a public-public and a public-private competition are recognized. We believe that the March 1996 Revision sets forth the right set of requirements. We have engaged in an effort to develop a new and comprehensive inventory of commercial support activities that can be used to identify a number of reinvention opportunities. We are working with and expect the civilian agencies to take stock of the lessons learned and the systems and techniques developed, as DOD implements its aggressive A-76 study effort - an effort that has been previously unmatched in its depth, scope or size. In addition, we will continue to make available to agencies acquisition techniques that are impartial and build on the important acquisition reforms which your Committee has helped to bring about.

Mr. Chairman, that concludes my prepared statement. I would be pleased to address any questions that you might have.

TESTIMONY OF JOHN BERRY
ASSISTANT SECRETARY - POLICY, MANAGEMENT AND BUDGET
UNITED STATES DEPARTMENT OF THE INTERIOR
for
The Senate Committee on Government Affairs,
Subcommittee on Oversight of Government Management, Restructuring
and the District of Columbia

Hearing on Commercial Activities in the Federal Government

June 4, 1998

Mr. Chairman, thank you for the opportunity to appear before you this morning and to testify on behalf of the Department of the Interior. I would like to begin by providing some general information about the Department to demonstrate the diverse nature of its programs. Through my discussion today, I would also like to outline how heavily we rely on external sources to help us serve the public.

Interior is the custodian of our nation's natural and cultural resources and maintains the Federal trust responsibilities to American Indians and Alaska Natives. The mission is achieved through the management of hundreds of programs and activities by our eight bureaus. As the nation's principal conservation agency, Interior has jurisdiction over 450 million acres of Federal land

and about 3 billion acres of the Outer Continental Shelf. This makes Interior steward to one sixth of the land mass of the United States. We manage an extensive infrastructure which includes 57,000 buildings, dams, vehicles, equipment and aircraft. About 66,000 employees work at more than 2,000 sites across the country.

OMB Circular A-76 establishes Federal government policy regarding the performance of commercial activities, and sets forth procedures for studying the structure and cost of its commercial activities to ensure that operational expenses do not exceed the cost of such services available from the private sector. The Department has conducted a limited number of formal A-76 studies in recent years. We have been more focused on broadly based streamlining and reinvention efforts, studying our organizational structures or general ways of doing business to find ways of cutting red tape, reducing regulatory burdens, becoming more responsive to our customers and otherwise making ourselves more efficient.

Interior has aggressively supported the organizational streamlining objectives of the Vice President's National Performance Review. In 1997, Interior employed 65,728 FTE, a reduction of 11,669 FTE or 15 percent of total FTE since 1993. To date, we have reduced our workforce by a greater percentage than all other domestic cabinet agencies but one. Similarly, we have reduced headquarters staff, primarily located in the Washington, DC area, by more than 16 percent by the end of FY 1997, which also places us ahead of all other domestic cabinet agencies save one (HUD).

All Interior bureaus and offices have reduced administrative staff as a result of Interior having issued about 90,000 purchase, travel and fleet management cards to employees who need them. The cards are used to conduct over 150,000 transactions each month. This tool has allowed Interior's procurement workforce, which has been reduced by 24 percent since 1993, to concentrate on the remaining more difficult and complex acquisitions. Use of the cards, and other management improvements, have also permitted a reduction of over 35 percent from 1993 to 1997 in bureau central finance office employees.

Through the National Performance Review we have also created 34 reinvention laboratories, the highest number among civilian agencies, which have streamlined and reengineered operations ranging from human resources management to Alaskan land conveyance. These efforts, like A-76, are consistent with improving operations to promote good government. The work of these laboratories appears so successful that they may avoid costs in the years ahead exceeding \$100 million.

Working closely with our Senate and House Appropriations Subcommittees, we recently contracted with the National Academy of Public Administration to complete a major study and make recommendations on the future role and organizational structure of the National Park Service construction program. The Academy will have a final report in mid-June and we strongly support the major thrust of the study - to utilize more private sector capacity in design and supervision of National Park Service facility construction.

When it comes to inherently governmental functions, such as the control of Federal dollars, we have not been shy about comparing ourselves to the private sector. The Department of the Interior utilizes the services of the Hackett Group to compare the efficiency of our finance operations with those of the private sector. In case you are not familiar with the organization, the Hackett Group is the world's foremost benchmarking firm in the knowledge-worker field. Since 1991, its studies have helped more than 1,050 leading companies evaluate the efficiency and effectiveness of their staff functions. The benchmark participants include 80 percent of the Dow Jones Industrials, 40 percent of the Fortune 100 and 25 percent of the Fortune 500. These benchmark studies are endorsed by the American Institute of Certified Public Accountants, the Financial Executives Institute and other financial organizations around the world. I am pleased to say that Interior's financial operations are on a par with the leading private sector firms.

Interior relies on commercial contracts, grants, cooperative agreements and compacts to support its various programs. For the past several years, nearly 40 percent of our budget authority, \$3.9 billion of our \$10 billion budget, has been spent through outside programs. We are proud of the fact that over the last five years, 95 percent of our procurement actions have been awarded competitively. We believe this is one of the highest rates in government. Contractors provide significant support to every bureau and every program of the Department.

We, like most Departments, have formed partnerships with a wide range of contractors to deliver our services. In most cases, we have not used the formal A-76 process to establish these

contracts. Rather, A-76 is one of the tools available to us in deciding how to operate in an efficient, effective manner. At Interior, it is not always simply a choice between using Federal employees or a commercial procurement contract in our system. We also are fortunate enough to have substantial volunteer programs and many concession contractors who serve the public.

A number of our programs are seasonal, peaking in the summer, and of such great interest that they receive an extremely large amount of help from unpaid volunteers. In 1997, for example, 90,000 volunteers contributed nearly 3.5 million hours of service through the Volunteers in Parks Program. Almost 29,000 volunteers contributed 1.5 million hours of labor valued at \$14 million to the Fish and Wildlife Service.

We use private sector concession contracts as a key element of our mission and meet the recreational needs of the public at many of our National Parks, at Bureau of Land Management and Bureau of Reclamation sites, and a few Fish and Wildlife facilities by providing everything from interpretive tours to boat rentals. The National Park Service has more than 200 concession contracts and 400 concession permits, employing 25,000 people during the peak season, generating gross receipts of \$714 million per year, and returning \$48 million, approximately 7 percent, per year to the Government. At major parks such as Yosemite, our primary concessioner has far more employees than Interior. The concessioner employs about 1,650 employees during the peak visitor season, while the Park staff during this time totals about 750. Following the devastating floods last year, the concessioner also invested in rebuilding the park's infrastructure.

The NPS concession program is now the subject of legislative reform in Senate bill S.1693 Vision 2020 National Park System Restoration Act. Title 4 of the bill would revise the NPS concession program by directing that these contracts must be awarded through a competitive process that is free of preferences to existing concessioners. It also encourages the Secretary to contract with private entities to conduct a number of functions in managing the NPS concession program. It is a bipartisan compromise measure, cosponsored by Senators Bumpers and Thomas. The bill has been voted out to the Senate floor by the Senate Committee on Energy and Natural Resources. Senate passage is expected this year.

During this Administration, the Department has conducted nine A-76 studies. The Office of Aircraft Services has made A-76 determinations a regular part of its operations. From FY 1994 to FY 1995, six formal A-76 cost comparisons were completed on 10 fleet aircraft. In August 1995, an A-76 study was completed on aircraft maintenance operations in Alaska. Although no private sector bids were received, internal operations were streamlined as a result. In May 1997, an A-76 lease vs. purchase comparison was completed which supported a decision to purchase six Cessna 206 aircraft. Again in March 1998, another A-76 lease/purchase comparison was completed for the purchase of four Cessna 206 aircraft.

In the early 1980s, A-76 competitions resulted in contracting for the operation of a photo laboratory for the Rocky Mountain Mapping Center in Denver, Colorado, and for computer operations and maintenance in Reston, Virginia, for the U.S. Geological Survey. Contractor versus government operation of the photo lab was quite successful. With the same size

workforce of 23 people, the contractor reduced a backlog of work much more quickly than expected, initiated a needed air filtration system and added quality controls that enhanced productivity.

In FY 1985, the Department's appropriation contained language which prohibited A-76 studies of activities with fewer than 10 FTE for FY 1985 through FY 1988 by our land based bureaus: the National Park Service, the Fish and Wildlife Service and the Bureau of Land Management.

While such legal prohibitions may have discouraged the use of A-76, hearings such as today's are making it clear that A-76 can be a valuable management tool. Current A-76 policy, which is now directed toward large scale activities, allows activities of 10 or fewer employees to be performed in-house or by contract if the service can be provided at fair and reasonable prices.

We completed A-76 inventories in 1996 and 1997, which we submitted to the Office of Management and Budget. Interior has many activities staffed by fewer than 10 people. In many locations staff have multiple duties to perform, which means their work does not always fall neatly into one industrial category. Throughout the Department our inventory of commercial activities shows that we have only 58 commercial activities staffed by more than 10 employees. 53 of the 58 are located in the National Park Service. This low number of commercial activities partially accounts for the low number of studies, nine, which have been conducted in recent years. We will conduct another inventory of commercial activities this summer, in accordance with guidance issued by OMB on May 12.

Interior relies heavily on the participation of the private sector in meeting its mission. The A-76 process is only one tool available to Departmental managers to improve the efficiency of operations. We believe that the Government is best served by contracting policies which allow agencies the flexibility to pursue organizational improvements in ways that best suit their individual needs. As you can see, we have been a major player and remain committed to finding better ways to serve the American public.

This concludes my prepared statement. I will be happy to answer any questions you may have.

STATEMENT OF W. SCOTT GOULD
CHIEF FINANCIAL OFFICER AND
ASSISTANT SECRETARY FOR ADMINISTRATION
U.S. DEPARTMENT OF COMMERCE

BEFORE THE SENATE COMMITTEE ON
GOVERNMENTAL AFFAIRS
SUBCOMMITTEE ON OVERSIGHT OF
GOVERNMENT MANAGEMENT, RESTRUCTURING
AND THE DISTRICT OF COLUMBIA
U.S. SENATE
June 4, 1998

OPENING REMARKS

Mr. Chairman, members of the Committee, thank you for the opportunity to appear before you today to discuss commercial activities specifically as they relate to the use of OMB Circular A-76 at the Department of Commerce. Over the past several decades and continuing under the leadership of Secretary Daley, the Department has taken steps to ensure that Americans receive the best value for the tax dollars they spend on our programs. To accomplish this, we need to apply the principles of competition and the free market to ensure that required services are provided at the best value to the taxpayer. This means identifying work that may be performed by an in-house organization, a contractor, or through an interservice support agreement; and ensuring that all parties are given the opportunity to compete to perform that work.

BACKGROUND

The government policy set forth in OMB Circular A-76 recognizes that the Nation's

economic strength depends on the competitive enterprise system and that Federal agencies should, to the extent possible, rely on commercial sources for the products and services they require when cost effective. The Circular does not, however, require the exclusive use of private sector sources. Rather, it encourages competition and choice, and attempts to provide a level playing field for all parties capable of providing needed products or services. Essentially, Circular A-76 is intended to assist Federal managers in making sound and justifiable business decisions in carrying out commercial activities.

Under the Circular, Federal agencies are required to:

- maintain and annually update a baseline inventory of all commercial activities;
- use the Circular's Supplemental Handbook to conduct reviews, which should compare the cost of providing the product or service in-house, contracting with a commercial source, and using an interservice support agreement such as a franchise fund or working capital fund; and
- report A-76 savings in its annual budget submission.

Deciding to retain a commercial activity in-house is the preferred option when a review indicates that: the Federal agency is able to operate the activity at a better value than a

qualified commercial source, no satisfactory commercial source is available, or in-house operation is necessary for the national defense as determined by the Secretary of Defense or his designee.

Inherently governmental activities are excluded from coverage. Such activities include: the regulation of industry, commerce, or use of natural resources; law enforcement; the selection of program priorities; and carrying out monetary transactions such as tax collection and revenue disbursement. Also excluded are: activities specifically excepted by law, Executive Order, treaty or other international agreement; activities involving 10 or fewer FTEs; or those activities undertaken by the Department of Defense during a declared war or military mobilization. Commercial-type functions within these activities are subject to A-76.

COST REDUCTION STRATEGIES

A-76 one valuable tool among many for achieving our cost-efficiency and management performance goals. I wish to emphasize that over the past six years we have added many such tools to our toolbox as we collectively explore ways to make government more efficient and effective. Congress has also acted to promote improved government performance by passing the Clinger-Cohen Act, the Federal Acquisition Streamlining Act, and the Government Performance and Results Act.

Throughout the first Clinton Administration, while the Office of Management and Budget was revising the A-76 Supplemental Handbook, we at Commerce shifted our emphasis to the principles of government-wide reinvention. During those years we were exploring new methods for cost-savings and improving government performance, such as downsizing, re-engineering, reinvention labs, Performance-Based Organizations, franchise funds, and customer service improvement.

As a result of our efforts, we established several reinvention labs and one franchise fund. We have also been pursuing the establishment of two Performance-Based Organizations. Each of these efforts is designed to produce improved results at lower cost to the taxpayer.

Overall, from FY 1992 through FY 1997, we achieved a 7.4 percent reduction in our total FTEs. We reduced the number of managers and supervisors across the Department by 23 percent from December 1992 through December of 1997, and we have placed relatively greater staff-power on the front lines, delivering services directly to our customers.

Commerce is one of six agencies that established pilot franchise funds. One of our funds, administered by the Office of Computer Services (OCS), is providing services to 18 new external customers. OCS decreased operating costs and passed these savings along to customers.

In January of 1994, the Commerce Department, together with Ex-Im Bank, SBA, and USAID, developed four pilot "one-stop-shops" by co-locating with them to streamline and consolidate delivery of field export marketing and trade finance services. The pilots have grown to 19 -- in major cities around the country. Commerce is emulating this approach in smaller cities by co-locating many of our other domestic field offices with state or local government offices, or universities to expand our presence, achieve savings, and provide one-stop services.

Commerce eliminated the U.S. Travel and Tourism Administration (USTTA) and its 90+ positions. The essential governmental functions of USTTA are now administered by our International Trade Administration at lower cost due to program synergies. Many of the other USTTA functions were assumed by the private sector.

Each of these actions reflects a conscious decision by Commerce officials to take a proactive step toward meeting our commitment to a government that works better and costs less. We are proud of our achievements and pledge to continue making every effort to improve operational performance and reduce cost.

In the early 1990s, OMB indicated that a comprehensive revision of the procedures set forth in the Supplemental Handbook was underway. A-76 activity - as undertaken not only by the Department but also, I believe, by other Federal agencies - was reduced pending a review of policy concerns with the old version of the Circular.

In March of 1996, the Supplemental Handbook was re-issued. Shortly afterward, in June of 1996, OMB requested that each Federal agency prepare and submit an updated inventory. The Department requested input from its operating units, but very little new activity was identified for inclusion in the Commerce inventory. In September 1997, we responded to OMB's request and identified one of NOAA's ships for review - the ship KA'IMIMOANA (pronounced KAH' EE MEE MO ANNA; meaning "Ocean Seeker"). Additionally, we are conducting a study of our finance and accounting function to determine how its efficiency can be improved.

MOST RECENT COMMERCE ACTIVITY

Under the leadership of Secretary Daley, the Department has aggressively worked to strengthen internal management and ensure the effective use of public funds allocated for carrying out its mission. Commerce managers and employees have embraced these goals – resulting in a widespread attitude of increased responsibility, accountability, and results-oriented management. We are determined to provide American taxpayers with a solid return on their investment – without waste or misuse.

I would like to share some of our efforts and successes with you.

- We are merging polar orbiting environmental satellites in cooperation with the Department of Defense and NASA to share technology and data. This cooperative

effort, which started early in the Clinton Administration, is estimated to save over \$1 billion during the life of the program.

Since Secretary Daley was confirmed, we have reduced the number of political appointees by 100. Concurrently, we took steps to increase the number of career civil servants functioning on a permanent basis in senior management positions. We succeeded, with the result that there is a significantly larger number of career civil servants in these positions than was the case for any recent predecessor.

We have proposed using statistical sampling to help us conduct the most accurate and cost-efficient 2000 Census possible. We estimate that the use of sampling will save at least \$276 million in FY 1999.

We are adopting an integrated project management approach to acquisition called "Concept of Operations" to re-engineer the acquisition process, improve the quality of what we buy, and reduce the time needed to make a purchase. Examples of the benefits of this new process, which simultaneously involves all pertinent stakeholders, are dramatically reduced cycle times and the selection of high performing vendors through the use of performance-based work statements. For example, the Census Bureau awarded a laptop computer contract in 18 weeks instead of the normal 12 months, and the Patent and Trademark Office awarded an \$8.8 million data warehouse development contract in five months instead of several

years under the old process.

The development of the Commerce Administrative Management System (CAMS) was experiencing cost overruns and schedule delays. We changed management in key positions and took several steps to impose greater control over project direction – we cut funding by 47 percent in FY 98 and committed to launch and test a pilot system in seven months. We will not proceed with further investment until the pilot works to our satisfaction. These changes led to reducing the costs of implementing CAMS by \$17 million in FY 1998 -- and will result in greater assurance that any future CAMS outlays will produce effective results. Next month, we will complete testing on a financial pilot.

We have taken an active role in overseeing NOAA's efforts to identify alternatives to the NOAA fleet. In FY 1997, NOAA outsourced 1,215 of its Days at Sea -- 25 percent of its total requirement. NOAA has been working with university vessel operators on a Memorandum of Agreement which calls for the joint scheduling of NOAA and university oceanography research missions. This will permit greater access by both NOAA and university scientists to the most cost-efficient vessels available. Over the past few years, NOAA has decommissioned one-half of its hydrographic fleet and is moving ahead with plans to contract with the private sector for much of its hydrographic data requirements.

We achieved a savings of \$6 million a year resulting from downsizing the NOAA Corps from 415 in FY 1994 to 299 in FY 1997. This totals \$36 million for FY 1997 through FY 2002, inclusive. Since then, we have further reduced the size of the Corps to a current count of approximately 260 -- about 25 positions below the current Congressional ceiling -- as we seek to move greater amounts of the Corps' work to the private sector.

These are just some examples of activities demonstrating our commitment to improve management processes within the Department and its operating units, and to increase the effectiveness with which we administer our programs. It provides an important context for understanding that A-76 is one tool among many that can be used to achieve greater efficiency in government.

PROSPECTIVE ACTIVITY

As stated earlier, we do believe that A-76 is an important technique in helping us improve program management, and Secretary Daley is committed to re-energizing and reinvigorating the Department's program.

Several fundamental issues should be considered in order to maximize the effectiveness of the A-76 program as one of our management tools.

First, it is critical that accurate and timely data measuring the true cost of operations is readily available and reflected in inventories of commercial activities. Only by having consistently reliable information - both with respect to financial resources and FTE - can we expect to make the type of sound business decisions that the Circular is intended to foster. Further, this information is essential to understanding the full benefits achieved as we proceed to implement the Circular.

A cost comparison study performed under the rubric of A-76 can and should be considered as one more effective strategy for maximizing the quality of service delivery. This program can also lend itself well to meaningful measurement of the results achieved.

Finally, it should be noted that the importance of effective oversight of our procurement activities increases as we increase our level of contracting with private sector organizations for commercial products and services. The responsibility for ensuring that Federal funds are expended appropriately is no less when an activity is carried out by a contractor than it is when a Federal agency carries it out directly.

Focusing on the Department of Commerce and our plans for moving forward in this area - Secretary Daley has directed that we act aggressively to (1) develop an updated inventory of commercial activities, (2) develop a practical list of outsourcing opportunities based on the findings of that inventory, and (3) expeditiously identify the resources needed to complete this undertaking - both at the Department level and

within our bureaus. We anticipate taking a close look at inventory data to determine if additional opportunities for private sector performance or competition exist. We will examine the inventory to identify those areas offering the most promise for early review.

And, to help guarantee the success of this effort, we will ensure that the resources needed to carry out our A-76 program are reflected in our FY 2000 budget proposal.

CLOSING

In concluding my remarks, I want to reiterate that Secretary Daley is committed to ensuring that the Department of Commerce works toward the benefit of America's businesses and citizens. We look forward to ensuring that Commerce is prepared to meet the challenges at the beginning of the new millennium. We can do this most effectively only if we work together with the private sector in identifying the best ways to meet our Nation's needs for products and services.

I have outlined some of the approaches that the Secretary intends to pursue. He wants us to continue to be aggressive in promoting job creation, economic growth, sustainable development, and improved living standards for all Americans, by working in partnership with business, universities, communities, and workers. In these efforts, he values the role of A-76 and our many other tools in helping us to save taxpayers' money, to improve the quality of our services, and to improve our productivity.

Mr. Chairman, this completes my remarks. I will be glad to answer any questions you may have.