SERVICE ORIENTED STREAMLINING: RETHINKING THE WAY GSA DOES BUSINESS

HEARING

BEFORE THE

COMMITTEE ON GOVERNMENT REFORM

HOUSE OF REPRESENTATIVES

ONE HUNDRED NINTH CONGRESS

FIRST SESSION

MARCH 16, 2005

Serial No. 109–11

Printed for the use of the Committee on Government Reform

Available via the World Wide Web: http://www.gpo.gov/congress/house
http://www.house.gov/reform

U.S. GOVERNMENT PRINTING OFFICE

20–379 PDF WASHINGTON : 2005

For sale by the Superintendent of Documents, U.S. Government Printing Office
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SERVICE ORIENTED STREAMLINING: RETHINKING THE WAY GSA DOES BUSINESS

WEDNESDAY, MARCH 16, 2005

HOUSE OF REPRESENTATIVES,
COMMITTEE ON GOVERNMENT REFORM,
Washington, DC.

The committee met, pursuant to notice, at 10:21 a.m., in room 2154, Rayburn House Office Building, Hon. Tom Davis (chairman of the committee) presiding.

Present: Representatives Davis of Virginia, Shays, Gutknecht, Souder, Platts, Westmoreland, Foxx, Waxman, Cummings, Kucinich, Davis of Illinois, Watson, Lynch, Ruppersberger, Higgins, and Norton.

Staff present: Ellen Brown, legislative director and senior policy counsel; Rob White, press secretary; Drew Crockett, deputy director of communications; Edward Kidd, professional staff member; John Brosnan, GAO detailee; Teresa Austin, chief clerk; Sarah D'Orsie, deputy clerk; Mark Stephenson, minority professional staff member; Earley Green, minority chief clerk; and Jean Gosa, minority assistant clerk.

Chairman TOM DAVIS. The committee will come to order. Good morning, and welcome to the Government Reform Committee's oversight hearing on restructuring the General Services Administration's operations, particularly its Federal Supply Service [FSS], and the Federal Technology Service [FTS], in order to meet the demands of the modern government market and to address GSA's management challenges.

GSA each year buys products and services from the private sector worth well over $30 billion and resells them to Federal agencies using the FTS and the FSS revolving funds. Under FSS, Federal agencies, and in some cases State and local governments, can deal directly with private sector vendors who make their products available on the FSS Schedule, which is managed by GSA. Under FTS, GSA plays a more active role by acting as a third party advisor for the Federal agency in acquiring telecommunications and information technology goods and services. Fees collected from customer agencies are the main source of funds for both programs.

While the bifurcated system may have made sense two decades ago when IT investments were a relatively new phenomena, technologies such as laptop computers, cell phones, and e-mails are now as ubiquitous with office supplies as are desks and phones. Two separate buying organizations operating out of different funds has become a barrier to coordinate acquisition of services and the technology needed to support the total solutions agency customers de-

mand. As a result, GSA's leadership, the Office of Management and Budget, and I have been looking into legislative and administrative options to consolidate FSS and FTS into a single entity operating out of a unified fund, providing Federal agencies with a one-stop shop to acquire all of their goods and services.

Today's hearing will build on evidence developed in prior hearings held by the committee on structural and management changes facing GSA operations in today's market. Also key are recent revelations of contract management challenges in FTS exposed by GSA's Inspector General reports. Those reports reveal weaknesses in the GSA's management control over its far-flung regional offices.

As the Government entity charged with providing best value solutions for customer agencies and taxpayers, I expect GSA to be compliant with applicable law, fiscally responsible, and responsive to concerns from both the private and public sectors. We expect GSA to lead the Government in the acquisition of solutions that capture the most current technology available in today's market. Along those lines, I want to commend GSA's recent efforts to generate in-house discussion about the most effective way to streamline its operations. I also want to commend GSA for proactively getting in front of some of the challenges facing the agencies that are identified in IG reports.

I hope that through this hearing we will be able to get a clearer picture of how GSA is addressing its management challenges in the evolving technology marketplace. I intend to use the information we gather today along with some ideas of my own to craft a bill that will ensure that the structural reforms that we create are memorialized in GSA's organic legislation. I envision legislation that will amend title 40 of the U.S. Code to: meld the current General Supply and Information Technology Funds into a single Acquisition Services Fund that will combine the positive attributes of both of the current funds; create within GSA a single Federal Acquisition Service; provide for appointment and direct control by the Administrator of Regional Administrators; and establish Government-wide policies aimed at recruiting and retaining experienced acquisition staff in all Federal agencies whose mission will be to ensure that Federal acquisitions are as cost-effective as possible.

In addition to our GSA witnesses, we will be hearing from Ms. Deidre Lee, representing the Department of Defense, GSA's largest agency customer. GSA's IG is also with us today to provide an update on their work in the regions. We will hear from a union representative. Finally, we will hear from private sector witnesses who work with GSA's FTS and FSS on a regular basis. We also invited Professor Steve Kelman of Harvard's Kennedy School of Government to appear, but he is unable to attend because of teaching obligations, but we have his statement available at the table.

[The prepared statement of Chairman Tom Davis follows:]

Opening Statement of Chairman Tom Davis
"Service Oriented Streamlining: Rethinking the Way GSA Does Business"
March 16, 2005
10:00 a.m.
Room 2157, Rayburn House Office Building

Good morning, and welcome to the Government Reform Committee's oversight hearing on restructuring the General Services Administration's (GSA) operations – particularly its Federal Supply Service (FSS) and Federal Technology Service (FTS) – in order to meet the demands of the modern government market and to address GSA's management challenges.

GSA each year buys products and services from the private sector worth well over $30 billion and resells them to federal agencies using the FTS and the FSS revolving funds. Under FSS, federal agencies, and in some cases State and local governments, can deal directly with private sector vendors who make their products available on the FSS Schedule, which is managed by GSA. Under FTS, GSA plays a more active role by acting as a "third party advisor" for the federal agency in acquiring telecommunication and information technology goods and services. Fees collected from customer agencies are the main source of funds for both programs.

While the bifurcated system may have made sense two decades ago when IT investments were a relatively new phenomenon, technologies such as laptop computers, cell phones, and e-mail are now as ubiquitous with office supplies as are desks and phones. Two separate buying organizations operating out of different funds has become a barrier to coordinated acquisition of services and the technology needed to support the total solutions agency customers demand. As a result, GSA's leadership, the Office of Management and Budget and I have been looking into legislative and administrative options to consolidate FSS and FTS into a single entity operating out of a unified fund, providing federal agencies with a one-stop shop to acquire all of their goods and services.

Today's hearing will build on evidence developed in prior hearings held by this Committee on structural and management challenges facing GSA operations in today's market. Also key are recent revelations of contract management challenges in FTS exposed by GSA Inspector General (IG) reports. Those reports revealed weaknesses in the GSA's management control over its far flung regional offices.

As the government entity charged with providing best value solutions for customer agencies and taxpayers, I expect GSA to be compliant with applicable law, fiscally responsible and responsive to concerns from both the private and public sectors. I expect GSA to lead the government in the acquisition of solutions that capture the most current technology available in today's market. Along those lines, I would like to commend GSA's recent efforts to generate in-house discussion about the most effective way to streamline its operations. I would also like to commend GSA for proactively getting in front of some of the challenges facing the agency that were identified in recent IG reports.

I hope that through this hearing we will be able to get a clearer picture of how GSA is addressing its management challenges in the evolving technology market. I intend to use the information

we gather today along with some ideas of my own to craft a bill that will ensure that the structural reforms that we create are memorialized in GSA's organic legislation. I envision legislation that would amend title 40 of the United States Code to: (1) meld the current General Supply and Information Technology Funds into a single Acquisition Services Fund that will combine the positive attributes of both of the current funds (2) create within GSA a single Federal Acquisition Service (3) provide for appointment and direct control by the Administrator of Regional Administrators and (4) establish government-wide policies aimed at recruiting and retaining experienced acquisition staff in all federal agencies whose mission will be to ensure that federal acquisitions are as cost effective as possible.

In addition to our GSA witnesses, we'll be hearing from Ms. Deidre Lee representing the Department of Defense, GSA's largest agency customer. GSA's IG is also with us today to provide an update on their work in the Regions. We will hear from a union representative. Finally, we'll hear from private sector witnesses who work with GSA's FTS and FSS on a regular basis. We also invited Professor Steven Kelman of Harvard's Kennedy School of Government to appear. He is unable to attend because of teaching obligations, but we have his statement available at the table.

Chairman TOM DAVIS. I would now recognize the distinguished ranking member, Mr. Waxman, for his opening statement.

Mr. WAXMAN. Thank you, Mr. Chairman.

Today's hearing on the Federal Technology Service and the Federal Supply Service will examine the proposed merger of these two components of the General Services Administration. One of the principal functions of the Government Reform Committee is to ensure that the Federal Government operates as effectively and efficiently as possible. The members of our committee take that responsibility very seriously, and this hearing will hopefully help us further that goal.

I also want to thank the chairman for agreeing to include a number of witnesses suggested by the minority.

The Federal Supply Service was created in 1949 to provide an economic and efficient system for the procurement and supply of goods and services to Federal agencies. One way it does this is through the Schedules Program which set up long-term Government-wide contracts with commercial firms for commercial goods and services that can be ordered directly from the contractor or through FSS. The Schedules Program provides customer agencies with benefits of volume discount pricing, lower administrative costs, and reduced inventories. It is a largely Washington-based self-service type of operation for Federal agencies.

The Federal Telecommunications Service offers agencies a range of information technology and telecommunications products and services on a number of contract vehicles, including the Schedules run by FSS. Its focus is more oriented toward providing full-service solutions for IT telecommunication and professional services. FTS is also more regionally based, with offices dispersed throughout the country.

Given the differing structure and goals of these two services, they don't necessarily seem like a natural fit to me. Other observers have cautioned that merging the two services could hurt the procurement of information technology because without a service exclusively dedicated to technology, there will be less emphasis on it.

While I have kept an open mind on the question of restructuring GSA, I am somewhat troubled by the process by which it has been proposed. The President's budget includes language to merge the two services and the revolving funds under which they operate. Yet, I am unaware of any considered analysis having been done to demonstrate whether these two units should be merged in the first place. All of the discussion and now considerable effort going on at GSA is currently focused on how to merge the two services, and not whether they should be joined.

Three years ago, GSA commissioned a study by an outside expert to look at duplication and overlap between FSS and FTS. The recommendations of that study led to a realignment of certain functions and duties between the two services. GSA has maintained that all of the recommendations of that study have in fact been addressed, so it is not even clear that duplication continues to exist.

As I said, I will keep an open mind on the proposed merger, but I expect more detail and a much clearer explanation of the benefits of this proposed merger before I can wholeheartedly support it.

Thank you, Mr. Chairman. I look forward to hearing from our witnesses.

[The prepared statement of Hon. Henry A. Waxman follows:]

Statement of
Rep. Henry Waxman, Ranking Minority Member
Committee on Government Reform
Hearing on
"Service Oriented Streamlining: Rethinking the Way GSA Does Business"

March 16, 2005

Thank you Mr. Chairman. Today's hearing on the Federal Technology Service and the Federal Supply Service will examine the proposed merger of those two components of the General Services Administration.

One of the principal functions of the Government Reform Committee is to ensure that the federal government operates as effectively and efficiently as possible. The members of our Committee take that responsibility very seriously and this hearing will hopefully help us further that goal. I also want to thank the Chairman for agreeing to include a number of witnesses suggested by the minority.

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As I said, I will keep an open mind on the proposed merger. But I expect more detail and a much clearer explanation of the benefits of this proposed merger before I can whole-heartedly support it.

Thank you Mr. Chairman, I look forward to hearing from our witnesses.

Chairman TOM DAVIS. Thank you very much.

Members can have 7 days to submit opening statements for the record.

Anyone else feel they need to make a statement now? Ms. Norton.

Ms. NORTON. Thank you very much, Mr. Chairman. And I applaud you for looking closely at this proposed merger.

I will be interested in looking at this merger in the way I think all moving blocks around ought to be viewed: first, in light of function and then whether structure fits function. I am interested in whether or not the merger follows a business model that plainly improves the functioning of both FTS and FSS as we now know it. I certainly buy the notion that purchasing personal technologies like laptops and cell phones has become more and more like purchasing personal services and products. But there is a big difference between purchasing technology and purchasing paper, and no consolidation will erase that. Indeed, if anything, purchasing various kinds of technologies become more and more highly specialized. Each year I know less about how to deal with new offerings.

GSA, therefore, has to be understood for what it does, not only as a kind of third party that helps agencies to purchase. It has an important role in enabling agencies, particularly smaller agencies, to take advantage of somebody's advice before they go out into the market. I will be very interested to know how that function is going to continue. And, frankly, I could see a situation where we blog these things together, maybe for budget reasons—I am not sure that function has driven this—we blog them together and then after they were together, they essentially just aggregated anyway, based on the need for more and more expertise, especially in the technology sector.

As always, if somebody is going to move parts of an agency around, the question for me is will the taxpayer benefit? Is there a functional benefit for the agency; will they do it better and will they do it cheaper?

Thank you very much, Mr. Chairman.

Chairman TOM DAVIS. Thank you very much.

We will now recognize our first panel. We have the Honorable Steve Perry, the Administrator of the U.S. General Services Administration, accompanied by Ms. Donna Bennett, the Commissioner from the Federal Supply Service, and Barbara Shelton, the Acting Commissioner of the Federal Technology Service. Welcome.

We have Ms. Deidre Lee, the Director of Defense Procurement and Acquisition Policy at the U.S. Department of Defense. Welcome back Dee.

And Mr. Eugene Waszily, the Assistant Inspector General for Auditing, U.S. General Services Administration.

It is our policy, as you know, that we swear you in before you testify, so if you would rise and raise your right hands.

[Witnesses sworn.]

Chairman TOM DAVIS. Mr. Perry, we will start with you, and then move to Ms. Lee and Mr. Waszily. And if Ms. Bennett or Shelton, if you want to make a statement, fine, but I think you are here as much for questions as anything else. But feel free.

Steve, we will start with you. Thanks for being here. Thanks for your leadership at GSA, as well.

STATEMENTS OF STEPHEN PERRY, ADMINISTRATOR, U.S. GENERAL SERVICES ADMINISTRATION, ACCOMPANIED BY DONNA BENNETT, COMMISSIONER, FEDERAL SUPPLY SERVICE; AND BARBARA SHELTON, ACTING COMMISSIONER, FEDERAL TECHNOLOGY SERVICE; DEIDRE LEE, DIRECTOR OF DEFENSE PROCUREMENT AND ACQUISITION POLICY, U.S. DEPARTMENT OF DEFENSE; AND EUGENE WASZILY, ASSISTANT INSPECTOR GENERAL FOR AUDITING, U.S. GENERAL SERVICES ADMINISTRATION

STATEMENT OF STEPHEN PERRY

Mr. PERRY. Thank you, Mr. Chairman. Mr. Chairman, members of the committee, we appreciate this invitation to discuss with you the subject of improving performance at GSA by reorganizing and consolidating our Federal Technology Service and our Federal Supply Service.

We agree with the view that organizations like GSA, who desire to achieve high performance and continuous improvement should periodically review their operations and review their operational or organizational structures in order to identify and implement improvements where possible. We believe that there are in fact operations in FTS and FSS that can be accomplished more effectively, and that the current structures of those two organizations can be streamlined to improve our performance in meeting the needs of our customer agencies in terms of their requirements for excellent acquisition services and best value for the American taxpayer.

Consequently, GSA is in the process, as you know, of developing a detailed action plan to accomplish the operational and structural changes necessary to reorganize and consolidate FTS and FSS. This action I think is in line with GSA's mission to provide best value services to Federal agencies; it is in line with principles outlined in the President's budget or management agenda to improve performance of all Federal agencies; and it is in line with this committee's commitment for efficiency and effectiveness in Federal Government operations.

I would like to emphasize just a few points about our work. First, this initiative to reorganize and consolidate FSS and FTS is designed to strengthen GSA's capability to meet increasing Federal agency requirements for excellence in acquisition of information technology, telecommunications, and other products and services. As we all know, Federal agency procurements are increasing every year. Agencies must be able to continue to rely upon GSA to meet their increasing requirements for acquisition services in order to avoid the need for each of them to place more and more of their budgets into resources that duplicate the acquisition activities at each Federal agency throughout the Federal Government.

Second, this initiative will make it easier for Federal agencies and for industry contracts to use GSA's acquisition processes. Our work will include extensive outreach efforts to obtain the input and collaboration of customer agencies and industry contractors.

Third, we will enhance the efficiency of GSA's administrative support functions by consolidating certain accounting and operational systems activities that are now performed separately in both FSS and FTS. Reorganizing and consolidating these two services into one will break down artificial barriers to economies of scale.

Another point is that the reorganization and consolidation work that we are discussing here today is now underway. A steering team and several task force teams of GSA managers and subject matter experts have begun their fact-based analysis to identify areas of opportunity and to develop specific proposed changes and solutions. These teams are scheduled to complete the first draft of their detailed reorganization/consolidation/implementation plan by May 31, and complete the final plan by July. This will enable the implementation to begin in the very near future.

As you pointed out, Mr. Chairman, there will be one legislative change needed to enable GSA to significantly streamline the administrative and financial management aspects of FTS and FSS operations by combining what is now two separate funds, one the General Supply Fund and two the Information Technology Fund into a single fund. A separate Information Technology Fund which was established about 20 years ago for the acquisition of technology, telecommunications, and related products and services, which is separate from the General Supply Fund, which is used for the acquisition of other products and services. The technology IT fund is no longer useful, and having two funds are administratively burdensome.

Separate funds are no longer useful primarily because the acquisition and the use of information technology and telecommunication products and services have evolved into the acquisition of a total solution, that is, a mix of information technology hardware and software combined with telecom and other professional services that may be outside of IT. To enable our recordkeeping systems to be consistent with this evolution and the marketplace, the President's budget for fiscal year 2006 calls on Congress to provide GSA with the authority necessary to combine the two funds into a single revolving fund.

Last, it is important that while GSA associates implement the changes necessary to accomplish the reorganization and consolidation of FSS and FTS, we must not lose momentum in other important initiatives, including Networx, which, as you know, is the Government-wide telecommunications procurement; and our "Get It Right" plan, where GSA and DOD and other agencies are working together to achieve excellence in Federal acquisition while achieving full compliance with Federal acquisition regulations and best practices.

Again, I would like to thank the committee for its support of GSA's performance improvement initiatives, and all of us look forward to working with you.

[The prepared statement of Mr. Perry follows:]

STATEMENT OF

STEPHEN A. PERRY
ADMINISTRATOR

U.S. GENERAL SERVICES ADMINISTRATION

BEFORE THE

COMMITTEE ON GOVERNMENT REFORM

UNITED STATE HOUSE OF REPRESENTATIVES

MARCH 16, 2005

GOOD MORNING CHAIRMAN DAVIS, CONGRESSMAN WAXMAN AND MEMBERS OF THE COMMITTEE. THANK YOU FOR INVITING ME HERE TODAY TO DISCUSS A TOPIC THAT HAS BEEN OF CONTINUING INTEREST TO YOU AND TO THE MEMBERS OF THE HOUSE COMMITTEE ON GOVERNMENT REFORM, NAMELY THE U.S. GENERAL SERVICES ADMINISTRATION'S (GSA'S) EFFORTS TO IMPROVE PERFORMANCE BY REORGANIZING AND CONSOLIDATING ITS FEDERAL TECHNOLOGY SERVICE (FTS) AND FEDERAL SUPPLY SERVICE (FSS).

WE BELIEVE IT IS IMPORTANT FOR ORGANIZATIONS THAT DESIRE TO ACHIEVE HIGH PERFORMANCE AND CONTINUOUS IMPROVEMENT TO PERIODICALLY REVIEW THEIR OPERATIONS AND ORGANIZATIONAL STRUCTURES IN ORDER TO MAKE IMPROVEMENTS WHERE POSSIBLE. SINCE GSA BEGAN TO MORE EFFECTIVELY MEASURE PROGRAM PERFORMANCE ON A QUARTERLY BASIS, IT HAS BECOME CLEAR THAT, THERE ARE

OPERATIONS IN FTS AND FSS THAT CAN BE ACCOMPLISHED MORE EFFECTIVELY AND THERE ARE ORGANIZATIONAL STRUCTURES THAT CAN BE STREAMLINED TO IMPROVE PERFORMANCE IN MEETING OUR CUSTOMER AGENCIES' REQUIREMENTS FOR ACQUISITION SERVICES AT BEST VALUE FOR THE AMERICAN TAXPAYER.

CONSEQUENTLY, GSA IS IN THE PROCESS OF DEVELOPING A DETAILED ACTION PLAN TO ACCOMPLISH THESE OPERATIONAL AND STRUCTURAL CHANGES NECESSARY TO COMBINE FTS AND FSS. THIS ACTION IS IN LINE WITH GSA'S MISSION TO PROVIDE BEST VALUE SERVICES. IT IS IN LINE WITH THE PRINCIPLES OUTLINED IN PRESIDENT BUSH'S MANAGEMENT AGENDA TO IMPROVE PERFORMANCE OF ALL FEDERAL AGENCIES, AND IT IS IN LINE WITH YOUR PLEDGE TO STREAMLINE THE FEDERAL GOVERNMENT.

I WOULD LIKE TO EMPHASIZE A FEW KEY POINTS TODAY.

FIRST THIS INITIATIVE IS DESIGNED TO:

-- STRENGTHEN GSA'S CAPABILITY TO MEET INCREASING CUSTOMER REQUIREMENTS FOR EXCELLENCE IN THE ACQUISITION OF INFORMATION AND OTHER PRODUCTS AND SERVICES;

-- MAKE IT EASIER FOR INDUSTRY CONTRACTORS TO UNDERSTAND AND USE OUR ACQUISITION PROCESSES; AND

-- ENHANCE THE EFFICIENCY OF GSA'S ADMINISTRATIVE SUPPORT FUNCTIONS BY CONSOLIDATING CERTAIN ACTIVITIES THAT ARE NOW PERFORMED IN SEPARATE UNITS.

SECOND, THE REORGANIZATION AND CONSOLIDATION PLANNING PROCESS IS ALREADY UNDER WAY. A STEERING TEAM AND SEVERAL TASK FORCE TEAMS OF SENIOR GSA MANAGERS AND SUBJECT MATTER EXPERTS HAVE BEGUN TO DOCUMENT THE SCOPE OF THE WORK, IDENTIFY AREAS OF OPPORTUNITY AND DEVELOP PROPOSED CHANGES AND SOLUTIONS. THESE TEAMS ARE SCHEDULED TO COMPLETE THE FIRST DRAFT OF A DETAILED REORGANIZATION AND CONSOLIDTION IMPLEMENTATION PLAN BY MAY 31, 2005 AND TO COMPLETE THE FINAL PLAN IN JULY 2005. THIS APPROACH WILL ENABLE IMPLEMENTATION TO BEGIN IN THE VERY NEAR FUTURE.

THIRD, ONE CHANGE WHICH WILL SIGNIFICANTLY STREAMLINE THE ADMINISTRATIVE AND FINANCIAL MANAGEMENT ASPECTS OF FTS AND FSS OPERATIONS IS COMBINING WHAT IS NOW THE GENERAL SUPPLY FUND AND THE INFORMATION TECHNOLOGY FUND INTO A SINGLE FUND. THE PRESIDENT'S FISCAL YEAR 2006 BUDGET CALLS ON CONGRESS TO PROVIDE GSA WITH THE AUTHORITY NECESSARY TO ESTABLISH THIS PROPOSED SINGLE, REVOLVING FUND.

AUTHORITY NECESSARY TO ESTABLISH THIS PROPOSED SINGLE, REVOLVING FUND.

LASTLY, IT IS IMPORTANT FOR EVERYONE, ESPECIALLY OUR CUSTOMER AGENCIES, TO UNDERSTAND THAT WHILE THE REORGANIZATION AND CONSOLIDATION OF FTS AND FSS TAKES PLACE, MOMENTUM WILL NOT BE SLOWED ON SEVERAL OTHER IMPORTANT GSA INITIATIVES. THESE RANGE FROM ACQUISITION INITIATIVES SUCH AS OUR "GET IT RIGHT" CAMPAIGN TO ENSURING PROPER USE OF GSA'S CONTRACTING VEHICLES, TO CITIZEN-ORIENTED ELECTRONIC GOVERNMENT INITIATIVES LIKE FIRSTGOV.GOV, TO PROVIDE FASTER AND EASIER PUBLIC ACCESS TO INFORMATION ABOUT GOVERNMENT ACTIVITIES AND SERVICES.

BACKGROUND

EACH YEAR, FEDERAL AGENCIES SPEND APPROXIMATELY $300 BILLION ON GOODS AND SERVICES IN ORDER TO MEET THEIR MISSIONS OF SERVICE FOR THE AMERICAN PEOPLE. GSA, THE

BUYER FOR THESE AGENCIES MUST OPERATE AT AN OPTIMAL LEVEL, CONTINUALLY IMPROVING INTERNAL EFFICIENCY, EFFECTIVENESS AND ACCOUNTABILITY.

OVER THE YEARS, OUR AGENCY HAS GROWN FROM A PRODUCT SUPPLY ORGANIZATION TO ONE THAT HELPS AGENCIES BUY MORE SOPHISTICATED SERVICES, INCLUDING THOSE THAT INTEGRATE INFORMATION TECHNOLOGY PRODUCTS AND SERVICES.

GIVEN THE EVOLUTION OF HOW INFORMATION TECHNOLOGY IS ACQUIRED—BUYING SOLUTIONS THAT ARE A MIX OF PRODUCTS AND SERVICES RATHER THAN STAND--ALONE HARDWARE OR SERVICES – WE REALIZED THAT SEPARATE SUPPLY AND TECHNOLOGY SERVICES ARE NO LONGER NEEDED. REORGANIZING AND CONSOLIDATING THE TWO SERVICES INTO ONE WILL BREAK DOWN ARTIFICIAL BARRIERS AND CREATE NEW EFFICIENCIES.

IMPROVING FINANCIAL ACCOUNTABILITY AND ENHANCING SERVICE DELIVERY

WE ALSO BELIEVE THAT HAVING TWO SEPARATE FUNDS, A GENERAL SUPPLY FUND AND AN INFORMATION TECHNOLOGY FUND, CREATES ANOTHER SET OF BARRIERS. THE GENERAL SUPPLY FUND IS A FULL COST RECOVERY REVOLVING FUND THAT FINANCES THE ACQUISITION OF SERVICES AND SUPPLIES FOR FEDERAL AGENCIES. THESE INCLUDE A NATIONAL SUPPLY DISTRIBUTION SYSTEM, COST OF CONTRACTING FOR COMMERCIAL PRODUCTS ACQUIRED DIRECTLY FROM CONTRACTORS AT DISCOUNTED PRICES, VEHICLE ACQUISITION AND LEASING, DISCOUNTED TRAVEL AND TRANSPORTATION SERVICES, AND THE SALE OF SURPLUS FEDERAL PERSONAL PROPERTY.

THE INFORMATION TECHNOLOGY FUND IS A FULL COST RECOVERY REVOLVING FUND THAT FINANCES THE ACQUISITION OF INFORMATION TECHNOLOGY SOLUTIONS AND TELECOMMUNICATIONS SERVICES FOR FEDERAL AGENCIES.

THESE INCLUDE INFORMATION TECHNOLOGY SOLUTIONS, LOCAL TELECOMMUNICATIONS AND LONG-DISTANCE PRODUCTS AND SERVICES.

AS YOU KNOW, THE FEDERAL TECHNOLOGY SERVICE ASSISTS AGENCIES WITH BOTH THEIR INFORMATION TECHNOLOGY AND PROFESSIONAL SERVICES NEEDS. WHILE THIS MEANS AGENCIES CAN GO TO THEM FOR EITHER OF THESE NEEDS, THIS ALSO MEANS THAT MULTIPLE FINANCIAL PRACTICES AND PROCEDURES MUST BE USED TO PROVIDE ACQUISITION SERVICES, ONE FOR INFORMATION TECHNOLOGY AND ONE FOR SERVICES INSTEAD OF A SINGLE, STREAMLINED FINANCIAL MANAGEMENT SYSTEM FOR BOTH.

GSA FREQUENTLY RECEIVES REQUESTS FROM VARIOUS AGENCIES TO PROCURE COMPREHENSIVE SOLUTIONS THAT INVOLVE A MIX OF INFORMATION AND TECHNOLOGY PROGRAM SERVICES. FOR EXAMPLE, THE DEPARTMENT OF STATE CONTACTED GSA'S FEDERAL SYSTEMS INTEGRATION

MANAGEMENT (FEDSIM) FOR A UNIFIED, SINGLE, INTEGRATED ACQUISITION FOR CONTINGENCY PLANNING, CONTINUITY OF OPERATIONS (COOP), AND MANAGEMENT SUPPORT.

THEIR REQUIREMENTS FOR CONTINGENCY PLANNING AND COOP INCLUDED INFORMATION TECHNOLOGY REQUIREMENTS SUCH AS HARDWARE, SOFTWARE, DATA NETWORK INFRASTRUCTURE, VOICE COMMUNICATIONS, SYSTEM OPERATIONS AND ADMINISTRATION. THEY ALSO INCLUDED NON-INFORMATION TECHNOLOGY REQUIREMENTS SUCH AS PERSONAL PROPERTY (FURNITURE AND SUPPLIES), TRANSPORATION, UTILITIES, AND ADDITIONAL SERVICES, AND TRAINING MATERIALS.

BECAUSE THESE REQUIREMENTS INCLUDED BOTH INFORMATION TECHNOLOGY AND PROFESSIONAL SERVICES SUPPORT, FEDSIM WAS REQUIRED TO ISSUE TWO SEPARATE ACQUISITIONS – ONE USING AN INFORMATION TECHNOLOGY VEHICLE AND THE INFORMATION TECHNOLOGY FUND, AND ANOTHER USING A SEPARATE CONTRACT VEHICLE AND THE GENERAL SUPPLY FUND.

IN THE END, BECAUSE OF THE DUPLICATIVE ACQUISITION COSTS TO THE DEPARTMENT OF STATE AND THE LENGTH OF TIME IT WOULD HAVE TAKEN TO COMPLETE BOTH ACQUISITIONS, AS OPPOSED TO ONE, THE DEPARTMENT OF STATE DIDN'T USE FEDSIM TO FILL THEIR INFORMATION TECHNOLOGY PROCUREMENT NEEDS. AT THIS TIME, THE DEPARTMENT OF STATE HAS NOT PURSUED OTHER OPTIONS IN ACQUIRING THEIR INFORMATION TECHNOLOGY REQUIREMENTS IN SUPPORT OF THIS PROJECT.

THE ESTABLISHMENT OF A SINGLE FUND WOULD NOT ONLY LEAD TO INTEGRATED ACQUISITION SERVICES, IT COULD ALSO IMPROVE FINANCIAL MANAGEMENT.

BY CREATING A SINGLE FUND, THE AGENCY WOULD BE ABLE TO STANDARDIZE AND CENTRALIZE FINANCIAL MANAGEMENT. WE BELIEVE THIS WOULD RESULT IN BETTER COST AND CAPITAL PLANNING, INCREASED FINANCIAL MANAGEMENT OVERSIGHT BY

THE AGENCY'S CHIEF FINANCIAL OFFICER (CFO), AND CONSISTENT FEE SETTING. ALL OF THESE CHANGES COULD LEAD TO OPERATING EFFICENCIES AND REDUCED TRANSACTIONAL COSTS.

IN ANTICIPATION THAT THE LEGISLATION WILL BE ENACTED INTO LAW THIS YEAR, OUR CFO IS DEVELOPING STRONG MANAGEMENT CONTROLS, POLICIES AND PROCEDURES FOR OPERATIONS UNDER A SINGLE FUND.

WE BELIEVE THAT THIS INITIATIVE WOULD YIELD SIGNIFICANT ORGANIZATIONAL EFFICIENCIES, STREAMLINED PROCESSES, AND INCREASED AGENCY SAVINGS.

THE PROCESS OF REORGANIZATION AND CONSOLIDATION

IN THE MEANTIME, THE AGENCY RECENTLY ESTABLISHED A STEERING COMMITTEE TO OVERSEE THE REORGANIZATION AND CONSOLIDATION OF FTS AND FSS. IT IS MADE UP OF TEN AGENCY EXECUTIVES WHO ARE EXPERTS ON GSA'S BUSINESS LINES,

POLICIES AND PROCEDURES. TOGETHER, THIS TEAM DECIDED THAT THREE TASK FORCES--ACQUISITION SERVICES, INFORMATION TECHNOLOGY MANAGEMENT AND FINANCIAL MANAGEMENT--SHOULD BE RESPONSIBLE FOR DEVELOPING DETAILED ORGANIZATIONAL DESIGN PLANS AND STRATEGIES BY JULY 2005.

EACH OF THESE TASK FORCES IS COMPRISED OF AT LEAST A DOZEN OR MORE SUBJECT MATTER EXPERTS, IS SUPPORTED BY A RECENTLY HIRED CONTRACTOR AND IS LED BY SOME OF GSA'S MOST SENIOR EXECUTIVES. FOR EXAMPLE, THE ACQUISITION SERVICES TASK FORCE IS CO-CHAIRED BY BARBARA SHELTON, ACTING COMMISSIONER, FEDERAL TECHNOLOGY SERVICE AND DONNA BENNETT, COMMISSIONER, FEDERAL SUPPLY SERVICE. THE FINANCIAL MANAGEMENT TEAM IS CHAIRED BY KATHLEEN TURCO, CHIEF FINANCIAL OFFICER, AND THE INFORMATION TECHOLOGY MANAGEMENT TEAM IS CHAIRED BY MICHAEL CARLETON, CHIEF INFORMATION OFFICER.

BECAUSE THE CONTRACTOR IS FAMILIAR WITH GSA'S OPERATIONS AND IS A LEADER IN FACILITATION, ORGANIZATIONAL DESIGN AND CHANGE MANAGEMENT SERVICES, WE BELIEVE THE CONTRACTOR WILL BE A VITAL RESOURCE TO ALL OF THE TEAMS DURING THIS PROCESS. THEY WILL PROVIDE THE TEAMS WITH ALTERNATIVE ORGANIZATIONAL MODELS FOR CONSIDERATION, HELP TO ACHIEVE MUTUALLY AGREED UPON OBJECTIVES, PROVIDE PROGRESS REPORTS, AND HELP CREATE THE MOST EFFICIENT AND EFFECTIVE ORGANIZATIONAL STRUCTURE POSSIBLE.

IN THE END, THESE TASK FORCES WILL DEVELOP BUSINESS STRATEGIES THAT MEET THE FOLLOWING FOUR OBJECTIVES:

1) PROVIDE EXCELLENT ACQUISITION SERVICES TO CUSTOMER AGENCIES BY CHANGING THE ORGANIZATION STRUCTURE OF FTS AND FSS AND MODIFY POLICIES, PROCEDURES, AND BUSINESS MODELS CURRENTLY USED BY THE BUSINESS LINES IN THESE SERVICES.

2) ENSURE ACQUISITION SERVICES ARE COMPLIANT WITH FEDERAL ACQUISITION REGULATION, POLICIES AND INCORPORATE BEST PRACTICES,

3) SIMPLIFY PROCESSES, THEREBY ALLOWING INDUSTRY CONTRACTORS TO INTERACT WITH GSA'S ACQUISITION PROCESSES AND PARTICIPATE EFFECTIVELY IN THE SUPPLY CHAIN TO MEET CUSTOMER REQUIREMENTS, AND

4) ENHANCE EFFICIENCY AND EFFECTIVENESS OF GSA'S INTERNAL FINANCIAL MANAGEMENT PROCESSES, INFORMATION TECHNOLOGY MANAGEMENT PROCESSES AND OTHER ADMINISTRATIVE SUPPORT FUNCTIONS BY REORGANIZING AND COMBINING SIMILAR ACITIVITIES CURRENTLY PERFORMED BY MULTIPLE UNITES THROUGHOUT GSA'S NATIONAL AND REGIONAL OPERATIONS.

AFTER THE TEAMS ARRIVE AT THEIR FINDINGS AND RECOMMENDATIONS, THEY WILL PRESENT THEM TO THE STEERING COMMITTEE, WHICH WILL DETERMINE IF THE PROPOSALS MEET THE REORGANIZATION GOALS.

THROUGHOUT THIS PROCESS WE INTEND TO WORK WITH YOU, WITH OTHER MEMBERS OF CONGRESS, AND THE ADMINISTRATION TO ACHIEVE THE BEST RESULTS FOR THE AMERICAN PEOPLE.

WE BELIEVE GSA WILL BE ABLE TO PROVIDE "BEST VALUE" SERVICES NOW AND IN THE FUTURE DUE TO OUR COMMITMENT TO YOU – CONGRESS, THE ADMINISTRATION AND OUR AGENCY CUSTOMERS.

I WOULD LIKE TO THANK THIS COMMITTEE – AS WELL AS THE ADMINISTRATION – FOR ITS SUPPORT OF THIS REORGANIZATION EFFORT AND LOOK FORWARD TO WORKING WITH YOU TO PASS

LEGISLATION THAT WILL ALLOW US TO IMPROVE OUR FINANCIAL ACCOUNTABILITY AND IMPROVE SERVICE TO OUR CUSTOMER AGENCIES THROUGH THE ESTABLISHMENT OF A SINGLE UNIFIED REVOLVING FUND.

THANK YOU AGAIN FOR THE OPPORTUNITY TO APPEAR BEFORE YOU TODAY.

I WOULD BE HAPPY TO ANSWER ANY QUESTIONS YOU MAY HAVE.

Chairman TOM DAVIS. Thank you very much.

Dee, thanks for being with us.

STATEMENT OF DEIDRE LEE

Ms. LEE. Mr. Chairman and members of the committee, thank you very much for having me here today as GSA's largest customer, I believe.

As you know, the Department of Defense is the largest user of GSA Schedules and contracting service within both the Federal Supply Services and the Federal Technology Services. In fiscal year 2004 alone, FTS awarded over $6 billion on behalf of the Department of Defense for telecommunications, professional services, and information technology. DOD's use of FSS, Federal Supply Schedules, is even greater, with DOD spending approximately $7 billion on the Federal Supply Schedules last year.

DOD receives quality support from GSA, and we expect that we will continue to receive that quality support however the reorganization is accomplished. And we will continue our mutual efforts toward improving acquisition.

I would like to reaffirm DOD's commitment to working closely with Administrator Perry and the GSA team to improve our use of the Schedule contracts and to ensure that contracts awarded by GSA on behalf of DOD are proper and represent the best interest of the Government.

And I would be happy to answer any questions.

Chairman TOM DAVIS. Thank you very much.

Mr. Waszily.

STATEMENT OF EUGENE WASZILY

Mr. WASZILY. Good morning, Mr. Chairman, members of the committee. I just have a few brief remarks to begin.

We are firm supporters of merging the Federal Technology Fund with the General Supply Fund from a financial aspect. As Mr. Davis pointed out in his opening comments, there are far too many discussions about whether something is IT or non-IT, and it is ubiquitous throughout all of our operations, so we would like to eliminate that legislative barrier to the procurement activities. At the same time, we also see the possibility in the merger of the two services to provide some economies in the support activities underneath, although we are not strongly in favor of or opposed to the merger of the two organizations.

But we are very strong in our belief that there are certain kinds of service and varying service offerings that are provided to the GSA customers to meet their specific needs, and that is what we would like to preserve. We do not particularly see that the service offerings of the Federal Technology Service are in direct competition with the Federal Supply Service. For the most part, we see the Federal Supply Service available for those clients who can define their requirement, it is well known and the contract is readily available to meet their procurement need. Those who need acquisition assistance or technical support, particularly in the technology area, we see that as the role of the Federal Technology Service.

That said, there are really two points that I would like to make. One is that, as Mr. Davis raised, we have raised in our prior audit

reports over the past few years some difficulties and some procurements that were not executed the way that we would like to see them occur. When I look at the program, I see three elements to it: customer service, helping the customer meet its mission, and then compliance with the rules, regulations, and economies in doing a sound procurement. It is only that last leg that we need to improve, and I particularly commend Administrator Perry and Ms. Lee for the "Get It Right" initiative. Our audits on a continuing basis have shown marked improvement over the last 2 years. We are heading in the right direction.

That concludes my opening comments. Thank you.

[The prepared statement of Mr. Waszily follows:]

House Committee on
Government Reform

Hearing on the Possible
Restructuring of the
General Services Administration

March 16, 2005

Testimony of
Mr. Eugene L. Waszily
Assistant Inspector General
for Auditing

Mr. Chairman, Mr. Waxman, Committee Members;

Thank you for the opportunity to provide our office's views on factors that we believe warrant consideration in the assessment of whether or how to reorganize the General Services Administration (GSA), more specifically, the possible restructuring of the Federal Supply Service (FSS) and the Federal Technology Service (FTS). We believe it most appropriate that your committee has chosen this point in time to raise this issue. Given current demands on Federal resources to underwrite increasing defense and national security requirements, while at the same time addressing the needs of the entire government to modernize operations, it is imperative that organizations such as GSA deliver mission critical products and services in the most effective, timely, and economical manner possible. In the sections that follow, we have outlined the factors we believe should be weighed as part of the overall assessment.

PROGRAM STRUCTURE and CUSTOMER NEEDS

Both FSS and FTS have experienced explosive revenue growth in the past 5 years. Product and services (especially services) multiple award schedules contracts will do an estimated $32 billion in sales this year, up from $4 billion a few years back, while FTS services contracts for other than telecommunications have grown from below $1 billion to approaching $6 billion annually. This sustained growth for several successive years suggests that both organizations are favorably responding to customer needs and doing so in a way that fosters customers to come back time and again.

We believe underlying this success is that GSA provides its customers choice. Not only does it afford them choice in the lines of products and services offered, but it also tailors programs to deal with customers in the way they prefer to do business and allows customers to select various levels of acquisitions support to meet their requirements. As examples:

The multiple award schedules contracts are pre-established master agreements covering thousands of products and services, perfectly suited for the customer who has well defined needs or, for more complex matters, has the in-house technical expertise to manage implementation. Even large orders requiring a second stage of competition can be processed in rapid fashion.

The global supply program meets different customer needs, those requiring warehouse support for specialized items that are needed on short notice to respond to such events as natural disasters or emergency situations. These products can be shipped worldwide quickly.

Next are the acquisition programs of FTS and the specialized offerings of FSS that provide to the customer a wider array of acquisition support, contract administration, project management services, and also include tailor made FSS solutions to meet a specific customer's special needs. The largest group of these contracts are found in FTS because the technology field often requires extensive specialized expertise often not residing within the client agency needed to oversee complex implementations. Others of these contracts are situations where a large client agency has an ongoing need for technical acquisition support and expert advice. Providing this type of cradle to grave support allows the clients to remain focused on their core missions.

Finally, we have the unique governmentwide procurements awarded and managed by FSS or FTS. These would include such operations as providing governmentwide telephone services, airline contracts, and fleet services. Within these programs are options to help meet the special needs of individual customers while leveraging the buying power of the government to establish favorable prices.

We have described this array of contract programs to make one point: We believe GSA's ability to serve the customer through a variety of offerings is a key element of both GSA's success and the success of its clients. We are aware that some have suggested that GSA offer its procurement services only though a single structure, most likely through the schedules program. While that would surely streamline GSA operations, we believe it would not fulfill many customer requirements for acquisition support and ongoing technical advice and management services.

Having said that, we are well aware of the shortcomings in all of the current delivery methods used by GSA. We have been working with agency management to identify weaknesses and find ways to overcome them. In addition to our efforts, we believe there are other ways to identify how to enhance service delivery.

First and foremost, we would encourage seeking the views of a wide spectrum of users of GSA services to learn what is most positive about

current programs and where GSA could be of greater assistance. A key question to ask is whether customers are confused by the various offerings of FTS and FSS or uncertain regarding which organization to turn to when in need of procurement assistance.

Next, we would suggest reducing the overlap and duplication of contract offerings currently available. In many of our past reviews, we have noted that several of the Government Wide Acquisition Contracts (GWACs) including the ones originally awarded by FTS offer basically the same kinds of services. Some of these GWACs are being phased out, a step in the right direction. We would encourage further streamlining efforts. Having numerous contract vehicles covering similar areas is costly to the government and vendor community alike.

ORGANIZATIONAL STRUCTURE

As we understand it, the general proposal under consideration is to combine FTS and FSS into a single acquisition organization and consider related implications that may have for field operations. We see a combined organization as workable and one that could result in efficiencies gained through consolidated support operations. It would also serve to eliminate concerns that FSS and FTS directly compete for client business.

What we would caution against is a structure popular among some conglomerate corporations in the 1970s and shown over time to be ineffective. By this we mean a unified structure centrally controlled, rigidly imposing the same structure upon each of its business units and measuring them by the same set of metrics.

Even where we have seen this structure employed on a smaller scale, it resulted in less effective outcomes. For example, our work in FTS noted that where a region had management responsibilities for an acquisition service center and also managed a GWAC contract, the center awarded a high number of contracts through the GWAC, even though other contract vehicles seemed more suitable to meet the acquisition requirements. In similar fashion, how often have we seen in other mergers where the dominant management tends to recast the absorbed units into the same mold even if it impairs operations. Uniform structures can lead to more rigid structures and that often leads to not meeting customer needs.
For these reasons, we would encourage a structure that affords a common

framework but allows programs to operate independently in function and to be accountable for meeting customer and agency objectives. As for location and field structure, some programs need to be geographically close to the customers while others can function from a single location and provide worldwide service. Customer requirements and the strategy to meet those needs should be the force that drives organizational structure.

FINANCIAL MATTERS, CUSTOMER EDUCATION AND EFFICIENCIES

We are strongly in favor of merging the Federal Technology Fund and the General Supply Fund provided the accounting for telecommunications, technology solutions and general supply fund operations are treated as separate segments and results of activities are reported distinctly. This merger will eliminate many needless discussions regarding whether a specific procurement is or is not of suitable scope to be processed through the Technology Fund. Given that technology has found its way into every wall of business and government operations and numerous products as well, the discussion should focus on how to craft the procurement most effectively not what fund to place it under.

Another area we believe needs additional work is customer education. FSS and FTS have made efforts to inform customers how best to use GSA programs but more needs to be done. Lack of information regarding how procurement programs work or which is the most effective one to use in a specific circumstance often lead customers to incur additional costs, waste time, or,worse, conduct an acquisition that fails to meet its need. A major objective under any restructuring effort should be to ensure there is clarity as to the nature and application of program offerings to customer agencies. The Administrator's Get It Right Program, designed to enhance acquisition services overall, has a module that focuses on customer education. We endorse this effort and trust that whatever the final design of GSA, this mission will not be overlooked.

Finally, our last comments center on program efficiencies. Our reviews of GSA acquisition programs find that GSA associates are customer oriented. They clearly want to enhance GSA's level of business and keep clients satisfied. Where we often find weaknesses in operations, it relates to trying to do things too quickly, or responding solely to customer preferences; this results in corners cut, neglect of regulatory requirements, and causes

increased costs or impaired outcomes. Each of the programs discussed have one or more of these deficient elements that need continued attention. We would be happy to describe these issues in more detail at a later date.

We would be pleased to work with the Committee and, of course, with GSA management in support of the effort to restructure the acquisition services for the benefit of customers and the taxpayers.

Mr. Chairman, that concludes my formal remarks. I would be pleased to take questions from the committee.

Chairman TOM DAVIS. Thank you very much.

Let me start the questioning.

Ms. Lee, let me just ask. I know that there is growing pressure, not from DOD, but particularly from the Senate, that DOD avoid using GSA contract vehicles in favor of internally awarded managed contracts. That policy not only I think could be harmful to GSA, but also to the Department, in that the contracts would have fewer vehicles on hand to meet their best needs. A, does that pressure also apply to like NASA SOUP, NIH, Interior, or is it aimed at just GSA? How much does the Department currently rely on GSA contract vehicles? And B, could the Department handle its critical mission without GSA's help?

I don't want to put you on the spot, but——

Ms. LEE. Mr. Davis, as you know, we are the largest customer and GSA does provide us good support. I do not think we could execute the Department's mission sharply without them.

Now, it is not that we haven't had our issues. One of the things we are doing at the "Get It Right" campaign is making sure that our people, as DOD people—and that is technical folks as well as our contracting people, because some of the money goes directly to GSA—that we make sure they understand the proper use of these vehicles; and GSA has been a wonderful partner in making sure that they help us reinforce those requirements.

At the same time, it is not only GSA that DOD spends money—we call them assisting agencies. So I do have a program in place where DOD representatives will be going around and visiting the other assisting agencies. That does include NASA SOUP, it includes the Department of Interior and some other agencies that provide assistance to Department of Defense. And we will be asking for the same staunch support that we have gotten from GSA in making sure we use these vehicles properly. But we will continue to use them.

Chairman TOM DAVIS. And as you take a look at all of these different Schedules that are out there, is there any concern there may be a proliferation of Schedules and that maybe some of the agencies involved don't have the kind of background and oversight that GSA does in administering them? Have you run into that?

Ms. LEE. There are a good number of Schedules. My biggest concern is that our people know what is out there, what is available, and how to use them properly. And I do think that in many cases obviously the best structured business arrangements or the ones that people are aware of are the ones that are getting a lot of use. So we are going to go around and visit with these assisting agencies and try to make sure we rationalize those and have a good understanding of what is available.

Chairman TOM DAVIS. OK.

Mr. Perry, your statement I think sets forth in some detail GSA's plans to accomplish the operational and structural changes needed to transform GSA's FTS and FSS, but I didn't hear anything about the regional structure. Now, as I understand it, GSA has 11 regional offices today. The acquisition management exercise by the various regional offices was what was really called into question in the IG reports. Are you considering any changes in the number of

regional offices or their functions or their control exercised by the headquarters at this point? Is that part of your thinking?

Mr. PERRY. Well, obviously in a comprehensive study of this type everything is on the table. At the same time, I think it is important to remember that one of the functions that GSA carries out, separate from its technology and supply acquisition, is the management of facilities, some 8,300 facilities around the country, either Government-owned buildings or leased facilities. The physical facilities in the field really require GSA to have a presence at those locations where our customers are, and I would say primarily to provide them with physical workspace and lease those spaces, as well as maintain them. As an adjunct to that, in some instances it makes it convenient, if you will, to be able to place FTS or FSS people at those same locations.

I would also point out that while we have 11 regional offices, and we do have 11 client support centers that service technology acquisitions, in some of our FSS areas we provide those customer services in a zone, and that is we don't have an FSS operation in every single region. So as we look at this, we will view that with a particular eye toward how we can best deliver the services that customers need.

Chairman TOM DAVIS. As you know, you have almost 4,000 GSA associates working both FTS and FSS. Are you involving them in your thoughts and in the process?

Mr. PERRY. Yes. At this stage, we are at an early stage, but we have established a steering team of GSA managers and subject matter experts. We are in the process of establishing a number of special task forces which will involve many, many more GSA associates; and we will continue to involve GSA associates. Our outreach will also extend outside of GSA to customer agencies and industry contractors. But all of those entities will be involved in the discussions.

Chairman TOM DAVIS. I have additional questions, but my 5 minutes are up. I am going to recognize Mr. Waxman.

Mr. WAXMAN. Thank you, Mr. Chairman.

Mr. Perry, approximately 18 months ago this committee held a hearing on the realignment of certain duties between FTS and FSS. That hearing focused in part on a report done by Accenture for GSA on overlap and duplication between the two services, and recommendations for addressing that overlap. At that hearing you testified that you were pleased to announce that "each of those changes had been implemented and are fully operational."

Now, 18 months later, OMB and GSA have announced yet another major restructuring of FTS and FSS, so I am trying to gain an understanding of what prompted this push for a merger, Mr. Perry. Is there a senior level management review, a new business case scenario or other analysis or report that has not yet been made public that is driving this move toward a merger?

Mr. PERRY. Mr. Waxman, let me first comment on the report that was done some time ago. You are quite correct that what we looked at in that case was to see whether there were areas of what we called non-value-adding duplication that was occurring between the two that we could somehow eliminate by consolidating. And you are correct to point out that there were several areas that we found

non-value-adding duplication that we have now combined, and I think quite successfully.

The review that we have done more recently really looks at what are the various things that we might do to in fact expand our capability to meet the needs of our customer agencies.

Mr. WAXMAN. So there has been another review?

Mr. PERRY. This was an internal management review, yes, just looking at the fact that many times we are not able to meet the needs of our customer agencies on a cycle time that they would require. I would even submit that some of our difficulties with respect to complying with Federal acquisition regulations was a result of workload and a result of not being able to focus to the extent we needed to on processing customer requests.

Mr. WAXMAN. Let me ask you this. The senior level management review that you are referring to, may we have a copy of that?

Mr. PERRY. It is not a document, it is a series of discussions, starting with brainstorming, managerial discussions about what we might do, what options we might take into account. We are continuing that now under the auspices of a more formalized steering team and task force.

Mr. WAXMAN. Thank you. The proposed merger was announced in the President's proposed budget for fiscal year 2006. Mr. Perry, who made the decision to press for a merger? Chairman Davis seems to be a proponent of the idea, but did this idea develop internally at GSA from FTS and FSS, or is it being driven from above?

Mr. PERRY. Mr. Waxman, I think I would have to answer the question all of the above. Certainly, we have heard from this committee and its chairman that this would be an area of interest, and there was a review that was done by the people at OMB, taking a close look at our budget, looking at some of our offices that appeared to them to be duplicative, and they brought that to our attention at the same time that we were looking at it to see whether we would drive toward a resolution.

Mr. WAXMAN. I want to ask Ms. Lee and Mr. Waszily do either of you have any additional insight or information regarding what is driving the merger proposal?

Ms. LEE. I am aware that there was some language in GSA's bill, but I don't know the origin of that.

Mr. WAXMAN. Thank you.

Mr. Waszily.

Mr. WASZILY. No, sir, I am not.

Mr. WAXMAN. Thank you very much for your testimony.

Thank you, Mr. Chairman.

Chairman TOM DAVIS. Mr. Gutknecht.

Mr. GUTKNECHT. Mr. Chairman, I would just say, if it is a good idea, I would be happy to take credit for it. You can share it with the administration. If it is a good idea, it is a good idea.

I don't have any other questions, Mr. Chairman, though, so I would yield my 5 minutes back to you.

Chairman TOM DAVIS. Thank you.

Mr. Perry, the trend in government acquisition is toward more complex services and fewer products. How will the new combined Acquisition Services Fund help GSA better manage this trend?

Mr. PERRY. Well, let me just emphasize that this consolidation, reorganization, merger, whatever term we apply to it, is not a homogenization; it is not taking all of the acquisition activities we do today and spreading them paper thin in a homogenization sort of way so that we are not specialized to any extent. We will continue to have our business lines; we will continue to have areas of specialization. There will be part of the GSA organization with people who have the skills and competencies to particularly address very complex information technology or telecom acquisitions. Other areas will address the less complicated areas such as the acquisition of general supplies.

But while those business lines would be separate so that there would be a proper focus on the customers and on the products and services involved, the overall management of it could be the same. That is the difference that we are making here.

The other area of difference is that the support services that are provided to these business lines—today, for example, we have accounting happening in each of the services separately. We have the administration of the computer systems happening separately in two different organizations. Oftentimes, they come up with similar proposals. For example, some years ago both FSS and FTS had invested in developing a customer relationship management software. They were actually purchased from the same company, but they were two separate systems that did not work together.

Now, one would argue that shouldn't happen, whether you are a separate organization or a combined organization. But in this case of having a combined management, we will be able to do a much better job of taking those kinds of opportunities and addressing them GSA-wide, as opposed to each service having to do its own. With the consolidation of the two funds, there will be even more opportunities for the financial operations and the systems operations to be combined or operated in a more efficient way.

Chairman TOM DAVIS. Thank you.

Let me just ask Mr. Waszily do you think that the reorganization efforts will impact ongoing GSA operations like Networx?

Mr. WASZILY. Networx I really don't know that much about, sir, so I can't comment on that.

Chairman TOM DAVIS. OK.

Mr. WASZILY. As I was talking earlier, our particular concern going forward, as Mr. Perry was highlighting, our concern is the key functions and the key capabilities of GSA be retained. The structure, our sense of it the structure should be driven by the customer requirements. Certain activities need to be very close to the customer and there is constant contact; there are other activities that I think, once they are looked at, could probably be consolidated and perhaps be operated out of one specific point to cover worldwide. I think that customer requirements formulate the strategy and then the structure should fall from those two elements.

Chairman TOM DAVIS. You note that you strongly favor the merger of the technology and supply funds.

Mr. WASZILY. Certainly the funds itself. We ran into, when we were conducting our audits, a lot of these issues; was this an IT purchase or wasn't it, and we started calling it the hanging chad issue. And we don't think that is really a good debate. The debate

is whether or not we are making a sound procurement and it is getting to satisfy the mission in the most cost-effective and timely manner.

Chairman TOM DAVIS. Now, you also indicate that it is important for the GSA to have a regional structure because you need to be close to the customers, the same thing that Mr. Perry said. Audit reports from your office showed acquisition mismanagement in most of these regions. What do you attribute that to and how do we solve that?

Mr. WASZILY. Yes, sir. That is a very good point. I think the one thing we are talking about here as far as structure and design of the agency, we are really talking the strategic. Most of the issues that we were reporting on regarding the deficiencies in procurement I would label as the tactical. To use sort of the football coach's vernacular, we need to go back to the basics, and we really need to do solid procurements. There were some lapses. A lot of the buildup, particularly in the FTS service programs, began in the 1998–1999 period. I think a little bit of that fever of the "new economy" sort of spilled into the program, and in many ways the program was so successful that it got ahead of itself. And I think it grew so large that it just didn't have the chance to catch up with the controls.

As I mentioned, we have been doing a review of the program about every 6 months, and each successive review is showing continuing improvement.

Chairman TOM DAVIS. Thank you very much.

Mr. Lynch, did you want to say anything? I think Ms. Watson was next.

Mr. LYNCH. Oh, all right.

Chairman TOM DAVIS. And what I was going to do, we are going to have a series of votes that is going to take about a half hour.

Ms. WATSON. This comment and question goes to——

Chairman TOM DAVIS. Just a minute. Just a minute, Ms. Watson.

What I was going to suggest is I will let Ms. Watson move ahead with her questions. If we have time for Mr. Lynch to get a question or two in, then I will turn it over to Ms. Norton, who can ask her questions. And at the end of that you can dismiss this group.

Rarely do I turn this chair over to Ms. Norton. I hope she won't abuse it, but we have a pretty good relationship. But I think that way we will try to dismiss you and not keep you around.

Go ahead.

Ms. WATSON. Mr. Chairman, thank you very much. And I will take my answer in writing.

Chairman TOM DAVIS. OK.

Ms. WATSON. And then we can move ahead quicker.

But this Committee on Government Reform examines the financial and performance management practice at Federal departments and Defense, and we plan to review the financial management at the Department of Defense, Homeland Security, and it goes on.

This question is directed toward Ms. Lee. I would like to know, in seeking services and seeking contracts, do you always go out to bid, or do you make these decisions within the Department of Defense, and do you make them transparent? What I am seeking, do

you always go out to bid or do you make a decision; and, if so, what is it based on? The bidding process gives a chance for several different businesses to have their services compared.

And then I wanted to ask what is the relationship, then, to GSA, since you seem to operate independently at times. I just want to know what the practices are.

You can put that in writing to me, since we have a call to the floor. And then you might want to consult with Mr. Perry and combine the response.

Thank you so very much.

Chairman TOM DAVIS. That will be fine. Thank you very much.

Mr. Lynch.

Mr. LYNCH. Thank you, Mr. Chairman.

I want to thank the panel as well for helping the committee with its work.

Just from a customer standpoint, I am a firm believer that GSA needs to reform, so I might be out of step with some of my Democratic colleagues in that respect. But I definitely believe GSA is in need of reform. And that is just from me as a customer of GSA.

What I would like to just ask of any of the panelists, and especially of Mr. Waszily, the statement here in your testimony regarding the organizational structure of GSA with respect to the proposed merger, it says what we would caution against is a structure popular among some conglomerate corporations in the 1970's and shown over time to be ineffective. By this we mean a unified structure centrally controlled, rigidly imposing the same structure upon each of its business units and measuring them by the same set of metrics. That is what we want to caution against.

But isn't that what we have right now? Isn't that what we have with GSA, a bureaucracy that largely reflects organization of times past and not necessarily reflective of modern technology and the needs of the customer?

Mr. WASZILY. Well, sir, I think we can certainly streamline what we have right now. What we were suggesting to guard against, we look at three major supply and acquisition structures that we have within GSA right now. We have the Multiple Award Schedules, one of our largest programs that is pretty much the customers can come in, tap into the program, and place their own orders. FSS is willing to help them and has come up with some innovative solutions, but they can also use it as a self-service vehicle. We also have the Global Supply system, which is a ready supply to move anywhere in the world on critical items. That type of system is different, it has a different set of metrics than does the Schedules program. And then we have the FTS programs, which are sort of, if you will, cradle-to-grave type of acquisition services, particularly in the technology area.

And what we were suggesting was that we believe that we need to preserve those three types of programs, and they should be evaluated as standalone programs, because one set of metrics for all three of them would probably lead to misleading results. For example, the supply operation, dollar for dollar, costs more to maintain than say the General Supply Schedule and the Multiple Awards.

Mr. LYNCH. I know we are short on time here. Again in your testimony, sir, you reflect the fact that the dollar amount of sales has

increased dramatically over the last few years, and that is some sign of success. I am not sure I buy into that rather simple reasoning.

More to my point, has there been any diagnostic conducted by GSA to see what the attitudes and what the perceptions of your customers are regarding the services that they receive from GSA? Is there something really that goes out to your customer that says how do you think we are doing?

Mr. PERRY. Yes. If I may answer that question, sir.

Mr. LYNCH. Sure.

Mr. PERRY. We definitely do that. We do that on an annual basis in all of our service areas. We do a number of things. First of all——

Mr. LYNCH. I have never received one, and I would love to give my opinion of what I think GSA is doing for their customers, and I am just completely unaware of that.

Mr. PERRY. Then we will definitely do that.

We ask very specific questions of people who are in GSA facilities or people who order GSA supplies or services what is the level of satisfaction they have with our service levels and suggestions that they have for our improvement, and we followup with each of those customers to make sure that is happening. Our customer satisfaction levels are not where we want them to be, but they are increasing annually. We do that.

In addition, we have a number of structured reports—we just completed one recently—where we use a third-party. We use various third parties, but a different entity did this review for us, having more interviews. Instead of a paper survey, we used an interview situation with customers to understand where we are meeting their expectations and where we are not.

Aside from those kinds of assessments, we also conduct what we call customer service visits, where either people from our national office or people from our regional offices meet with customers, their management teams, and we go through the spectrum of services we are providing for them today, have them identify for us where, again, we are meeting their expectations, where we are not. Most importantly, in those kind of discussions we talk about items that are on the horizon, strategic directions in which they are moving where they will need our assistance to acquire technology, what have you.

And based on those customer service visits, we develop individual customer account management plans or actions plans that talk about what services we are going to deliver and who is responsible to do what by when. So that gives us a much better opportunity to focus in on individual customer needs and have customers hold us accountable for meeting them.

Mr. LYNCH. Well, I appreciate that. I just wish that the Members of Congress were part of that survey group that you reach out to, because we are actually elected by the taxpayers. We have a special status and a different perspective in representing taxpayers, so we might have some useful input into how you are doing your job, how efficient and how responsive GSA is operating, not only with respect to us, but also to your customer base as well, your other customer base.

I am going to yield back to Ms. Norton, if that is all right. Thank you.

Thank you, I appreciate it.

Ms. NORTON [presiding]. Thank you, Mr. Lynch.

The chairman has generously allowed as how I might want to sit in his chair, but I decided not to do it, because if I got used to it, I might do a sit-in.

This hearing is able to go forward for a reason that none of us should be proud of: we are not just saving time; I get to vote in this committee, I don't get to vote on the House floor, so I get to save the committee some time. Anyway, I am glad that I am useful at least in that respect.

Before I ask a few questions to you, Mr. Perry, I would like to get on the record the Southeast Federal Center Plan. As you know, one of the most important things that another committee on which I serve where you report has been the breakthrough that the Southeast Federal Center Plan offers as a way to use Government profit to the greater benefit of the Government and return to the Federal Government. For months now we have been waiting for that plan, and it has been like waiting for Goudeau. It is coming, it is coming. Then we were told it is on the Administrator's desk. Yesterday we were told it was actually in the mail. So I said, well, fine, ask the Administrator to bring me a copy, and he can hand-deliver it.

Since the plan has to be sent back to Congress before it is signed and finalized, could you tell me exactly where the Southeast Federal Center Plan is now as we speak, and could you give me a date? I won't ask you for a time, but I do want a date when it will be to the committee.

Mr. PERRY. Let me first say, madam, that the work that you did in sponsoring that legislation is notable, and we support it wholeheartedly. I saw the work that our National Capital Region folks and our outside developers did with respect to that plan some weeks ago, to be quite candid. I would have guessed that it had been delivered to you by now. I know that I signed off on it because I felt that it was very quality work. I have to admit to you I don't know what final checking had to be done——

Ms. NORTON. Who is above you, Mr. Perry? I thought you were—the legislation says after the Administrator has signed it, it shall be delivered to the Congress of the United States.

Mr. PERRY. Right. And we should be doing just that. I don't know. I can't sit here and tell you that I have the answer as to why it didn't happen as expected in that case, but I already talked to my chief of staff after you brought it to my attention this morning, and we are working on getting it to you as quickly as that can be done.

Ms. NORTON. Well, will you remind your chief of staff, or the OMB, or whoever has a hold of it, that the legislation says that after you sign off on the plan, and you now have, that it shall be delivered to the Congress, and not to anybody else?

Mr. PERRY. I certainly will.

Ms. NORTON. Thank you very much.

As I noted, because of my own experiences in the Federal Government, I approach with some skepticism structure driving

change. I think change ought to drive structure. And I say that because it was my burden to run an agency that had to be completely overhauled, the Equal Employment Opportunity Commission under President Carter. It was completely collapsed. And the first thing to think about, of course, is since obviously a new structure was needed, let us build this structure. We were very much afraid to do it that way because it had a backlog. So we wanted to do things like look at what is the cause of the backlog; what kind of system will keep a new backlog from forming.

Out of that did come some structural changes. For example, the lawyers and the investigators were not in the same office. But only after we did that kind of analysis. This is going to be the import of my questions.

Mr. Waszily talked about some duplication, duplication of administrative services. One wonders why, after so many years, that continued. Certainly the duplication, all kinds of duplication that you begin with in trying to bring change, whether or not through wholesale consolidation.

I must conclude that the Getting it Right project didn't get it right enough. But I would have thought that is exactly what it did, it would take things that were duplicative—and administrative services is the most service—put them together, and then see whether or not the underlying services needed also to be changed. Is that what Getting it Right did, or what in the world did "Get It Right" that wasn't right enough do?

Mr. PERRY. Well, I think your description of how this should happen is a good description of how it is happening or has happened, that is, that structure isn't driving change, change is driving the structure. As we have done some of our work, even prior to what is called the "Get It Right" initiative, we could see that we were not, as I said earlier, meeting the requirements of our customer agencies. While our customer satisfaction rates are relatively high and increasing, they will tell you, including DOD will tell you, that we don't meet their expectations with respect to cycle time; we certainly did not meet their expectations with respect to compliance with acquisition regulations and documenting our files. Much of what we did——

Ms. NORTON. And that had to do with the fact that FSS and FTS were separate?

Mr. PERRY. It had to do with the fact that we had a method of operation which was not ultimately efficient. So what we are trying to do now is to say if you step back from that and say we are not meeting our expectations of our customers or our own expectations that we have for ourselves, what are some of the things that we might do in order to build our organizational capability to do a bigger, better job, to meet this oncoming need of increasing acquisition requirements? Among those things, one is to ask ourselves why do we have these two separate operations? What is the value that they are deriving? If we exploit the synergies that exist in those two separate operations and operate them as one, will we be able to accomplish more?

So the reason I hesitate to use the term merger, which the chairman and others have used, is that typically the connotation in a merger situation is one where you have two organizations and the

demand for services of those two organizations exceed their total capability, so you merge them and shed your excess capacity to match up capacity with demand. Our situation is different. We actually have more demand than we can handle at GSA as a whole. As a result, some agencies have to go elsewhere or do it themselves in terms of acquisition activities. We think that is wasteful from a total Government point of view.

Our effort is to try to bring things together so that we actually increase our capacity or our capability to do more, and the reason for doing this is primarily driven by that reason.

Ms. NORTON. Well, increasing your capacity means that somehow the agency will have greater capacity simply by structure?

Mr. PERRY. Well, by the assignment of people, as opposed to having, as we do today, certain people in the global supply business calling on customers with respect to providing them with certain products and services, certain other people in commercial acquisition, to some extent, doing the same thing. We are saying aren't there ways in which we can exploit those synergies and find a way to do things on time and do it better, without any diminution of services, in fact, with an improvement in services?

Ms. NORTON. You have made something of a business case, which is of course what I was looking for. And perhaps you could provide this for the record, examples of improvements from agencies' point of view would be just very useful for me to have. I don't know if Ms. Lee has examples of how going somehow to a consolidated GSA, FSS, FTS would help or not, but that is what I am lacking now.

Do you have examples?

Ms. LEE. No, ma'am. Specific examples. One of the things that we hear, and it is very anecdotal, is that people get good service from FTS, so in some cases where they could have gone directly to the Federal Supply Schedule, which is a different rate of cost to the agency to use, they go to FTS because that is the people they know. So perhaps if Administrator Perry finds that is a good solution, then you could still go to the same service and they could direct the customer a little bit more clearly as to where they should attain their acquisition support. That is the kind of example that I have heard.

Ms. NORTON. Ms. Shelton, did you have an example you wanted to give?

Ms. SHELTON. I was just thinking that a couple of years ago I was a customer. Although I was a regional administrator in Philadelphia, I was a customer for both FTS and FSS. I was having a conference room redone; I needed furniture and I needed video teleconferencing equipment. I had to have a number of what I thought were extraneous meetings because the furniture is handled by FSS and the video conference equipment is handled by FTS. Because of the two different funding streams, I had to have accounting people who understood the FSS accounting and people who understood the FTS accounting. So just for me——

Ms. NORTON. And there is going to be one accounting stream now.

Ms. SHELTON. There will be only one accounting stream once we get done. And I think that will help our customers, because they

won't have to spend as much of their time trying to understand how GSA operates.

Ms. NORTON. What would be the impact on small businesses who are perhaps more reliant on GSA's advice and counsel?

Mr. PERRY. I don't think the reorganization would have any adverse impact or any direct impact. We will still have to meet our obligations in those areas, and we will continue to do that no matter how we are organized.

Ms. NORTON. How does consolidation advance the Government's interest in having many choices? Won't there be fewer choices of products, of services if there is consolidation?

Mr. PERRY. No, I would suggest there won't be any change in the number of sources. For example, the type of thing comes up, as you are very familiar with, the Networx contract. Agencies could buy certain IT products through Networx if they chose to, because those companies could provide that, although Networx is primarily a telecommunications contract. We have another contract that is called Alliant, where agencies could buy and should buy their IT through that one.

So we will still have those multiple contracts. We will obviously try to rationalize them so they are not overly duplicative and wasteful and provide a degree of choice that is not even what customers want. But this change does not impact the breath of offerings that we would provide to our customer agencies.

Ms. NORTON. We have had a hearing on the Networx contract, and you face a great challenge with respect to that contract alone. Does consolidation enhance or at this time complicate what you have to do with Networx alone? And now Networx is part of a merged or consolidated organization.

Mr. PERRY. Well, that is a very fair point, and one of the points I refer to in my remarks is those kinds of initiatives that we have underway, like Networx, we just absolutely have to make sure that we continue to devote the management time and other resources to that so that we don't have any missteps. And we believe that we can do that, we can in fact accomplish this initiative while at the same time continuing a successful Networx procurement.

Ms. NORTON. One final question. I am trying to figure out what "Get It Right" tried to do and failed to do that led to your testimony today that consolidation should take place.

Mr. PERRY. Well, not surprisingly, I wouldn't characterize it as "Get It Right" failed to do. I would say this is a "Get It Right" initiative. This is an outgrowth of the "Get It Right" direction. The "Get It Right" direction was——

Ms. NORTON. Well, wasn't the "Get It Right" direction supposed to, in fact, get it right so that nothing more was needed, or did you always contemplate that there would be consolidation?

Mr. PERRY. Well, the "Get It Right" was a drive to make sure that we were complying with Federal acquisition regulations, primarily. That was the first thing. The second part of it was that we were also using best practices with respect to any acquisition. But at the same time, or another element of "Get It Right" is to make sure that we were providing customer agencies with the products and services they need on a cycle time that they found to be acceptable. So this is an effort to improve in that area.

I think as the audit reports are showing, that in terms of documenting our price evaluations and documenting sole source or have documenting competition, all of those steps with respect to our "Get It Right" efforts, those are happening, and they are happening better and better each time they are assessed.

On the issue of are we improving our cycle times, are we putting agencies in lease space within X number of days of their requests, are we completing an information technology acquisition within X number of days of the customer's request, those kinds of things are a part of what we are addressing by improving our organizational capability. So, in my mind, it is really an extension or another step in the overall "Get It Right" process.

Ms. NORTON. Mr. Perry and the other witnesses, I am certainly not opposed to consolidation. In fact, efficiencies of scale I find very appealing. I do think that they are difficult, and that there is a burden in a consolidation to be driven by not only cost, but by improved customer service and greater efficiency. When all is said and done, that is what you have to look at. You have to look to see if all of these things got improved. You may find that you saved a lot of money and the customers aren't faring as well, or you may find it costs you more money now that you have a consolidated operation, even though you have less duplication.

The efficiency, or shall I say the inefficiency of running a larger organization is often underestimated, and I hope that as you look through these task forces at what should occur next, you bear all of that in mind.

I very much appreciate what was very helpful testimony, and we are recessed until the full committee returns. Thank you very much.

[Recess.]

Chairman TOM DAVIS [presiding]. Thank you for everybody's forbearance here.

We have our second panel. We have Mr. Tom Hewitt—welcome, Tom—the CEO of Global Government, on behalf of the Information Technology Association of America; Vic Avetissian, the Corporate Director of Northrop Grumman, on behalf of the Contract Services Association; Mr. Mike Davison, Director and General Manager, Canon Government Marketing Division, on behalf of the Coalition for Government Procurement; we have Elaine Dauphin, who is the vice president of GSA Programs, Computer Science Corp., on behalf of the Professional Service Council; and we have Richard Brown, the National Federation of Federal Employees [NFFE] accompanied by Jack Hanly, who is the council president of NFFE.

And we very much appreciate everybody being here.

As you know, it is our policy we swear everybody in before you testify, so if you would raise your right hands and rise with me.

[Witnesses sworn.]

Chairman TOM DAVIS. Mr. Hewitt, we will start with you. Thank you.

STATEMENTS OF THOMAS HEWITT, CEO, GLOBAL GOVERNMENT, ON BEHALF OF THE INFORMATION TECHNOLOGY ASSOCIATION OF AMERICA; VIC AVETISSIAN, CORPORATE DIRECTOR, NORTHROP GRUMMAN CORP., ON BEHALF OF THE CONTRACT SERVICES ASSOCIATION; MIKE DAVISON, DIRECTOR & GENERAL MANAGER, CANON GOVERNMENT MARKETING DIVISION, COALITION FOR GOVERNMENT PROCUREMENT; ELAINE DAUPHIN, VICE PRESIDENT, GSA PROGRAMS, COMPUTER SCIENCES CORP., ON BEHALF OF THE PROFESSIONAL SERVICE COUNCIL; AND RICHARD BROWN, PRESIDENT, NATIONAL FEDERATION OF FEDERAL EMPLOYEES

STATEMENT OF THOMAS HEWITT

Mr. HEWITT. Mr. Chairman and members of the committee, I am pleased to be here today to testify regarding the potential reorganization of GSA.

Mr. HEWITT. I am here today representing members of ITAA, the Information Technology Association, as Chairman of its newly created Government Advisory Board. ITAA is particularly interested in the restructuring of GSA since the ITAA member companies are heavily involved in FTS and FSS programs.

My comments today are based on my 40 years of experience in the Federal procurement business. In addition, I am representing the members of the ITAA Government Advisory Board, which is composed of retired ITAA executives who had senior level responsibilities in major IT firms or the Government. This Board was created to serve as an industry advisory group to both industry and government.

Earlier this year, in an interview with Federal Computer Week, Chairman Davis was quoted as saying, "GSA is not that badly run when you compare it with other agencies. But GSA needs to be setting the example and leading the way." ITAA could not agree more. In fact, ITAA commends GSA on the role it has played in modernizing the Federal Government's procurement vehicles, the techniques, and the leadership it has provided Government-wide in the management of IT contracts, telecommunications, and many products and services used by the Federal agencies. ITAA encourages the GSA and the committee to adopt three principles as it embarks on this important effort of restructuring GSA.

First, although ITAA recognizes that GSA is a Government organization operating in a political environment, ITAA recommends that GSA take a step back and revalidate its customer-focused business model. This effort should be undertaken by a representative body comprised of customers, industry, and the experienced GSA staff who represent the totality of the current and the to-be-defined organization.

Second, GSA's reorganization approach should establish business metrics or goals for measuring accomplishments appropriate to the business model and the customers, consistent with best practices outcomes.

Third, finally, ITAA believes that the restructuring should focus on establishing direct lines of authority and responsibility, complementing the business model that assigns accountability for the execution and the success of the business model.

GSA consists of numerous organizations that together act as a catalyst for nearly $66 billion in Federal spending, an annual budget of over $16 billion, 13,000 employees. Organizations of this size and scope must approach any reorganization carefully and with an open mind. Private sector companies of similar size would generally approach a reorganization effort as a performance-based exercise. That is, the company would first examine its business model, ensure that it is accurately defining its customers' needs, and then design processes and reporting channels to fit around that model.

ITAA recommends the restructuring of GSA be based on a similar performance-based approach, beginning with a thorough review of its customers' needs. This approach would allow GSA to examine the way in which the procurement world has changed and develop a business model to better fit the Federal Government's needs.

ITAA therefore believes that the committee should ensure that GSA is devoting the right type and amount of resources to that effort. For instance, Administrator Perry recently announced the members of a steering committee that will oversee three task forces to develop recommendations for merging two of GSA's three service units. At this point in time, there is no indication that those task forces will be broadened to include any representatives from outside of GSA.

While ITAA applauds the creation of the steering committee and the accompanying task forces, it is concerned that these bodies will not provide diverse points of view that are imperative for a successful reorganization effort. Thus, ITAA recommends that the steering committee and accompanying task forces be expanded to include members of other Government agencies, the GSA customer base, members of the private sector, and GSA's vendor base. These additional participants should be invited to contribute to the steering committee's deliberations from the beginning, rather than simply comment post hoc on the recommendations developed by an internal steering committee.

ITAA believes that the important functions performed by FTS should be well represented in the organization discussions. If this is not possible, ITAA alternatively recommends that GSA establish a customer and industry advisory group to assist Administrator Perry and the steering committee as they develop approaches to the reorganization of GSA.

In conclusion, ITAA supports the committee's desire to restructure the management and operations functions of GSA. ITAA would be pleased to provide resources and industry expertise to this important undertaking.

I would be pleased to respond to any questions.

[The prepared statement of Mr. Hewitt follows:]

THOMAS L. HEWITT

PRESIDENT, GLOBAL GOVERNMENT, INC. AND
CHAIRMAN OF THE ITAA GOVERNMENT ADVISORY BOARD

TESTIFYING ON BEHALF

OF THE

INFORMATION TECHNOLOGY ASSOCIATION OF AMERICA

BEFORE THE

COMMITTEE ON GOVERNMENT REFORM

OF THE

U.S. HOUSE OF REPRESENTATIVES

GSA RESTRUCTURING HEARING

MARCH 16, 2005

Chairman Davis and Members of the Committee, I am pleased to testify before you today regarding the potential reorganization of the General Services Administration ("GSA"). I would like to thank the Committee, and particularly Chairman Davis, for its continued leadership on issues related to Federal agency management and organization.

I am here today representing the members of the Information Technology Association of America ("ITAA") as Chairman of its newly created Government Advisory Board. ITAA provides global public policy, business networking, and national leadership to promote the continued rapid growth of the Information Technology ("IT") industry. ITAA consists of almost 400 corporate members throughout the U.S. and a global network of 64 countries' IT associations. ITAA members range from the smallest IT start-ups to industry leaders in the Internet, software, IT services, ASP, digital content, systems integration, telecommunications, and enterprise solution fields. ITAA is particularly interested in the potential restructuring of GSA since many of the member companies are active participants in the Federal Technology Service ("FTS") and the Federal Supply Service ("FSS") programs.

My comments today are based upon my forty plus years of experience in the Federal procurement industry. In addition, I am representing the members of the newly created ITAA Government Advisory Board, which is composed of retired IT executives who had senior level responsibilities in major IT firms or

government. This board was created to serve as an advisory group to both industry and government. These experiences, I believe, provide a unique insight into how an organization, such as GSA, should be restructured to better serve its customers' needs.

Introduction

Earlier this year, in an interview with *Federal Computer Week,* Chairman Davis was quoted as saying, "GSA is not that badly run when you compare it with other agencies. But GSA needs to be setting the example and leading the way." ITAA could not agree more. In fact, ITAA commends GSA on the role it has played in modernizing the Federal Government's procurement vehicles and techniques, and the leadership it has provided Government-wide in the management of contracts for information technology, telecommunications, and many other products and services used by federal agencies. To ensure that GSA continues to "lead by example", ITAA encourages the Committee to adopt three key principles as it embarks on this important effort at restructuring GSA.

First, although ITAA recognizes that GSA is a government organization, operating in a political environment, ITAA recommends that GSA take a step back and re-validate its customer-focused business model. This effort should be undertaken by a representative body comprised of customers, industry, and experienced GSA staff who represent the totality of the current and to-be-defined organization.

Second, GSA's reorganization approach should establish business metrics or goals for measuring accomplishments appropriate to the business model and customers, and consistent with best practices outcomes.

Finally, ITAA believes that the restructuring should focus on establishing direct lines of authority and responsibility, complementing the business model, which assigns accountability for execution and success of the business model.

My statement will focus primarily on ITAA's first recommendation that outlines a performance-based approach to reorganizing GSA. The results from this review will provide the information necessary to implement ITAA's second and third key principles.

GSA's Approach to Reorganization

As one of the three central management agencies in the Federal Government, Administrator Stephen Perry oversees an organization of approximately 13,000 employees with an annual budget of over $16 billion. The agency consists of numerous organizations, including the FSS, the FTS, the Public Buildings Service, the Office of Government-wide Policy, and various staff offices. In addition, GSA is organized around eleven Regional Offices located in Boston, New York, Philadelphia, Atlanta, Chicago, Kansas City, Fort Worth, Denver, San Francisco, Auburn, and Washington, DC.

These organizations together act as a catalyst for nearly $66 billion in Federal spending—more than one quarter of the Government's total procurement

dollars. They are also responsible for management of Federal assets valued at nearly $500 billion. These assets include more than 8,300 Government-owned or leased buildings, an interagency fleet of 170,000 vehicles, and technology programs and products ranging from laptop computers to systems that cost over $100 million.

Performance-Based Review

Organizations of this size and scope must approach any reorganization carefully and with an open mind. Private sector companies of similar size, such as the Anheuser-Busch Companies, Loews Corporation, and the Travelers Property Casualty Corporation, would generally approach a reorganization effort as a performance-based exercise. That is, the company would first examine its business model, ensure that it is accurately satisfying its customer's needs, and then design processes and reporting channels to fit around that model. ITAA recommends that any restructuring of GSA be based on a similar performance-based approach, beginning with a thorough review of its customers' needs. This approach would allow GSA to examine the way in which the procurement world has changed, and develop a business model to better fit the Federal Government's needs. If the Committee members decide to introduce legislation to restructure GSA, we would recommend that the same model be followed.

All Inclusive Steering Committee

As a large business, with a budget of $16 billion and 13,000 employees, reorganization is not a trivial exercise. ITAA therefore believes that the Committee should ensure that GSA is devoting the right type and amount of resources to that

effort. For instance, Administrator Perry recently announced the members of a Steering Committee that will oversee Task Forces to develop recommendations for merging two of GSA's three service units. The first three Task Force Teams to begin work are: Acquisition Services, led by Barbara Shelton, Acting Commissioner of the FTS, and Donna Bennett, Commissioner of the FSS; Financial Management, led by Kathleen Turco, Chief Financial Officer; and Information Technology Systems, led by Michael Carleton, Chief Information Officer.

At this point in time, there is no indication that these Task Forces will be broadened to include any representatives outside of GSA. While ITAA applauds the creation of the Steering Committee and accompanying Task Forces, it is concerned that these bodies will not provide the diverse points of view that are imperative for a successful reorganization effort. Thus, ITAA recommends that the Steering Committee and accompanying Task Forces be expanded to include members of other Government agencies (i.e., GSA's customer base) and members of the private sector (i.e., GSA's vendor base). These additional participants should be invited to contribute to the Steering Committee's deliberations from the beginning, rather than simply asked to comment post-hoc on the recommendations developed by an internal Steering Committee. We are especially concerned about the representation for FTS on the Steering Committee. ITAA believes that the important functions performed by FTS should be well represented in the reorganization discussions.

If GSA is unwilling or unable to broaden the Steering Committee, ITAA alternatively recommends that GSA establish a Customer and Industry Advisory Group to assist Administrator Perry and his Steering Committee as they develop approaches to the reorganization of GSA.

Conclusion

ITAA supports the Committee's desire to restructure the management and operation functions of GSA. Given GSA's unique role in the Federal procurement process and its similarities to a private sector business, however, ITAA recommends that the Committee adopt a performance-based approach to the reorganization of GSA. Asking the right questions, setting goals, and validating the business model are all integral parts of a performance-based review. In particular, ITAA believes that having the right people at the table from the beginning will help ensure that GSA develops an organizational structure consistent with its leadership position within the Federal Government.

Thank you again for your support and interest in Federal agency management, and particularly the reorganization of GSA. ITAA will be pleased to provide resources and industry expertise to this important undertaking. I would be pleased to respond to any questions from the Committee.

Ms. NORTON [presiding]. Thank you very much, Mr. Hewitt.

Yes, Mr. Avetissian.

STATEMENT OF VIC AVETISSIAN

Mr. AVETISSIAN. Mr. Chairman and members of the committee, thank you for this opportunity to testify on the ways to improve GSA's operation. My name is Vic Avetissian of Northrop Grumman Corp., and I am here today on behalf of Contract Services Association of America, but I serve as Chair of the Association's Public Policy Council.

Now in its 40th year, CSA is the Nation's oldest and largest association of Federal services contractors, representing a wide diversity of more than 200 firms that do over $40 billion annually in Government contracts and employ nearly 500,000 workers with nearly two-thirds of them being private sector union labor.

Let me start by stressing, Mr. Chairman and members of the committee, that what we must first and foremost ask ourselves today is what is good for America and for U.S. taxpayers. In my view, what is good for America is the opportunity to capitalize on the agility and innovation that the private sector offers to the Government. The private sector brings the best value to the table, which in some cases may be more expensive initially, but always is less costly in the long run.

What we should be focused on is allying industry and Government to work as a partner, bringing continued improvement to the procurement process to support our warfighters and the U.S. taxpayers. A few missteps along the way should not cause us to dismantle the gains we have made to date. We should not throw out the baby with the bath water.

With that said, let me suggest that any review of GSA operation should not be about simply moving organizational boxes or chairs. Instead, GSA should need to consider the following steps, in my opinion.

First, GSA should determine what is the customer services needs and the business model that will be needed to support it? To achieve this, GSA should ask for and rely upon the input and insight from their customers and private industry. Such a performance-based review would facilitate GSA's acting more as a commercial business rather than typical Government entity.

Second, GSA should establish the business processes, business systems, policies and procedures, internal control and oversight that must be put in place to make the agreed upon business model work.

These steps are critical to success of GSA becoming the preferred provider for commercial services to all Federal agencies.

Now I would like to speak to the use of Schedules. I have detailed several specific areas of concern in my written statement, let me just speak to a few of those.

We should consider whether the services on the Schedules are truly commercial in nature, as they are supposed to be. If they are not, then perhaps those services should be subject to separate contract vehicles involving specific capabilities and technical requirements.

This leads me to suggest that we should consider the feasibility of consolidating all individual agency Schedules under the jurisdiction of GSA. This could provide uniform internal control and oversight of Schedule use. Perhaps the recent problems could have been avoided if there were uniform internal management control and oversight.

The only stumbling block I see to such a consolidation is that, even with the GSA, some of the regional offices appear not to be in sync with the overall GSA policy and guidance, especially as it relates to common practices in awarding and managing Schedule contracts.

I would recommend that it would be more effective if all the regional offices were coordinated under the auspices of a headquarter office, which currently it is not. This would ensure that the regional offices operate under the consistent rule and guidance, and not as a lone ranger.

However, let me stress that I do not advocate abolishing the regional offices. These offices are truly the face of Federal Government into the regions of the country, and as such provide needed access for those outside of the Beltway.

Another area of consideration is a cultural diversity among GSA offices, customer community, and should be taken into account when reviewing any proposal for consolidation or merging Schedules. Within industry, this often has been the most difficult and time-consuming aspect of the process for any mergers and acquisitions. As they go through this process, GSA should consider using the best practices from multiple offices, agencies, and locations to adopt a GSA standard. That would provide buy-in by various offices. This has proven to be very helpful with industry mergers and consolidations.

Finally, let me just throw out a few key points to consider for improving GSA Schedules, which are more fully outlined in my written statement. No. 1: training on proper use of Schedules for all parties involved, that includes GSA contracting community, GSA customers, and industry; establishing or identifying best practices; improving transparency in placement of GSA task orders; establishing Schedule ombudsman to receive and correct complaints; and, finally, conducting a cost-benefit analysis on Schedule use versus normal FAR contract process to determine which benefits agency mission and to the U.S. taxpayers.

In closing, let me stress that we are all partners in this endeavor. Sometimes we might disagree, as often happens in partnership. But that does not mean the partnership should be dissolved; rather, that we must try harder to find common ground. In the end, our main objective in this undertaking should be based on what will allow Federal agencies to get best value for the taxpayers and in support of our warfighters.

Thank you very much for your time, and I would be happy to answer any questions.

[The prepared statement of Mr. Avetissian follows:]

STATEMENT OF

Vic Avetissian, Corporate Director (Government Acquisition Initiative)
Northrop Grumman Corporation
Chairman, Public Policy Council for the Contract Services Association of America

BEFORE
Committee on Government Reform

HEARING ON
Restructuring the General Services Administration's Operations
March 16, 2005

Mr. Chairman, and members of the subcommittee, my name is Vic Avetissian of Northrop Grumman. I am here today on behalf of the Contract Services Association of America (CSA), where I serve as chair of the Association's Public Policy Council.

Now in its 40th year, CSA is the nation's oldest and largest association of service contractors representing over 200 companies that provide a wide array of services to Federal, state, and local governments. CSA members do over $40 billion in Government contracts and employ nearly 500,000 workers, with nearly two-thirds of CSA companies using private sector union labor. CSA members represent the diversity of the Government services industry to include small businesses, 8(a)-certified companies, small disadvantaged businesses, women-owned, HubZone, Native American owned firms and global multi-billion dollar corporations. CSA promotes Excellence in Contracting by offering significant professional development opportunities for Government contractors and Government employees, including the only program manager certification program for service contractors.

Northrop Grumman is a global defense company headquartered in Los Angeles, California. Northrop Grumman provides a broad array of technologically advanced, innovative products, services and solutions in systems integration, defense electronics, information technology, advanced aircraft, shipbuilding, and space technology. The company has more than 125,000 employees, and operates in all 50 states and 25 countries, and serves U.S. and international military, Government and commercial customers.

I greatly appreciate the opportunity to testify on matters relating to the operations of the General Services Administration (GSA), and its schedules – a subject very important to our membership and, frankly, to all Government service contractors.

INTRODUCTION

Let me start by stressing that what we should be addressing here is what is good for America – and what is good for America is the opportunity to capitalize on the agility and innovation that the private sector offers to the Government. The private sector brings best value to the table, which in some cases may be more expensive initially but is always less costly in the long run because of the efficiencies and innovative tools being used to complete the mission. What we should focus on is allowing industry and Government to work as partners, bringing continued improvements to the procurement process to support our warfighters and benefit the U.S. taxpayers. A few missteps along the way should not cause us to dismantle the gains made through acquisition reform – in other words, we should not be throwing out the baby with the bathwater, so to speak!

Over the past decade, Federal spending has significantly increased from spending primarily on goods (hardware and weapons systems) to spending on services. This shift has been very noticeable in the use of GSA schedules, and other multiple award vehicles. Where indefinite delivery/indefinite quantity (ID/IQ) contracts once were reserved for spares and support to weapons in the inventory, these same mechanisms increasingly are the contract vehicles of choice, particularly for services. Indeed, a brand new GSA Schedule recently was created specifically for "facilities maintenance." There also is a significant shift away from agency unique contract vehicles and agency unique requirements.

Recognizing the shifting demographics in agency budgets towards services, CSA established a Taskforce to review – with a clean slate approach – relevant statutes and regulations. Members of the Taskforce also included representatives of the Professional Services Council, the National Defense Industrial Association, the Information Technology Association of America and the Defense Acquisition University. Of the four working groups that were set up to tackle this project, one was focused specifically on contract vehicles – and specifically on the use of the Federal Services Schedules. While the Schedules working group's final report is not yet ready for prime time, it will provide supplemental recommendations on the issues that we are raising with you today.

GSA OPERATIONS

Any review of GSA operations should not be about simply moving organizational boxes. I would suggest that GSA needs to consider the following steps:

- First, GSA should determine what the customer agencies need and the business model(s) that will be needed to support it. To achieve this, GSA should ask for, and rely upon input and insight from both their customers and private industry, which will be critical to GSA's success. Such input must be done at the front end of the process, and throughout its evolution – and not done after all the decisions have been made and locked into place.
- Second, GSA should establish the business processes, business systems, policies, procedures, internal control and oversight that must be put in place to make the agreed upon business model(s) work
- Third, GSA needs to re-align/restructure itself to support those first two critical steps.

This is how private industry does it to successfully accomplish its missions. GSA should engage all three relevant parties (GSA, Government customers, and industry) in undertaking this process from the very outset; otherwise GSA, its Government customers and industry will become entangled in "getting it right" (at tremendous cost to the Government and the taxpayer) for a long time to come, with audits of audits as is the case now.

I believe it would be beneficial to the Government and the taxpayer if GSA considers its operations in this manner. It will allow the agency to more fully operate as a truly a commercial acquisition "business" than being just another typical governmental entity.

GSA SCHEDULES

To begin with, we need to ask what is GOOD about Schedule contracting? I believe we can break this down into the following three areas:

- Schedules are easy and simple to use, which provides small businesses with the opportunity to compete; and the Schedules allow agencies to focus on program requirements and implementation rather than a protracted procurement process. Any recommended changes should preserve these attributes.
- Agencies have the ability to build on Schedules and provide for more complex solutions through the use of "broad public announcements" (BPAs).
- eBuy provides for increased competition when using Schedule contracts.

But the Schedules have come under a lot of scrutiny lately, resulting in the Department of Defense and GSA "Get It Right" program. This means that we must also ask the counter question – what is WRONG with Schedule contracting? And do the problems outweigh the benefits? That is for the Committee to decide, in conjunction with GSA and the Federal agencies. To summarize some of the key problems:

- Inadequate competition in placing Schedule task orders, as documented in many reports by agency Inspector Generals and the Government Accountability Office.
- Improper use of Schedules (e.g., out-of-scope task order awards and modifications).
- Schedule "request for quotes" (RFQs) confined to one schedule, but requiring solutions only available under multiple "Request for Proposals" (RFPs).
- Treatment of "other direct costs" (ODCs) under schedule contracts is inconsistent throughout Government buying agencies.
- Government personnel possess the discretion to select the contract vehicle, and solicit competition; however contractors now are being taken to task for responding to what the Government asks for (i.e., out of scope contracts). Contractors perceive that they are being penalized for mistakes that may have been caused by ill-defined scopes of work, or the urgency of the requirement.

Perhaps we should ask one final question – what caused these problems?

- Current problems largely reflect lack of adequate training within the civilian Government buying community.
- There is a widespread lack of understanding within industry and Government on the scope of Schedule contracts in general, and individual schedules in particular.

- There is a lack of consistent treatment of ODCs between Schedule contracts, and GSA provides no meaningful guidance on this subject.
- There exists no rational method for a contractor to present concerns about out-of-scope contracting by the Government other than to decline the work.

AREAS TO CONSIDER FOR IMPROVING SCHEDULE USE

As we move forward, I would suggest that there are SEVERAL areas that we should look at and consider for improvements. These suggestions, which are not in any priority order, include:

- TRAINING. Improved training on proper use of Schedule contracts and obtaining competition in placing orders requires immediate attention. Such training initiatives should be done on a Government-wide basis, and conducted jointly between the GSA, the Government customers and private industry. Your Services Acquisition Reform Act (SARA), Mr. Chairman, gives civilian agencies the tools needed to improve training – so with that increased emphasis, this concern may soon be addressed.
    - ✓ One aspect of training can be viewed in relation to GSA's marketing program. The focus of GSA's "Marketing Program" resources and efforts with regard to GSA Schedules and GWACs should be directed fundamentally at training customer agencies on how to use the GSA Programs (FSS, FTS, and PBS) properly. Industry is willing and able to do the marketing of their Schedules/GWAC offerings. What is needed is a focus on training customer agencies (and industry partners) on how to properly use these vehicles. That training in and of itself will be the most elegant and persuasive form of marketing for GSA programs while at the same time solving much of the misuse issues.
- TRANSPARENCY. Improving transparency in placement of GSA task orders. Many of the current problems cited in Schedule contracting fall into one or two categories: poor or questionable decisions by ordering activities in selecting Schedule contract vehicles, and perceptions of less than adequate competition in placing Schedule orders.
- BEST PRACTICES. Establishing a "best practices clearinghouse" sponsored by Government and industry for dissemination of information regarding Schedule contracting, including the treatment of ODCs.
- OMBUDSMEN. Establishing "Schedule Ombudsmen" within buying agencies and GSA, and empower them to receive and correct complaints about out-of-scope contracting without attribution.
- COMMERCIALITY. Considering whether the services on the Schedule are truly commercial in nature. If they are not, should those services be the subject of separate contract vehicles (under the regular FAR contracting process) involving specific capability requirements and technical proposal requirements?
- COST-BENEFIT ANALYSIS. Planning individual agency acquisition strategies should involve conducting a cost-benefit analysis on whether Schedule use or the normal FAR contract process provides the most benefit to the agency's mission and the U.S. taxpayer.
- INCENTIVE AWARDS. Revamping GSA Policy on incentive awards should be considered. The incentives should be awarded based upon demonstrated ability to get the Government customer what they need at "fair and reasonable" prices, in a timely fashion, and consistent with the relevant rules, statutes and regulations. All four elements must be a part of the basis for Incentive awards – not just sales revenue.
- RESTRUCTURING SCHEDULES. Restructuring overall the Schedules program. Some of the concerns related to out-of-scope contracts lie in the manner in which GSA has

structured the Schedules program. Currently, GSA provides for discrete contract vehicles, which are segregated by the nature of the service or product. For example, in order to sell information technology products and services through the Schedules program, a vendor must obtain a Schedule 70 IT contract. If that vendor then wants to sell management or business consulting or program management services it must obtain a MOBIS contract, etc – resulting in a Schedule vendor acquiring many Schedules to encompass all of its product and service offerings. This focus on "stove pipes" also confounds the Government buyers.

- CONSOLIDATING INDIVIDUAL AGENCY SCHEDULES. Considering the feasibility of consolidating all individual agency Schedules under the jurisdiction of GSA. This would provide uniform internal control and oversight of Schedule use. For example, the Defense Department's use of an Interior Department Schedule to acquire interrogators was not under the control of GSA – and the problems resulting from that Schedules contract may have been avoided if there had been more uniform management controls.
- REFORMING CONTROL STRUCTURES. The command and control structure (i.e., the FSS/FTS/PBS offices within the Washington headquarters, and the 11 Regional offices, which are each headed up by a political appointee) is currently broken and contributes to numerous problems with GSA's ability to properly function; improved consistency of management operations within all GSA operations is needed.
    - ✓ Eliminating some of the Regional Offices and the political appointees who run them is neither necessary nor, from a "good Government" perspective the right thing to do. These regions are truly the face of the Federal government in the regions of the country, and as such provide needed access to it for those "outside of the beltway."
    - ✓ What does need to change with respect to the 11 GSA Regions is the command/control and reporting relationships between the Washington headquarters office for the GSA business entities (FSS, FTS, PBS) and the elements of the FSS, FTS, and the PBS that operate in the Regions. Under the current command and control structure Regional elements of FSS, FTS and PBS, look up vertically to the leadership within their Region, they do not look to the Washington headquarters components of the FSS/FTS/PBS for process, procedure, policy and implementing guidance, etc. As a result, there is little consistency in how the various services (FSS/FTS/PBS) operate. Customers and Industry, therefore, are frequently confused about what is being done or how things are done, how they are priced, and what they are paying for. These inconsistencies have been a major source of problems identified by GSA initiated audits of the various Regional CSCs and they often breed "answer shopping" across Regions until one finds an answer they like.
    - ✓ This single area is the most immediate and serious problem facing GSA today, and it will have the single most important impact on the final success of the GSA in its reorganized state, regardless of how well the rest of the GSA reorganization elements are accomplished.

CONCLUSION

While all acknowledge that timeliness in getting this GSA reorganization accomplished is very important, GSA must be given the time to do it – to ensure that the best interests of the Government, the U.S. taxpayer and the warfighter are met. I have outlined some areas that need

to be improved – and others may have additional suggestions. Constantly revisiting the progress with more audits that find what we already have determined needs to be fixed will not help, but rather it will hinder the transformation being attempted. We cannot continue pulling this plant up by the roots to see if it is growing, without destroying it and/or making matters worse.

One final point must be made. GSA should consider cultural diversity amongst its various offices and the customer community when reviewing its approach to consolidating or merging Schedules. For private industry when undergoing a merger or acquisition, this often has been the most difficult and time-consuming aspect of the process. In addition, by considering the "best practices" from a multiple of offices and locations when it adopts an overall GSA standard will provide "buy-in" by the various offices. This also has proven to be helpful for private industry.

In closing, let me commend you, Members of the Committee, and the staff for your commitment to improving service contracting for the Federal government. As chair of the CSA Public Policy Council, and on behalf of all members of CSA, I stand ready to assist the Committee in its endeavor.

I will be happy to answer any questions.

Mr. SOUDER [presiding]. Thank you very much for your testimony.

We will now go to Mr. Mike Davison, director and general manager of the Canon Government Marketing Division.

Thank you for coming.

STATEMENT OF MIKE DAVISON

Mr. DAVISON. Thank you. Good morning, Mr. Chairman and members of the committee. I am Mike Davison of the Canon Government Marketing Division. Canon is the leading GSA Schedule contractor, with more than $76 million in Schedule sales in fiscal year 2004.

Today I represent the Coalition of Government Procurement. The Coalition is particularly well suited to testify today on the reorganization of GSA's Federal Supply Service and Federal Technology Service. No outside organization has the depth and breadth of experience in working with FSS and FTS as does the Coalition.

The Coalition supports GSA's mission. The agency's current contracts and services play a vital role in supporting our troops in Iraq and Afghanistan, and in meeting critical domestic needs. We believe the agency must take the most of this opportunity to reorganize and move forward so that it can continue its important work.

GSA is in a critical position today. The actions of a few have allowed to set a chilling tenor for the entire agency. Routine business has dramatically slowed. Continued reliance on "Get It Right" now means that some parts of GSA simply "won't get it." The climate must be moderated to allow the business of government to proceed.

The Coalition believes that the GSA reorganization process can be an opportunity to create a positive and stimulating model acquisition environment. It can be the catalyst to put last year's problems behind us and focus on empowering associates. What was lost in last year's headlines was that GSA overall does a fantastic job of meeting customer needs efficiently and properly.

Approximately $40 billion flowed through GSA Schedules and GWAC's in the fiscal year 2004. This is testimony to the fact that the agency has built a solid, popular program and gets customers what they need, when they need it, at great values.

The Coalition urges, however, that the mere process of reorganization not become an end to itself. We are concerned that there has been too much emphasis on the process, at the expense of customer service. As one of the members put it, not even the best flower grows if you pull it up every 10 minutes to see how it is doing.

The Coalition again calls on GSA to work with its committee and other interested parties to realign its organization. As we have voted in previous testimony, there is inherent inefficiency in maintaining both a central office and regional reporting system. The Coalition strongly supports a realignment that changes the managerial organization so that all GSA acquisition professionals in FSS and FTS report up through their central office organizations for policy and operational guidelines. Today, this means that GSA acquisition associates would be overseen by the commissioners of their respective services for all aspects of job performance. The Coalition believes that centralization is mandatory if associates are to receive clear guidance and be held in consistent standard.

We continue to believe that creating an office to oversee the integrated operations of a combined service is important. Our previous testimony called for the creation of an associate administrator of acquisition. This position would be and have full authority to make the best use of resources for each service and provide oversight for all associates involved. The Coalition again recommends creating such a position, and would be pleased to work with Administrator Perry and this committee to make it happen.

The Coalition supports recommendations to consolidate GSA's Informational Technology and General Funds. Today's complex Federal projects cannot easily be classified as all IT or all not IT. GSA and its customer agencies today must jump through Government-only hoops to ensure that these projects are conducted properly. This slows the business of Government. Merging IT and General Funds will allow GSA to better continue its tradition of helping agencies.

Another issue that must be addressed is the financial soundness of each service. Any integrated service must ensure that all of the rooms of its financial house are in order if it is to function properly. No one operation should consistently be relied upon to support the others. The Coalition believes that the existing Schedule Industrial Funding Fee should not be lowered. We strongly recommend that the agency use IFF funds to hire and maintain and train needed contracting officers, and educate customers so that we get the most out of the Multiple Award Schedule program.

The Coalition believes that the Government saves time, reduces overall overhead, and gets great solutions when it makes maximum use of Schedule contracts. These benefits are enhanced when Schedules are negotiated in as timely a manner as possible. We recommend that GSA use existing funds to provide training, internally and externally, on these issues. The Coalition believes that steps already taken by GSA to consolidate all Schedule and GWAC contracts inside the Federal Supply Service has begun to achieve its desired results. The Coalition now recommends that GSA give serious consideration to moving the project management services conducted by the Schedule focused FSS acquisition centers to FTS, as FSS specializes in contract implementation and management. A large part of FTS specializes in project management. We believe this move is consistent with steps already taken to have each service focus on the core mission.

We are ready to work with the committee and GSA to examine how consolidation could be in the best interest for all involved. The Coalition believes that while GSA faces substantial challenges as it reorganizes, it also has tremendous opportunity. By moving now to integrate FSS and FTS, the agency still controls most of its own destiny. GSA must move assertively to develop organizations and programs that continue to meet the needs of an evolving Federal Government.

We want to be an important partner in this process. We believe the agency has a lot to offer its customers and we stand ready to

work with Administrator Perry and this committee and others to see that GSA retains and enhances its important work.

We appreciate again the opportunity to testify, and look forward to answering any questions.

[The prepared statement of Mr. Davison follows:]

COALITION FOR GOVERNMENT PROCUREMENT

Testimony On

Reorganization of the General Services Administration

House Government Reform Committee

March 16, 2005

Mike Davison
Director & General Manager
Canon Government Marketing Division

The Coalition for Government Procurement is pleased to have this opportunity to testify today on the reorganization of the General Services Administration's Federal Supply Service (FSS) and Federal Technology Service (FTS). We have addressed this committee previously on our recommendations for integrating the operations of these two services and have worked with the senior management team at GSA on this topic. We believe that there is a tremendous opportunity for GSA to create a world-class acquisition organization that can meet the continually evolving demands of a complex federal government. The integration of FSS and FTS will better equip GSA to realize these opportunities.

Doing nothing is not an option. GSA plays too broad and important a role in the government's overall acquisition infrastructure. It is important to note that the agency's current contracts and services have played a vital role in supporting our troops in Iraq and Afghanistan. Those contracts and services have also been essential in meeting the mission critical needs of agencies domestically. If GSA is to be able to continue this important service at a high level it must adapt to meet new realities and challenges.

Perhaps no other outside organization has the depth and breadth of experience in working with FSS and FTS as does the Coalition for Government Procurement. Almost all of our over 330 members hold some sort of contract with GSA. We have worked with FSS through out our 25-year history and with FTS and its predecessor services for over a decade. The Coalition is a non-profit association of small and large businesses from a variety of industry segments selling commercial service and product solutions to the

federal government. Our members include nearly every top-tier FSS Multiple Award Schedule holder and GSA Government Wide Acquisition Contract (GWAC) contractor. Our information technology integrator companies and many of our service providers do business with their federal customers through the assisted service programs of FTS. For over 25 years the Coalition has worked with GSA and others to implement common sense procurement policies.

The Current State of GSA

The Coalition believes that GSA is in a critical position today. The actions of a few have been allowed to set a chilling tenor for the entire agency. As a result, routine business has dramatically slowed and a climate of paralysis has crept into all of FTS and much of FSS. While GSA had to respond to last year's negative reports on the handling of some projects in the Federal Technology Service, we believe that the continued reliance on the "Get It Right" campaign now means that some parts of GSA simply "won't get it". This climate must be moderated to allow the business of government to proceed.

What was lost in last year's headlines was that GSA overall does a fantastic job of meeting day to day customer needs efficiently and properly. Approximately $40 billion flowed through GSA schedules and GWAC's in fiscal year 2004. This is testimony to the fact that the agency has built solid, popular programs that get customers what they want, when they want it, at great values.

The Coalition strongly believes that GSA should continue playing its important role. No other agency has the capacity or expertise to meet needs ranging from the supply of basic office items to the delivery of complex information technology solutions. By using GSA contracts and services, federal customer agencies dedicate more of their own resources toward meeting their own core missions. This formula is one that works well the vast majority of the time.

The misdeeds of a few should not overshadow this reality. Neither should they be the basis for a slew of new rules and procedures that hopelessly try to account for every possible misuse scenario. There is simply no way that rules, no matter how tightly written, can successfully alter all negative human behavior. They can, however, kill the efficiency and effectiveness of great programs.

The Coalition has called for and continues to support robust acquisition workforce training to ensure that rules already on the books are followed. GSA must foster a climate of competency and enablement, as well as compliance. We believe this approach, not the creation of an endless layer of new procedures, can better minimize incidences of misuse and, more importantly, identify improper behavior without causing program-wide disruptions.

Reorganization and the Current GSA Climate

The Coalition believes that, properly used, the GSA reorganization process can be an opportunity to create a positive and stimulating model acquisition environment within the agency. Reorganization can be the catalyst to put last year's problems behind and focus on empowering associates to meet customer needs within an efficient and creative infrastructure. GSA managers must involve associates in this process and communicate expectations as well as possibilities. If such steps are taken, the Coalition believes that the current negative climate in parts of the agency can be dispelled and a better work environment created.

We strongly support conducting this reorganization with a consistent "Business Model" approach. Most private sector firms undergoing reorganization do so within the overall context of an end expectation. This expectation may be that the company be much greater or larger in size, focus on a few key products, spin-off subsidiaries, or any one of a number of variables. While specific outcomes can be determined during the reorganization process, we encourage GSA to develop a set of over-arching expectations that will result in the agency having "best in class" contracts and assisted procurement services. Having some end goal to aim for ensures that any reorganization, in or outside of government, has a benchmark against which it can determine success.

The Coalition urges, however, that the mere process of reorganization not become an end to itself. While process development has its place, we are concerned that there has been too much emphasis on process at the expense of customer service. Having the best processes in the world means little if it results in frustrated customers, associates, and contractor partners. As one of our members aptly put it, not even the best flower grows if you pull it up every ten minutes to see how its doing. Process development should never overshadow the delivery of critical services and contracts.

Realign the Regional Reporting Structure

The Coalition again calls on GSA to work with this committee and other interested parties to realign its two-tiered organization structure. As we have noted in previous testimony, there is inherent inefficiency in maintaining both a central office and regional reporting system, no matter how well individuals in each position do their job. Requiring GSA associates to get their policy guidance from one place and their managerial direction from another is confusing at best. At worst, it leads to associates adhering to one message and not the other.

The Coalition strongly supports a realignment that retains much of the existing regional structure, but changes the managerial organization so that all GSA acquisition professionals in FSS and FTS report up through their central office organizations for both policy and operational guidance. In today's environment, this means that GSA acquisition associates would be overseen by the commissioners of their respective

services for all aspects of job performance. The Coalition believes this centralization of authority is mandatory if GSA associates are to receive clear guidance and be held to a consistent set of standards.

No organization can succeed if it requires its employees to serve two sets of masters. Maintaining offices through out the country makes sense if GSA is to serve federal agencies in the communities where they operate. Ensuring that each office provides consistent assistance within a consistent set of guidelines, however, is, we feel, better suited to a more centralized reporting structure.

Our belief is borne from experience. In the aftermath of the negative FTS reports of last year, each FTS region established its own set of review guidelines. The specific procedures for each one are all different to some degree, leaving contractors and customers alike confused and frustrated as to what rules apply where and under what circumstances. The Coalition has repeatedly asked FTS to supply us with a centralized schematic of each region's operational requirements and fee structure, but has yet to receive it. A centralized chain of command would neither require us to ask, nor result in the bafflement that currently confronts the common customers of FTS and Coalition member firms.

GSA Reorganization Issues

The Coalition is aware that GSA is moving toward the full integration of FSS and FTS. We generally support this, but feel that there are specific issues that must be addressed in this process.

Associate Administrator

We continue to believe that creating an office to oversee the integrated operations of a combined service is important, especially if, as we recommend, regional and central office associates are to report in one chain of command. Our previous testimony has called for the creation of an Associate Administrator for Acquisition. This position would have full authority to make the best use of the resources of each service and provide oversight for all associates involved.

While we support GSA Administrator Perry, he already has a full set of responsibilities. Like most Administrators before him, he must not only oversee FSS and FTS, but the Public Building Service and other senior government managerial functions as well. The task of overseeing an integrated FSS and FTS on a day-to-day basis requires the creation of a position specially dedicated to this task. The Coalition again recommends creating such a position and would be pleased to work with Administrator Perry and this Committee to make it happen.

Personnel

An integrated service should ensure that it makes the best use of available personnel resources. FSS and FTS have both lost experienced and talented individuals recently. The Coalition believes, however, that a number of talented individuals remain. Making the best use of these resources, and developing the next generation of agency leaders, must be an important priority. Too many new GSA associates leave either their service or the agency to pursue other opportunities. GSA must create programs that retain the best and brightest candidates, empower them to make a real impact, and recognize their successes. GSA is not only competing for today's talent pool with the private sector, but with other federal agencies that sometimes provide more flexibility in how their associates perform their daily tasks.

Consolidation of the IT and General Funds

The Coalition supports the recommendations of the Office of Management and Budget, members of this Committee, and others to consolidate GSA's Information Technology and General Funds. Done in a manner consistent with our following comments on financial integrity, we believe such an action will better enable GSA as a whole to serve customer needs. Part of the overly cautious nature we discussed above is due to the fact that today's complex federal projects cannot easily be classified as all IT or all not IT. As a result, GSA and its customer agencies today must jump through artificial government-only hoops to ensure that projects are conducted properly. Simply put, this slows the business of government. Merging the IT and General Funds essentially embraces an already existing reality and allows GSA to continue its long tradition of helping agencies with complex projects.

Financial Integrity

Another issue that must be addressed is the financial soundness of each service. The Coalition believes that this issue must receive in-depth attention to ensure that any integrated service is endowed with sufficient cash flow to meet its operating needs. In addition, it must have the financial resources to adequately hire and train a state of the art acquisition work force. Management of the General Fund and the IT Fund, or any combined fund that may be created, must be conducted in as it would in the private sector to ensure that customer payments are processed and received in a timely manner. No matter how good the services provided by an integrated operation are, it must ensure that all of the rooms in its financial house are in order if it is to function properly. No one operation should consistently be relied upon to support the others.

Industrial Funding Fee

The Coalition believes that serious examination of the existing Multiple Award Schedule Industrial Funding Fee (IFF) of .75% be given before the fee is raised or lowered. We strongly recommend that the agency use a portion of the funds collected to hire and train badly needed schedule contracting officers. Simply put, there are too many small and large businesses making new offers for the current work force to address and negotiate well and in a timely manner. The size and complexities of the program are such that additional resources must be committed to ensure its proper future management.

We have had discussions with both current and former senior GSA individuals who are aware that prospective schedule contractors are frustrated by the time-consuming and complex schedule negotiation and award process. Many of these firms are small businesses that have committed substantial financial and other resources into obtaining a schedule contract. They see GSA schedule and GWAC contracts it as critical parts of their federal business plan. Unlike some private sector operations, GSA has the funds to provide training to its current workforce and recruit the additional staff necessary to maintaining a state of the art operation. The Coalition recommends this course of action.

Similarly, the Coalition believes that IFF revenues should be used to educate federal customers so they can get the most out of the MAS program. We believe that the MAS program is the government's best commercial service and product procurement method. Its thousands of services and products can meet a wide variety of agency needs competitively, efficiently, and quickly. The Coalition believes that the federal government saves critical time, reduces overall overhead, and gets great solutions when it makes maximum use of schedule contracts.

Federal buyers need to be better educated on the fact that they can access schedule contracts directly. Too many believe that they must use third party service providers, such as FTS, when making a schedule purchase. While such services are appropriate for some buyers, they are not indicated in every case.

Similarly, many federal managers, even senior officials in the Department of Defense, incorrectly believe that schedule contracts are only for pens, pencils, and paper. As a result, agencies enter into wasteful, duplicative contracts.

Again, GSA has the IFF revenue available to fully educate federal buyers to make the best and most use of their programs. The Coalition believes that in using this revenue for training, the entire government will benefit from improved acquisition practices.
We do not support reducing the schedules IFF at this time. There are too many important schedules-related projects that demand funding. The Coalition is prepared to work with GSA to address needed tasks to ensure that IFF money is put to the best use possible.

Consolidation of Assisted Procurement Services

The Coalition believes that steps already taken by GSA to consolidate all schedule and GWAC contracts inside the Federal Supply Service have begun to achieve the desired results of reduced contract duplication and better customer service. We called for this consolidation in previous testimony as way to improve overall agency operations. The Coalition now recommends, therefore, that GSA give serious consideration to moving the project management services now conducted by schedule-focused FSS acquisition centers to FTS. As FSS specializes in contract implementation and management, a large part of FTS specializes in project management. We believe this move is consistent with steps already taken to have each service focus on its core mission. Specifically, the Coalition feels that the National Furniture Center is unique among schedules-focused FSS acquisition centers in performing project management services. Coalition members

are concerned that these functions have reduced overall contract management resources in the Center. We are ready to work with this Committee and GSA to examine how consolidation of this function into FTS could be in the best interests of all involved.

Conclusion

The Coalition believes that while GSA faces substantial challenges as it reorganizes, it also has tremendous opportunity. By moving now to integrate FSS and FTS the agency still controls much of its own destiny. Any organization that misses such an opportunity runs the risk of having others define its fate. GSA must move assertively now to develop organizations and programs that can continue to meet the needs of an evolving federal government.

The Coalition believes that it can be an important partner in this process. We have worked with this agency more closely than any other organization. We truly believe that the agency has a lot to offer its customers, particularly through the Multiple Award Schedule program. We stand ready to work with Administrator Perry, this Committee and others to see that GSA retains and enhances its important work.

We appreciate again the opportunity to testify and look forward to answering any questions.

Mr. SOUDER. Thank you very much.

Our next witness is Ms. Elaine Dauphin, vice president of GSA Programs Computer Sciences Division, on behalf of the Professional Service Council. Thank you for coming.

STATEMENT OF ELAINE DAUPHIN

Ms. DAUPHIN. Thank you, Mr. Souder.

Members of the committee, thank you for inviting the Professional Services Council to be represented here today. PSC is the principal national trade association of companies large, medium, and small that provide services to virtually every Government agency. Like my company, Computer Sciences Corp., member companies hold various GSA Schedule contracts, as well as Government-wide acquisition contracts [GWACs], and other GSA contracts through which these services are many times delivered. Therefore, the future structure of GSA, and in particular its role in Government acquisition, is vitally important to PSC and its members.

While PSC takes no formal position on any specific organizational structure, PSC applauds your interest in the GSA reorganization and the actions Administrator Perry and his team are taking to merge FTS and FSS. However, as others have mentioned here today, PSC believes that the necessary precursor steps to reorganization, that of assuring that the business models through which the agency operates are in place, is that it is far more important to the continued success of GSA. A review to ensure that the agency is properly aligned with today's needs of its clients and can continue to deliver the value-added services that we have all come to expect; and that its work force can uniformly execute performance-based acquisitions and other innovative acquisition strategies, such as share and savings, that drive value and enhance contract performance for its clients.

We believe that this review and analysis must occur early in the planning process and be open to and involve all stakeholders to include external Federal agency users and industry. PSC strongly encourages GSA to implement the stakeholder involvement soon, as their draft is apparently coming out in May and, to our knowledge, these stakeholders are not currently involved. As we are rethinking the organization of GSA, it is imperative that we keep in mind that through the FSS and FTS contract vehicles and the client support centers, GSA has provided and continues to provide vital acquisition support and assistance to agencies across Government.

In the past decade, their buying roles have increased significantly, driven largely by the quality of support the services provide and a significantly streamlined procurement environment. In an effort to satisfy clients' requirements quickly, we have seen in IG reports that some administrative shortcuts have taken place. GSA's response has been appropriate. Yet, there is a growing pressure within the DOD, as the chairman mentioned, to avoid using GSA contracts in favor of internal contracts. Part of this pressure stems from a concern over the fees being transferred from DOD to GSA. However, to our knowledge, no DOD component has looked at or evaluated the cost or timeline of replicating inside DOD the infrastructure that is currently in place in GSA, and whether these costs are less, equal to, or greater than the fees being paid to GSA.

We are certainly not against DOD contracts. We strongly believe that the Government benefits greatly from a competitive marketplace of contracts. It is advantageous, for example, for program and contract offices to choose the vehicle that best suits their needs from a wide array of vehicles. But current DOD efforts to arbitrarily limit access to non-DOD contract vehicles could have a deleterious effect both on GSA, and more importantly, DOD meeting its mission needs. These are critical issues that drive to the heart of DOD's mission efficiency, as well as the role and mission of GSA. We cannot ignore these facts as we focus attention on GSA's organizational structure.

Chairman Davis, in summary, GSA plays a singular role in Government as its legislatively designated buyer of goods and services. It is important, as this reorganization moves forward, that the resulting organization reflect the needs and realities not only of GSA, but also of its customers and its vendor partners. We believe it is necessary to engage all three components fully in the discussions. The billions of dollars that flow through the GSA Schedules and GWACs representing a significant portion of PSA's member companies' revenue and, therefore, the economic health of our industry.

Thank you for this opportunity to provide the Professional Services Council's views on this important matter. I look forward to questions.

[The prepared statement of Ms. Dauphin follows:]

TESTIMONY

by Elaine Dauphin
Vice President, GSA and GWAC Programs
Computer Sciences Corporation

on behalf of the Professional Services Council

before the

Committee on Government Reform

U.S. House of Representatives

March 16, 2005

Testimony of Elaine Dauphin
Vice President, GSA and GWAC Programs
Computer Sciences Corporation
on behalf of the Professional Services Council
Before the
Committee on Government Reform
Wednesday, March 16, 2005

Mr. Chairman, Members of the Committee. Thank you for the invitation to the Professional Services Council (PSC) and the opportunity to appear here today. The Professional Services Council is the principal national trade association representing companies that provide a full range of services to virtually every government agency. PSC's membership includes scores of companies, large, medium, and small, that are holders of the wide array of General Services Administration (GSA) Schedules contracts, Government-wide Acquisition Contracts, and other contracts awarded by GSA. The future structure and role of GSA in government acquisition is a matter of significant interest and importance to our members and to the Association.

Mr. Chairman, we applaud you for continuing to focus on the appropriate roles and responsibilities for GSA, and for holding this hearing. We greatly appreciate your continued leadership on government acquisition policy issues.

In the book "Governing by Network" by Stephen Goldsmith and Bill Eggers, they noted that government today is a very different institution than it was just ten years ago. Today, more than ever, federal agencies are reliant on a network of services providers—in industry, non-governmental organizations, academia, state and local governments, and more—to ensure the delivery of services to their customers, be they our armed forces in harms way or citizens who experience the myriad routine ways in which government is involved in their lives. As Goldsmith and Eggers make clear, the biggest challenge for the government is both recognizing this tectonic shift and ensuring that it has the right organizational and personnel structure and capabilities to enable effective management of this network.

We think GSA's mission is at the heart of the management of that network and the ways it addresses its structural and organizational challenges will greatly affect the quality of its performance. Moreover, when one considers the massive human capital challenges facing every agency of government—a challenge particularly reflected in the acquisition workforce—GSA's role becomes even more central.

Through the Federal Supply Schedule (FSS) and the Federal Technology Service (FTS), GSA offers vital acquisition support and assistance to agencies across the government. Since the acquisition reforms of the 90s, the roles of the FTS and FSS in federal acquisition have grown dramatically, driven largely by the quality of support they provide through a significantly streamlined procurement environment. As you and others have suggested, Mr. Chairman, this growth and change, especially with the advent of a kind of "profit and loss" responsibility that is the norm in industry but is relatively unusual in government, has not been without its problems.

Yet, as is so often the case in government, thanks to the urgings of this committee and others in Congress, GSA has made changes to both its practices and policies in an effort to improve the management of the Multiple Award Schedules and the other contracts it owns or manages.

At the same time, numerous challenges remain. It is not clear whether GSA is structurally organized in a way that enables it to optimally meet the ever-changing needs of its customer base. PSC has discussed these matters with GSA's senior leaders and appreciate the actions that Administrator Perry and his team are taking to integrate FTS and FSS. While PSC takes no formal position on any specific organizational proposal, we fully support the organizational action now underway at GSA.

However, while the organizational structure of GSA is important, the nature, scope and design of the services and capabilities it offers, and the business models on which it relies, needs to be assessed and updated first, so that the agency does not re-structure itself around outmoded and outdated business models or delivery mechanisms. As Administrator Perry told PSC members at a luncheon recently, GSA needs to carefully review everything it does—top to bottom—to determine if the capabilities and missions that were put in place five, ten, and even fifteen years ago are still aligned with the needs of GSA's customers and GSA's ability to deliver value to them. PSC fully supports such a review and we recommend that it include a thorough review of the GSA Schedules to determine that their current definitions and scope are relevant in today's market. This review must also assess the government-wide human capital gaps and areas where GSA can or should ramp up its capabilities, working, as GSA is, toward improving its Client Support Center (CSC) activities, and more. GSA should also carefully assess the quality of its own acquisition workforce and the degree to which it is truly implementing (or is positioned to implement) performance-based acquisition and other innovative acquisition strategies that drive value and performance for the customer.

This review and analysis process must be open to and robustly involve all stakeholders who have direct and meaningful experience with and an understanding of GSA, including other federal agencies, end users and industry. This kind of integrated team approach will go a long way to ensuring that the changes that are made to the GSA organization fully reflect the needs and realities of a broad spectrum of customers and suppliers. This integrated analysis should occur early in the process, not at the end when decisions have been made. Despite the agency's openness about its direction, we are not aware that there has been this critical consultation with key external stakeholders.

It is essential that even as the structure of GSA is being addressed, we not lose sight of other critical dynamics now evident inside and outside of GSA that are likely to significantly impact GSA's viability and credibility, regardless of the structure ultimately put in place.

As you know, there is growing pressure, within the Department of Defense (DoD) in particular, to avoid using GSA contract vehicles in favor of internally awarded and managed contracts. DoD is not alone in facing this pressure or in taking this action. PSC takes no position on which contract vehicle is appropriate for any given procurement, but we do strongly believe that the government benefits greatly from a competitive marketplace of contracts. It is to the government's advantage when program offices and contracting officers can pick from a diverse array of contract vehicles that will best meet their needs for the procurement at hand. Current DoD efforts to arbitrarily limit access to non-DoD contract vehicles could have a deleterious effect not only on GSA, but, more importantly, on meeting the mission needs of DoD and its components.

These recent pressures stem largely from the detailed spend analyses DoD and the military services have been conducting and the new visibility given to the amount of "fees" and other expenses that have been transferred from DoD to GSA. DoD is to be commended for

undertaking such an important assessment. However, that assessment is only the first piece of a much more complex puzzle which must be completed before any conclusions are drawn as to whether to use a GSA contract or before new policies and procedures are put in place.

For example, to our knowledge, no DoD component has looked at what it might cost to replicate the services being provided by GSA to balance the fees now being paid to GSA. Thus, it is impossible to say whether DoD is getting its money's worth by using GSA or not. Likewise, at a time when the acquisition workforce is facing both significant skills and numeric shortfalls -- which cannot be fixed for many, many, years even under the most optimistic of scenarios -- no one has set forth a strategic plan to document how the DoD acquisition workforce will take on all of the added workload that would otherwise be assumed by GSA's Schedules or CSCs. These are critical issues that drive to the heart of DoD's mission efficiency, as well as the role and mission of GSA. They cannot be ignored while we focus all of our attention on GSA's organizational structure.

Even within GSA, there remain divisions over important policy matters that are causing real problems for GSA, its customers, and industry. As you know, in December 2004, the GSA Inspector General released a report on the CSCs that Administrator Perry requested last summer. Not surprisingly, that report indicated that progress and improvement at these CSCs was uneven, but noticeable.

What was more striking in the report, however, were some of the IG's interpretations of statutory and regulatory matters pertaining to such critical issues as price reasonableness and contract scope. At the same time, a number of companies have reported to the Association that in the course of renewing their Schedules contracts, the IG is demanding access to a range of commercial and other company records that is both completely unnecessary and, we believe, clearly prohibited by the Federal Acquisition Regulation. We have raised these issues with the IG and with other acquisition policy officials in GSA. We are pleased to say that both the IG and the GSA leadership have been very open to exploring and discussing them, and our discussions with them continue.

Nonetheless, while we all agree that this is a difficult and tenuous time for GSA generally, it is also a time of significant disconnects between the oversight and operational communities. Those disconnects must be addressed and overcome so that we can have critical alignment over the rules of the road we are all traveling.

Mr. Chairman, GSA plays a role of singular importance in government, particularly in light of the still evolving transformation in government that Goldsmith and Eggers reference in their book. That role will and must shift and change as the marketplace GSA serves shifts and changes. It is necessary to both engage industry fully in the discussions and, even more importantly, to take a holistic view of GSA, its customers, and the panoply of interconnected issues and challenges they face. To look solely at structure without this broader view will sub-optimize a most important process and, at the end of the day, likely not engender the management and process improvements intended and required.

Thank you again for the opportunity to provide the Professional Services Council's views on this important matter. I would be happy to answer any questions.

Chairman TOM DAVIS [presiding]. Thank you very much.

Mr. Brown, last but not least. We are happy to have NFFE here.

STATEMENT OF RICHARD BROWN

Mr. BROWN. I was going to say considering what is going to go on here tomorrow, I guess it is only befitting that the union should back cleanup.

Chairman TOM DAVIS. Well, we hope you will touch all the bases in your comment, OK?

Mr. BROWN. I knew this was going to start something.

Mr. Chairman, distinguished members, I am here today certainly representing the thousands of members that the National Federation of Federal Employees represents throughout the GSA.

I would like to address a regretful situation that exists at GSA, a series of actions that the agency has recently taken which have been either ill advised or highly inappropriate, have left the agency a haven of wasteful spending. The actions have also disenfranchised and demoralized department employees to a great extent, making it increasingly more difficult for GSA workers to provide the high quality services they are capable of and that the taxpayers of this country deserve.

The most significant egregious action taken by the agency that I would like to address is the railroading of the proposed merger between Federal Technical Service [FTS] and the Federal Supply Service [FSS]. This merger, which stands to affect approximately 7,000 employees, is scheduled for implementation in July, and to this point there has been absolutely no direct communication with the employees through their exclusive representative on this issue.

Under the current schedule for implementation, the employees at the agency should have been consulted at least a year ago. This dismissive approach on the part of management toward the elected employee representatives is unacceptable. It is a shame that the employees at GSA should have to make use of this venue, at this late date, to communicate their position on the major overhaul of the department. Yet, I will take this opportunity to publicly state the position of the employees on this merger.

The rank and file employees at GSA vehemently oppose the merger between FTS and FSS. Although we have little information about the specifics of the proposed merger, we can speculate that the fusion of agencies with such vastly different missions would be problematic for the agency as the Government as a whole. Assuming the merger would result in whole or partial elimination of FTS, we envision that there will be widespread erosion of essential in-house expertise necessary to ensure cost-effective contracting for information technology products and services.

Alert reports from the GSA Inspector General's Office indicate numerous problems in contracting practices. Our conclusion is that those problems encountered in procurement resulted primarily from a lack of autonomy between the procurement office and the program office. This knee-jerk merger does nothing to address those problems. A plan to simply move the problem around is conceptually flawed. In the end, we believe that the merger will make the problem worse and will be more costly to the American taxpayer. A more appropriate solution would be to restore FTS office

of acquisition as an autonomous organization free from the influence of FTS program offices.

The next issue I would like to address is the relocation of employees at two major headquarters buildings, the central office headquarters building in Washington, DC, and the Federal Supply Services building in Crystal City, VA. We believe that this unnecessary move will needlessly be disruptive to the department employees. Equally as important, this location has the potential to be extremely wasteful.

Uncertainty about staffing levels indicated in the fiscal year 2006 budget and the possibility of the FTS-FSS merger make brick and mortar facility needs impossible to predict at this time, and any relocation would be imprudent. A major move such as this should be delayed until staffing levels can be accurately forecasted. Any deviation could result in millions of dollars in wasteful spending.

The last major issue I want to address is the downsizing of the GSA Office of Government-wide Policy [OGP]. NFFE is the exclusive representative of all bargaining units in this organization, a total of about 130 people. GSA has announced it is currently implementing plans to eliminate 22 percent of the employees in the department by April of this year. They plan to reassign another 21 percent to the department in addition to that, for a 44 percent overall reduction. GSA has cited constraints in the 2006 budget as grounds for pursuing these reductions.

Given the fact that Congress has not yet approved the 2006 budget, we believe it is premature and inappropriate to act on a speculation of what the budget might be. We ask this body to intervene and insist the administration follow due course on this issue. Any action to the contrary would circumvent the authority of Congress. If, and only if, Congress approves the cutbacks in the President's budget proposal, a proposal that we do not endorse, the agency would then follow the appropriate reduction in force [RIF] rules.

The agency is currently pursuing a career management profile [CMP] assessment, an unfair alternative to RIF procedures that allow managers to cherry-pick retention of personal favorites, to the detriment of others who would get preference based on legitimate discriminatory such as veteran's preference, seniority, and career status.

Finally, management is implementing the CMP without spending 1 minute with employee representatives at the bargaining table to date, in our opinion a clear violation of the Federal Service Labor Management Relation Statute.

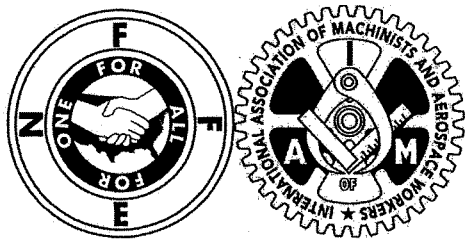
Taken as a whole, agency actions on these three issues indicate that GSA leadership is not committed to a cohesive business plan based on execution of agency mission. Dismissive approach toward employee representatives and mandates of Congress is unacceptable. The simultaneous attempts to adjust staffing and relocate to new facilities leave the agency open to millions in wasteful spending. The apparent plan to eliminate hundreds of full-time employees leave the work force terrorized with uncertainty.

The GSA would stand to benefit from taking their initiatives one logical step at a time, while showing regard to due process and the

needs for the department employees. Anything less should not be tolerated by this committee.

Mr. Chairman, that concludes my statement. I appreciate the opportunity, distinguished members, and I would be happy to answer questions.

[The prepared statement of Mr. Brown follows:]



STATEMENT BY

RICHARD N. BROWN

NATIONAL PRESIDENT
OF
NATIONAL FEDERATION OF FEDERAL EMPLOYEES

BEFORE

THE HOUSE COMMITTEE ON GOVERNMENT REFORM

REGARDING

THE RESTRUCTURING OF THE GENERAL SERVICE ADMINISTRATION'S OPERATIONS

ON

MARCH 16, 2005

Chairman Davis, Ranking Member Waxman, distinguished members of the Committee; I would like to thank you for the opportunity to testify on the restructuring of the General Services Administration's (GSA) operations.

I am the National President of the National Federation of Federal Employees (NFFE). We are an affiliate of the International Association of Machinists and Aerospace Workers. As national president of the oldest union representing non-postal federal employees, I speak on behalf of 90,000 federal employees, 3,000 of whom are workers at GSA.

I would like to address a regretful situation that exists at GSA. A series of actions that the agency has recently taken, which have been either ill-advised or highly inappropriate, have left the agency a haven of wasteful spending. The actions have also disenfranchised and demoralized department employees to a great extent, making it increasingly more difficult for GSA workers to provide the high-quality services they are capable of and that the taxpayers of this country deserve.

The most significant egregious action taken by the agency that I would like to address is the railroading of the proposed merger between the Federal Technology Service (FTS) and the Federal Supply Service (FSS). This merger, which stands to affect approximately 7,000 employees, is scheduled for implementation this July, and to this point there has been absolutely no direct

communication with the employees through their excusive representatives on this issue. Under the current schedule for implementation, the employees at the agency should have been consulted at least a year ago. This dismissive approach on the part of management toward the elected employee representatives is unacceptable.

It is a shame that the employees at GSA should have to make use of this venue at this late date to communicate their position on this major overhaul of the department. Yet, I will take this opportunity to publicly state the position of the employees on this merger.

The rank and file employees at GSA vehemently oppose a merger between the FTS and the FSS. Although we have little information about the specifics of the proposed merger, we can speculate that a fusion of agencies with such vastly different missions would be problematic for the agency and the government as a whole. Assuming that the merger would result in a whole or partial elimination of the FTS, we envision that there will be a widespread erosion of essential in-house expertise necessary to ensure cost-effective contracting of information technology products and services. Alert reports from the GSA Inspector General's office indicated numerous problems in contracting practices. Our conclusion is that problems encountered in procurement resulted primarily from a lack of autonomy between the procurement office and the program office. This knee-jerk merger does nothing to address those problems. A plan to simply

move the problem around is conceptually flawed. In the end, we believe the merger will make the problem worse, and it will be more costly to American taxpayers. A more appropriate solution would be to restore the FTS Office of Acquisition as an autonomous organization, free from influence by FTS program offices.

The next issue I would like to address is the relocation of employees at two major headquarters buildings, the Central Office Headquarters building in Washington, DC and the Federal Supply Service building in Crystal City, VA. We believe that this unnecessary move will be needlessly disruptive to department employees. Equally as important, this relocation has the potential to be extremely wasteful. Uncertainty about staffing levels indicated in the 2006 budget and the possibility of a FTS/FSS merger make brick and mortar facility needs impossible to predict at this time, and any relocation would be imprudent. A major move such as this should be delayed until staffing levels can accurately be forecasted. Any deviation could result in millions of dollars in wasteful spending.

The last major issue we want to address is the downsizing within the GSA Office of Government-wide Policy (OGP). NFFE is the excusive representative of all bargaining unit employees in this organization, about 130 in total. GSA has announced, and is currently implementing, plans to eliminate 22% of the employees in this department by April of this year. They plan to reassign another

21% of the department in addition to that, for a 44% overall reduction. GSA has cited constraints in the 2006 budget as grounds for pursuing these reductions. Given the fact that Congress has not yet approved the 2006 budget, we believe it is premature and inappropriate to act on speculation of what the budget might be. We ask this body to intervene and insist that the administration follow due course on this issue. Any action to the contrary would circumvent the authority of Congress. If, and only if, Congress approves the cutbacks in the President's budget proposal, a proposal we do not endorse, the agency should then follow the appropriate Reduction in Force (RIF) procedures. The agency is currently pursuing a Career Management Profile (CMP) assessment, an unfair alternative to the RIF procedure that allows managers to cherry pick retention of personal favorites, to the detriment of others that would get preference based on legitimate discriminators such as veteran's preference, seniority, and career status. Finally, management is implementing this CMP without spending one minute with employee representatives at the bargaining table to date, in our opinion a clear violation the Federal Service Labor-Management Relations Statute.

Taken as a whole, agency actions on these three issues indicate that GSA leadership is not committed to a cohesive business plan based on the execution of the agency mission. The dismissive approach toward employee representatives and the mandates of Congress are unacceptable. The simultaneous attempts to adjust staffing and relocate to new facilities leave the agency open to millions in wasteful spending. The apparent plans to eliminate

hundreds of full time employees leave the workforce terrorized with uncertainty. The GSA would stand to benefit from taking their initiatives one logical step at a time, while showing regard for due process and the needs of the department employees. Any thing less should not be tolerated from this committee.

This concludes my statement. Once again I thank the Committee for the opportunity to give my testimony. I will be happy to answer any questions the members of the Committee may have.

Chairman TOM DAVIS. Thank you all very much.

Let me start, Mr. Hewitt, with you.

I am sorry I wasn't here for everybody's testimony—I had to go back for a couple minutes—but I have read it prior to being here.

Do you think that the proposed merger of FTS and FSS is going to make it easier for you to do business? Will that be easier for you to do business if they merge these two?

Mr. HEWITT. The question is do you think it will be easier to do business? Yes, sir. I think there is some uncertainty today, some duplication which is confusing, and ITAA does support the merger.

Chairman TOM DAVIS. Has GSA solicited any comments from your organization in terms of what a merger might entail?

Mr. HEWITT. No, Mr. Chairman, they haven't, and we would love to be involved at ITAA.

Chairman TOM DAVIS. How would you recommend GSA include industry and customer representatives as part of the process? It wouldn't have to be formal, just informally?

Mr. HEWITT. Any way they want to do it is fine with us. We would prefer to be involved earlier rather than later, and we do have that Government Advisory Board now that is retired executives around town—Dan Young, Ken Johnson, Mel Cooper, Bill Deronchec and others—that are prepared to help, and they are not working with any particular company right now, so they should be able to provide experience in an unbiased fashion.

Chairman TOM DAVIS. Do you have any thoughts on the regional offices?

Mr. HEWITT. Have I talked to the regional?

Chairman TOM DAVIS. Have you thought through that? Does your organization have any thoughts on consolidation of regional offices, or a different role at this point? Do you find it helpful to keep them or——

Mr. HEWITT. I haven't discussed that.

Chairman TOM DAVIS. You don't want to go off script on that.

Mr. HEWITT. I don't know the answer to that.

Chairman TOM DAVIS. OK. Thanks.

Vic, let me ask you. I think in your testimony you note that before GSA goes forward with plans to reorganize, it should get input and insight from both its customer agencies and industry partners. Do you think that reorganization plans provide for that as you see it right now?

Mr. AVETISSIAN. I didn't hear that.

Chairman TOM DAVIS. Do you think that the GSA is providing for input from its customer agencies and its industry partners right now?

Mr. AVETISSIAN. It has been done informally. We have been in a couple of meetings that this issue was discussed, most recently with them last week. But I think it should be more formal, because there are other people that should be involved in providing guidance, that have experience in different areas. We provided some guidance. We think that they are on the right track, but more information will be helpful.

Chairman TOM DAVIS. You state that the current management of the GSA regional office is broken. Do you favor the elimination of any of the regional offices? You said you don't favor the elimination

of them, but you suggest that the management and reporting relationships between the GSA headquarters and the regions should probably be changed. Do you think it would be helpful to have GSA's management authority over the regional offices in the statute? Have you thought about how that should be done?

Mr. AVETISSIAN. No, I don't think it should be statute. I think that the management headquarters, working with the regional offices, could develop appropriate reporting requirements that will make sure that they follow the same guidance and same policies in performing the contracts and awarding contracts and managing the contracts. I think that is where the differences are. There will be some areas, because the culture will be different, and they should follow that culture. But again, major policies should be the same.

Chairman TOM DAVIS. Are you concerned that the reorganization efforts at GSA will adversely impact GSA's ongoing operations?

Mr. AVETISSIAN. No, I don't believe so. I think that the people in GSA are very well familiar with what they are doing. I think this reorganization will enhance their capability to provide their services to all the agencies. And I think that with this reorganization the committee should consider merging other civilian agencies schedule under GSA so there won't be schedules that are used by DOD through Interior schedule, that it will be managed in a formal manner under the same authority as GSA.

Chairman TOM DAVIS. Now, you advised that GSA should consider cultural diversity among its various offices and its customers and its plans to merge the services. Could you elaborate on that a little bit?

Mr. AVETISSIAN. As an experienced industry, and I had that opportunity during our numerous mergers and acquisitions that Northrop Grumman had done, and the most difficult part was trying to get the cultures to merge. You can always get the offices to merge and things like that, and benefits merge and all that, but the culture——

Chairman TOM DAVIS. But agencies have their own cultures is what you are trying to say.

Mr. AVETISSIAN. Yes, they sure do. And what I would suggest, and what we have done, and other companies have done, you don't impose—whoever the parent is going to be—their processes as the best; you go around and take a look at and pick the best processes and best policies. And by incorporating all that in one single policy, I think then the buy-in will be much easier from other agencies, and also regional offices, that they do have some good practices that can be adopted by the headquarters.

Chairman TOM DAVIS. Thank you.

Mr. Davison, you state that GSA needs to change its regional managerial organization so that control of acquisition associates in the regions come from GSA headquarters. Are you concerned that the regional management issues don't appear to be addressed in GSA's reorganization plan? Is that a concern of yours?

Mr. DAVISON. Am I concerned that the reorganization would have an adverse effect?

Chairman TOM DAVIS. No. Right now, in GSA's reorganization plans, they don't appear to be addressing the regional management issues.

Mr. DAVISON. Our representation of that is that there seems to be a different—you spoke about cultures. There is a different standard associated with each of the regions, and it seems like it would be improved to have a central responsibility for all policies and standards.

Chairman TOM DAVIS. Now, you recommend that creating the position of an associate administrator for acquisition to oversee the integrated operations of a combined FSS-FTS. Do you think that position ought to be in statute? Do you have any strong feelings about that?

Mr. DAVISON. I don't. I am not familiar enough about what the difference in the statutory regulation would be.

Chairman TOM DAVIS. Statute means that this is bound on the next GSA and the next and the next. If you do it from regulatory scheme, the next group can come in and decide to do it differently. It gives them more flexibility, but it also lets them slip back if you think that this should be a permanent position.

You don't have to address that, I am just trying to give you——

Mr. DAVISON. Thank you.

Chairman TOM DAVIS. I liked your suggestion that GSA consider using a portion of its Multiple Award Schedule Industrial Funding Fee to hire and train badly needed schedule contracting officers. It is a little similar to the training fund that we put into the Services Acquisition Reform Act. Have you suggested this to GSA?

Mr. DAVISON. Yes, we have.

Chairman TOM DAVIS. Have they had any response to it at this point?

Mr. DAVISON. Their response is not clear to me, it is clear to the Association. There has been some hesitation. At the last decrease we had suggested that they don't decrease it, but use those funds to improve the agency's response.

Chairman TOM DAVIS. OK, thanks.

Ms. Dauphin, do you think GSA has been forthcoming with industry stakeholders on the direction of its reorganization?

Ms. DAUPHIN. No, I think that there has been limited interaction. The PSC has had some meetings with Mr. Perry's office. We are meeting with the IG next week, where we will have additional discussions, but not to the level that we are recommending. We really believe that industry should be more engaged right now, prior to their even coming out with their draft reorganization, as well as other Government agencies end users.

Chairman TOM DAVIS. And I gather, Mr. Brown, that you don't think the GSA has been very forthcoming in dealing with the employees and the unions in this as well, sir?

Mr. BROWN. That would be correct, Mr. Chairman. And I think you would have to agree when you don't have information before you, when you have no business plan, when you have no "who is it going to affect," you are forced to speculate; and certainly speculation is not something that the union wants to do. We are getting questioned by various employees in different office buildings, etc., how is that going to affect them, what are their collective bargain-

ing rights. You know, we are not here to manage GSA; that is not our position. But as you are elected by your constituency, so are we.

Chairman TOM DAVIS. Well, it is not your position to manage, but, on the other hand, a lot of the knowledge in any organization is at the guy who is right there at the window.

Mr. BROWN. Who knows better what is going on than the man and woman doing the job?

Chairman TOM DAVIS. Even if you may not know the big picture in every case, they have a story to tell that is important.

To go back to you, Ms. Dauphin, you note that the DOD has considered bypassing GSA contract vehicles for internally awarded managed contracts. How would that action affect businesses that routinely use these vehicles to sell to the Government? Do you have to change your marketing plans? Would they be less efficient?

Ms. DAUPHIN. It has already been impacting us in that we have had existing task orders that were in the middle of a period of performance under GSA vehicles that have been terminated and then re-competed on a DOD vehicle. It happens that we are on the DOD vehicle, but we are still spending money to re-compete. The Government is spending money to reacquire these same services and, as a taxpayer, that is offensive.

Chairman TOM DAVIS. It is just a waste, right?

Ms. DAUPHIN. It is.

Chairman TOM DAVIS. You also note that the fees that are charged by GSA for the different Government-wide contracting vehicles—and I will ask you and I will ask anybody else. Do you think the melding of the Technology and Supply Funds and the increased accountability will result in lower and more targeted fees from GSA? Is there that expectation?

Ms. DAUPHIN. Yes, I really do.

Chairman TOM DAVIS. Do you all agree with that?

Mr. AVETISSIAN. Yes, I agree with that.

Chairman TOM DAVIS. Mr. Hewitt? That is certainly the hope, isn't it? OK.

Mr. Brown, I have a couple more questions.

Mr. BROWN. Sure.

Chairman TOM DAVIS. You are nervous that the melding of the FSS and the FTS will result in widespread erosion of essential in-house expertise at FTS.

Mr. BROWN. Yes.

Chairman TOM DAVIS. But the Administrator and the GSA IG, and most of the witnesses here, seem to think the merger would be beneficial in terms of overall productivity. Why do you think that?

Mr. BROWN. Let me just state—and part of it goes back, again, to information that has been handed out. And I would even go back to some of the comments that Mr. Perry had made. It didn't seem—where this was really driven from. I didn't really hear today very specific problems that would cause this or drive this merger. Whether there is or not I do not know, as an employee representative. And what impact that will have is going to have various impacts.

What I was saying, getting back to just to paraphrase what I just said, it is going to have different impacts on different employees. And what that impact is going to be we are duty bound and certainly legally bound to advise the folks that we represent. How that is all going to shake out, we have been unable to either reassure or say, OK, you are going to get affected this way, this is going to affect more people in FTS than FSS, like I said in part of my testimony.

Again, I will give the fact that some of it is speculation, but also been advised through my council president and our other employees, which many of them are here today sitting in these chambers from the Greater D.C. area and Virginia and so forth, that these are going to affect. And I would have to say that I have yet to hear and I did not see that there was any documentation to that effect. Mr. Perry said there has been some discussion amongst managers and a few key individuals, but that was primarily it.

And would this merger be better? I don't really see, based on the testimony here. There are some people that say that it would, and everyone is entitled to their opinion, and I am not being disrespectful, but at least from the elected representatives side of the House, that the people in the trenches are going to be affected, I can't see where this would be good or bad. I would believe at this juncture it would be more bad because there is not enough information, there is no business plan, there is no long-range goal, there has been nothing documented.

Chairman TOM DAVIS. Right. Well, look, at the end of the day, everybody here plays a different role. I mean, your role is to protect your employees, make sure they are treated fairly; and the efficiency of the department, although it is not unimportant to you, at the end of the day that doesn't drive you if you are losing employees and those kind of issues. From the people that are selling to the Government, they have their own bent; they can give suggestions into what works most efficiently for them in being able to sell to the Government. I know there is a great frustration on the part of contractors sometimes of doing work and the Government not telling exactly what they want, not being able to articulate; a lot of waste goes in some of these areas. And I think all of you need to be a part of the reorganization process so that everybody is heard.

But at the end of the day, GSA's job, from my perspective, is to make sure that when they go off and buy something, they are getting the best deal for the American taxpayer. That may not be exactly what the contractors want or the employees want, but I think that is what the taxpayers expect. But they can't do it without talking to you and without consulting with you.

I think each of you have an important role to play in that, so we want to do everything we can to make sure that, as this moves forward you are at the table and that all of your views are considered in this. And for that, I appreciate everybody being here, sharing those concerns. We want to continue to work with GSA to make sure that even though it may be a contracted period that these decisions are made, that you are made full partners in terms of your input into this thing; and we want to hear from you if that is not the case.

Ms. Norton.

Ms. NORTON. Thank you very much, Mr. Chairman. I came back because I have a couple of questions.

I just want to indicate how much I agree with your last comments. Nothing is more threatening to employees than a change in structure in an organization, whether it is consolidation, whether it is dealing only with one part of the organization. And when they hear about merger, even before you know exactly what you are going to do, you have to begin to talk with people. So I am very concerned. I was very concerned in reading, Mr. Brown, your testimony about how there has not been any consultation whatsoever. Again, these people are management; they have to do what they have to do. But the notion of not trying to reduce anxiety is very troubling to me.

You indicate that, for example, assuming that merger would result in whole or partial elimination of the FTS. See, you don't know that and I don't know that, and when he talked about how they, by bringing everybody together, because they have so much demand, they will be able to meet this demand. They left the impression that maybe they need all the folks they have but maybe they don't. Perhaps, for example, in consolidating the administrative part, parts of FTS and FSS there would be a redundancy, and there is no case to be made for redundancy. I am very concerned, though, that nothing is known.

You indicate, Mr. Brown, that you are against the consolidation. You offer a number of reasons. Obviously one of them has to be the anxiety that employees have about what is going to happen to them. But as I said in the beginning, if the consolidation is to occur, I believe the committee has to insist that, in fact, business reasons fitting the normal business model must be in fact used to justify such a consolidation and that the burden is on who wants to bring people together to move around the chairs on the Titanic to show that when the chairs are at a different place, something different is going to happen.

Would you oppose, for example, if there are duplicative operations at the administrative level, the consolidation of those operations so that at least at that level you don't have customers, agencies, contractors dealing with duplicating parties doing the same thing essentially?

Mr. BROWN. First, let me state definitely the record the union, the National Federation of Federal Employees stands behind what is going to be most efficient for the American taxpayer. Don't misconstrue our message.

But if you also notice in some of my testimony, that if there are—and let me say for the record myself I was laid off from the Federal Government. I worked for the Department of Defense for 14 years. I know what it is like to lose my job in the Federal Government, and there are RIF rules and procedures that were followed. And if there are duplicative jobs or jobs that are no longer needed, I would go back to my testimony that those rules and regulations that are in place now be used. It affords everyone their proper rights and entitlements as an employee that may lose their job due to various circumstances within the Federal Government.

Again, I hate to beat a dead horse, but at least from a national level and/or local level—and like I said, there are many constituents not only from this area, but employees that are on the ground working at GSA here today—that don't know what is going on. And they are all professional people, and should something happen where they do lose their job, they should be treated with dignity and respect and afforded their rights and entitlements. That is our position on that.

Ms. NORTON. Well, I appreciate that position, because obviously the committee can't make its decisions based only on employee concerns. But normally those concerns are not that far off from one another.

I believe that the notion of letting something as bold and big and unprecedented as a consolidation of two major parts of the GSA occur or be in the works without talking with employees is a major flaw in the process itself. I intend to write to Administrator Perry, whom I know and whose work I admire, to indicate that, and I will try to see if I can convince the chairman to join me in such a letter; not because we think bargaining should take place. There are different points in the procedure where employees have a right of course to be involved. Quite apart from that, given the magnitude of what is being undertaken here, the total absence of community starts the process off in the wrong way. And if I may say so, I served on the boards of three Fortune 500 companies. None of them would have ever attempted to begin a consolidation of major parts of their operation without beginning to talk to employees at some level. Talking about elementary communication now, not necessarily the kind of communication that you will have and be entitled to at some point in the process anyway.

I have one question for Mr. Hewitt, because, Mr. Hewitt, your testimony rang very true to me from my own experience in dealing in the private sector as a director of companies, when you talked about a performance-based approach that first you look to a business model, then you go on and do what you have to do. In your testimony on page 5, I was troubled that somehow the GSA, at least at this point, has not seen the value of what you recommend. You say that these first task forces essentially have all insiders on them. In other words, people who know the operation from the inside, who are indispensable to the operation are talking to one another.

At this hearing, over and over again the notion of what is first and foremost in our minds, serving the customer, making sure that the taxpayer benefits, doesn't seem to be a part of such task forces, particularly customer service, since that is essentially what the GSA does. And you recommend expanding the task force in ways that seem to me to be almost self-evident, because you talk about GSA's vendor base. You recommend expanding to include members of other Government agencies and the vendor base, and you indicate some concerns about the representations of FTS on the steering committee.

I just want to know if anybody thinks that—let me preface this question by saying such a task force is only that, it is a task force; it doesn't get to decide the issue. By definition, it is advisory. I just have to ask you if anybody knows of a situation where a major con-

solidation within a company would be attempted without going to some advice from those who use the customer services. If you think it is wise to proceed only with insiders. And perhaps to get Mr. Hewitt to elaborate on how a company, a private company would in fact would deal with this situation. You say by expanding the task force base, but I would just like you to give some rationale for why you think others should be brought into the process besides those inside GSA who, of course, know GSA and FTS and FSS best.

Mr. HEWITT. Well, first, we have a great deal of respect for the success of FSS and FTS, and we think over the last 20 years they have done some tremendous things. And at this point what we are looking for is to simply re-evaluate to consider, can we improve the efficiencies of productivity, the responsiveness of the two organizations? And the success we think is based on the partnership that has existed between industry, which really relies on FTS and FSS, and the Government clients. And that is why the other agencies, we think, are vital to have them involved. And I can understand Administrator Perry's point of view and getting it started with internal people, but I would hope that he would soon buy into bringing some others in. We think that the other Government agencies, the people that are actually getting the services, and the vendors providing the products and services, have something to offer, and it will bring a better result.

Ms. NORTON. Do the rest of you agree with that? Do you?

Mr. HEWITT. Pardon me?

Ms. NORTON. I am asking if the other witnesses agree with the view that those who use the service would be helpful as part of the task force.

Ms. DAUPHIN. Absolutely. The industry and the Government end clients are all stakeholders in this process and should be included.

Mr. AVETISSIAN. I agree. The more advice you get, it is better than none at all.

Mr. DAVISON. I agree as well, but I think there has been a great deal of cooperation and communication over the past years. The big changes in GSA structure from a Government-funded to an industrial-funded organization has brought a partnership between the Federal Government and GSA and the contractors that we haven't had before, both with a similar motive, to do what is best for the Government customer, open up a channel of dialog that we have enjoyed over the last several years. But certainly it shouldn't be minimized, we ought to continue to be a part.

Ms. NORTON. Here, of course, we are not talking about anything that would be definitive; GSA can take the advice or not take the advice. But the notion of moving ahead without talking to the people who are going to use the service does seem to me to be elementary. Same way with employees. All we are talking about here is communication: hey, tell me what you know and let me see if what you know will help me do what I have to do. I think they have to do that with employees; I think they have to do that with the customer base, the vendors, the contractors, the Government agencies themselves. So I have been very much assisted by your testimony and very much appreciate it.

Thank you, Mr. Chairman.

Chairman TOM DAVIS. Anybody want to add anything?

[No response.]

Chairman TOM DAVIS. It has been very helpful to us. The committee appreciates it. Thank you very much.

I want to again thank our witnesses for appearing before us today.

[Whereupon, at 1 p.m., the committee was adjourned to reconvene at the call of the Chair.]

[The prepared statement of Hon. Elijah E. Cummings and additional information submitted for the hearing record follow:]

Opening Statement

Congressman Elijah E. Cummings

House Government Reform Committee

Full Committee Hearing:

"Service Oriented Streamlining: Rethinking the Way GSA Does Business

March 16, 2005 in 2154 Rayburn

Thank you, Mr. Chairman, for convening this hearing to discuss the proposed consolidation of the Federal Supply Service (FSS) and the Federal Technology Service (FTS) into one service within the General Services Administration (GSA).

Today's hearing is part of a continued effort to examine how to best ensure that GSA can deliver its critically important services in the most efficient and effective manner possible.

This Committee has had several hearings evaluating the duplication of services between FSS and FTS. The GSA's mission is to "help federal agencies better serve the public by offering, at best value, superior workplaces, expert solutions, acquisition services and management policies."

In order to achieve this goal, the GSA employs 13,000 individuals and oversees nearly $66 billion in federal spending. In addition to that, the GSA oversees millions of dollars worth of government

assets. It is comprised of a variety of offices, including the independent offices of the FSS and the FTS.

The goal of this hearing is to help the GSA better serve federal agencies so that it can achieve its mission.

FSS performs a variety of functions for federal agencies, from acquiring commercial products to coordinating travel and transportation, and alone conducts $30 billion a year in business for the government. FTS, on the other hand, handles products and services associated with information technology for our federal agencies.

In 2002, Accenture was called upon to review the organization and purpose of FTS and FSS and discovered that there were some areas of concern. Specifically, the report that followed found that when it came to IT sales, marketing, and IT contracts, there was a duplication of services between FTS and FSS.

In an effort to address this challenge, GSA responded to this report by making substantive changes in the functioning of these two offices. FTS and FSS were realigned with a separation of key responsibilities to eliminate redundancies in their structure and the services they provide.

However, the President's Budget for FY 2006 suggests that these changes were not sufficient. Contained in the budget is a proposal that creates the General Services Fund out of the current Supply Services Fund that FSS uses and the Information Technology Fund that FTS uses. The budget would diminish any formal separation between FSS and FTS by bringing both these services into one shop under a Federal Supply and Technology Service.

This merger would mean reducing oversight positions of the Fund from two to one Chief Financial Officer. The President's budget

states that this will "improve accountability by bringing oversight of the Fund under GSA's Chief Financial Officer."

Because we live in an ever-evolving world and in a time of rapid technological transformation, the policies we use to govern the federal workplace must be flexible and efficient. This demands that we constantly review, renew and adapt these policies when necessary.

With that said, we must also remember such steps must be done in a deliberative way to determine how to best achieve our ends and effectively respond to this change. I look forward to hearing from today's witnesses.

Mr. Chairman, I yield back the balance of my time.

TESTIMONY OF PROFESSOR STEVEN KELMAN, HARVARD UNIVERSITY, BEFORE HEARINGS OF THE HOUSE COMMITTEE ON GOVERNMENT REFORM ON GSA REORGANIZATION, MARCH 16, 2005

Chairman Davis, Congressman Waxman, and members of the Committee, I appreciate the opportunity to appear before you, and I strongly applaud the Committee for holding this hearing. This hearing will garner no headlines. But it is about improving the day-to-day performance of government. And that's important even if it doesn't get a headline.

I support the GSA reorganization effort. GSA's procurement operations perform valuable services for the federal government. But these operations have come under scrutiny over the past few years for various kinds of problems and abuses, real or alleged. These problems need attention. Just as importantly, perhaps even more importantly – though this not surprisingly hasn't received the same media attention as juicy stories of abuses – GSA has not fully made use of its ability to add value on behalf of federal agencies and the taxpayer.

Both the governmentwide contracting functions traditionally undertaken by the Federal Supply Service and the contracting assistance functions often undertaken by the Federal Technology Service are sensible roles for a central organization such as GSA to undertake. First, having contract vehicles such as the GSA schedules negotiated, with a basic set of terms and conditions, contractor representations, and basic prices is an efficient use of government resources, avoiding the need to negotiate separate contractual vehicles again and again, especially in an environment where the government may,

through BPA's, negotiate improvements on those basic prices and terms. Second, GSA has the potential – though this has by no means been fully realized – to leverage the government's buying power and obtain price discounts, and better terms and conditions, reflecting the government's status as a large-scale customers. Third, the customer assistance role that some parts of FTS have played – helping government customers with developing performance-based statements of work and with contractor selection, in areas of recurring governmentwide requirements (such as help desks, call centers, etc.) takes advantage of knowledge GSA has gained by repeated exposure to similar kinds of requirements, which an individual operation within the government doesn't have, because it has little experience contracting for the services in question.

Finally, both GSA schedules and GWAC's provide an environment that streamlines source selection, allowing for simplified competitions among pre-screened contractors. Speeding up the procurement process is not simply a matter, as some are now suggesting, of government program managers afflicted with ADD. Fast service allows better program execution. It sends a good signal about the urgency of program performance, and of respect for civil servants and how we treat them. By allowing the government to choose a new contractor easily if the previous one has failed, it adds to incentives for contractor performance.

There is a potential cost to such centralization, however. The central organization can lose contact with the needs of the agencies whom it is supposed to serve, losing the drive to negotiate good deals and becoming unresponsive or becoming unresponsive in other ways. This is particularly the case if the central agency is a monopoly or required

supplier to agencies. We very much saw this problem in the GSA of the period prior to the procurement reforms of the 1990's.

The solution to this potential problem that has been developed is generally to eliminate GSA's mandatory source status and to make GSA's procurement function dependent on revenues from customers who choose to use GSA procurement services. This solution has been recently criticized, in the context of some of the abuses in GSA procurement activities, as creating "perverse incentives" to increase GSA revenue at all costs.

I disagree with this diagnosis, and I would oppose any proposal to eliminate customer payments as the main source of funding for GSA procurement functions. If we are willing to entrust testosterone-driven 23 year-old Wall Street bond traders with the profit motive, surely we can find a way to take advantage of the positive effect of these incentives for 52 year-old GSA bureaucrats from Arlington. We trust bond traders with the profit motive because we understand its value in incentivizing energetic performance, and we have established a system of legal and ethical constraints that limit what bond traders appropriately may do in the pursuit of profit. If we are concerned about inappropriate behavior by GSA in pursuit of sales, we should establish legal and ethical constraints to limit what GSA appropriately may do to get sales. We shouldn't deprive ourselves of the positive effects of these incentives. Doing so could create the kind of slothful and unresponsive GSA we had before these changes during the 1990's, and it would be bad for the government.

For me, probably the most important argument for a reorganization of GSA's procurement activities is that a reorganization is a shock to the system that provides an occasion for reconsidering old policies and behaviors, and for introducing improvements.

Right now, it would appear that GSA's attention, unfortunately, is pretty much exclusively devoted to dealing with the abuses that have gotten so much press attention this past year. Of course, GSA needs to address these abuses, as the "Get It Right" campaign is trying to do. But it's work can't stop there – and any reorganization will be a failure if the changes it induces stop there. Dealing with the abuses will, we hope, reduce the number of bad things that happen. But we want to set our sights much higher than just not doing bad things. As I have said once earlier in testimony before this Committee, we would not judge as a success the career of a member of Congress who had never violated an ethics rule or done anything wrong – but also never sponsored or promoted any legislation, or worked on any oversight.

I would like to address the issue of dealing with the various abuses that have been in the headlines over the past year, but that reflect problems that we have known about for far longer than that. Any system has both goals it seeks and ethical constraints under which it operates. We probably have not done as good a job as we should creating a culture that emphasizes the importance of respecting those ethical constraints. Given that GSA has been trying many new things, this isn't surprising. But it should be rectified.

In my view, perhaps the most important reason we need to have a sense of urgency about enforcing competition requirements for GSA services schedules has to do with the integrity of the system. The limited evidence we have available suggests that in many cases, one-bid schedule orders involve re-competitions of existing work where the

incumbent is performing well. As a general matter, I suspect, the government is not suffering actual damage from the lack of competition. However, these one-bid orders, where there is minimal documentation of the reasons for award and little peer review of program official decisions, create an excessive risk of abuse by unscrupulous program managers engaging in the dark side of the revolving door or, even worse, for outright corruption. I am very concerned that the current system has already produced some examples of such problems that we have not yet discovered. In the future, we need the internal scrutiny and peer review competition provides to reduce those risks.

However, I believe that the most serious criticism that can be made of GSA over the past decade – and one that I hope the Committee will continue to address in the context of any reorganization – is that they have failed to use their central position in the procurement system, and the significant resources they have obtained from government customers, to undertake sufficient efforts to add value to the procurement process on behalf of their customers.

(1) GSA should be educating and working with agencies to encourage agency development of BPA's for supply categories in addition to IT hardware and office supplies: The great successes of BPA's for IT hardware and, to a lesser extent, for office supplies have not been duplicated enough in other supply categories where there are significant agency purchases, such as lab equipment, furniture, or hardware. GSA should actively work with federal customers to provide help in developing such BPA's.

(2) GSA should be more active in negotiating automatic discounts for the government purchase card: The greatest problem with the government purchase card is not the isolated examples of fraudulent use of the card, but rather the number of card

transactions where government customers pay full retail prices for what they buy. Using purchase card data, it is possible to figure out the dollar volume of government purchases with a given supplier. At a very minimum, purchase card buyers should receive basic GSA prices for vendors who have these items on schedule. Beyond that, GSA should be active in negotiating automatic discounts based on past sales volumes aggregated for the government as a whole, that go above basic GSA prices. These discounts should occur automatically any time a government buyer uses the card to make a purchase using a supplier with whom such discounts have been negotiated.

(3) GSA should expand its efforts to provide assistance to government customers for improved contracting methods: GSA's reservoir of knowledge about how to contract for recurring kinds of requirements should be considered one of its core competencies. Government organizations often buy a certain kind of requirement, be it product or service, occasionally. GSA is in a position to see it bought frequently. I strongly applaud GSA's decision to establish a share-in-savings office that is taking a governmentwide lead trying to promote this innovative incentive technique for government contracting. GSA, in my view unfortunately, seems to be moving away from some of its dedicated specialty contracts, such as for disaster recovery services. These are good vehicles that play to GSA's comparative advantages. Frequently in the past as well, FTS has provided assistance to government customers on developing performance-based contracts. These efforts must not disappear in the context of any reorganization; indeed, they should be expanded.

(4) GSA needs to be continually looking for new ways to help its customers. GSA's work in providing technical assistance on share in savings is an excellent example

of an effort to develop new ways GSA can help its customers.Just to take one example, GSA should publish for agencies a list indicating when the fiscal quarter for each publicly traded GSA schedule vendor ends. It is well-known that companies are often more likely to provide better pricing at the end of their fiscal quarters, because salespeople have quotas to meet. Providing a convenient list with such information would help contracting officers get better deals for the government. GSA should do this within the next month. More generally, GSA should see it as its business to be continually alert for opportunities such as these to serve their customers better. GSA should meet regularly with senior procurement executives and with the Federal Acquisition Council to seek ideas for ways it can better serve its customers.

The changes I've been discussing today can't be commanded by legislation. Instead, they require the continued engagement of this Committee well beyond this hearing and well beyond any legislation. They require this Committee to focus not only on having GSA avoiding doing the wrong thing, but on helping GSA do the right thing. With your engagement, I am confident that GSA can improve its value to our government and people.

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