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BEFORE THE
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COMMITTEE ON GOVERNMENT REFORM
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This joint testimony addresses primarily the status of the Competitive Sourcing and Expanding Electronic Government initiatives of the President's Management Agenda. We want to provide you some background on the President's Management Agenda and our progress implementing it. The President's Management Agenda includes three other government-wide initiatives in addition to Competitive Sourcing and Expanding Electronic Government: Strategic Management of Human Capital, Improved Financial Performance, and Budget and Performance Integration. These initiatives

represent areas where, as President Bush has said, “the opportunity to improve performance is the greatest.”

The overall objective of the President’s Management Agenda is to improve the management and performance of the Federal Government. We grade agency status and progress on the Executive Branch Management Scorecard. Each quarter agencies receive assessments of their status in achieving the “standards of success,” specific good government goals articulated for each of the initiatives on the President’s Management Agenda. Agencies also are graded on their progress in achieving the standards, given that in many cases, real improvement will take time.

The good news is that signs of improvement outnumber distress signals:

- 11 departments or agencies show 17 changes for the better;
- 2 agencies slipped in the management of their finances. One of those, NASA, has reclaimed the clean opinion on its financial statements it lost the previous year, but too late to be reflected on this scorecard, which was prepared as of the end of December.

The Scorecard is working. Clearly, it still shows a lot of agencies in the “red” for status. And that reflects the nature of the problems we are trying to solve – chronic longstanding management challenges that defy quick fixes. However, there is significant improvement since our initial evaluation. As of September 2001, 85% of status scores were red. Today, more than a quarter of the scores are out of red, demonstrating an improvement of 11%.

On the progress side, where we assess the steps agencies are taking to get to green on status, we are seeing a commitment to address these areas of mismanagement. Last year, 15 percent of the scores were out of the red category. This year, 26 percent are out of the red. We've almost doubled the percentage of scores out of the red and we expect to improve even more.

Energy improved its status scores in three of the five initiatives. NASA is a government-wide leader in the Human Capital and Budget and Performance Integration initiatives. These and other agencies are taking this exercise far more seriously than some of the critics expected when we announced this good management tool a little over a year ago. We would now like to discuss in more detail the Competitive Sourcing and Expanding Electronic Government Initiatives.

Competitive Sourcing

As most of you know, competitive sourcing is a government-wide initiative to encourage competition for the performance of government activities that are commercial in nature. Using OMB Circular A-76, departments and agencies have been asked to “determine whether commercial activities should be performed under contract with commercial sources or in-house using Government facilities and personnel.”

Competitive sourcing is a means to an end, with the means being public-private competition and the end being better management of our government, better service for our citizens, and lower costs for our taxpayers.

We cannot emphasize enough that competitive sourcing is not about outsourcing; nor is it about downsizing the workforce. Rather, competitive sourcing is about creating

incentives and opportunities for efficiency and innovation through competition. No one in this Administration cares who wins a public-private competition. But we very much care that government service is provided by those best able to do so in terms of cost and quality, be that the private sector or the government itself.

After nearly two years of hard work with the agencies, we are pleased to see a large number of our federal managers accepting the difficult challenge of building an infrastructure to identify commercial activities, planning for their performance, and, for the first time, institutionalizing public-private competition to address those needs. While creation of an infrastructure is just one step, it is a critical step. Many of the processes relied upon until now are rooted in long-outdated management ideals that have permitted vast numbers of our commercial activities to remain insulated from competition. As our mindset transforms from one that resists competition to one that embraces the value competition generates, agencies should find themselves well-positioned to achieve a mix of government and contract support that is optimal for mission success.

Progress is proceeding according to plans at many of the agencies we are tracking in the Budget (i.e., the "scorecard agencies"). We are starting to see real management advances in a few instances. DoD has the largest and most experienced infrastructure in the federal government for conducting competitive sourcing, which is governed by OMB Circular A-76. The Center for Naval Analysis and other evaluators have reviewed the results of DoD's competitions and found that: (1) the net long-term savings are significant and permanent; and (2) few federal employees are worse off after competition.

DoD is committed to reviewing half of the 452,000 positions in commercially available activities. The Department is well on the way to competing a total of 67,800

positions during FY 2002 and 2003. DoD estimates the announcement of new A-76 competitions for approximately 10,000 positions in FY 2003 and at least 10,000 in FY 2004. A major DoD review of A-76 and other competitions by each Military Service and Defense Agency is scheduled this year so that the President's FY 2005 Budget can present how DoD will achieve its goals for this initiative. Based upon DoD's experience with public-private competition under OMB Circular A-76, and the Department's well-established infrastructure, these goals are practical, achievable, and in the long-run will save the taxpayers billions of dollars.

Action is occurring at other agencies as well. For example, the Department of Veterans Affairs is opening up the activities of 52,000 employees (primarily ancillary support functions) to competition over the next five years -- initiating studies of 25,000 of them in 2003 alone. At the Federal Aviation Administration, 2,700 federal flight services personnel are participating in a public-private competition. These federal personnel currently provide weather reports to private pilots, a function that is currently outsourced by every major airline. Similarly, the Department of Energy has started public-private competition for a variety of functions (such as computer personnel, graphic designers, and financial services personnel) at locations nationwide.

Despite progress, overall use of competitive sourcing remains weak. This is not surprising when considering that the current processes governing sourcing decisions are time consuming and unnecessarily complicated. Therefore, OMB is committed to significantly improving how agencies determine whether commercial activities will be performed by public or private sources.

Last November, OMB proposed major revisions to OMB Circular A-76. The proposed changes would provide for processes that are more manageable, more competitive, more even-handed, and more results-driven. These objectives would be accomplished by:

- helping agencies more easily distinguish between commercial and inherently governmental activities by offering a more concise definition of "inherently governmental" and rescinding the more complex description currently relied on;
- making processes simpler and easier to understand, including appropriate use of certain well-tested practices in the Federal Acquisition Regulation (FAR);
- more fully accommodating a program's need for best value and innovation, while still requiring cost to remain a factor in all competitions and the deciding factor in many competitions;
- incorporating appropriate mechanisms of transparency, fairness, and integrity (e.g., by separating the team that is formed to write the solicitation from the one established to develop the agency tender) so that competitions occur on a level playing field that results in performance by the best source;
- ensuring that sourcing decisions are made in real time by imposing deadlines that would reduce the cycle time from the current delay-plagued three years (on average) to one year; and
- improving post competition oversight so that selected sources, whether from the public or private sectors, make good on their promises to the taxpayer.

With regard to the first element, in particular, which involves distinguishing the universe of activities that may be eligible for competition from those that would not, we would emphasize that we are focused *strictly* on commercial functions, whether they be specialized functions or more routine functions such as hanging dry wall or mowing the lawn. We are puzzled to hear statements that the Administration is planning to contract functions intimately related to the public interest, such as determinations on the content and application of regulations. These types of functions must be performed by public employees and we will continue to depend on our able workforce to execute these important responsibilities on behalf of our citizenry. This notwithstanding, we will still require agencies to identify their inherently governmental functions to ensure activities are properly characterized. By doing so, commercial functions that should be considered for competition will not remain insulated from the savings that a fair competition can yield. At the same time, we will not force agencies to pursue competitive sourcing for competition's sake. We appreciate that each agency has a unique mission and workforce mix and will continue to work with agencies in tailoring competition plans accordingly.

We have been working aggressively to consider the more than 700 comments that were submitted on the proposed rule. These comments are posted on the Internet at <http://www.omb.gov> and a discussion of their general disposition will be provided in the preamble to the final circular.

In analyzing the public comments, we have been keeping an especially watchful eye out for areas where processes may cause results that fall short of expectations -- e.g., instances where the process unnecessarily constrains management's ability to fully consider and compare options. In this regard, a number of commenters pointed out that

administrative convenience may drive agencies to pursue direct conversions even where in-house providers may be the better alternative. We are examining the viability and fairness of a process that would allow for a highly simplified and streamlined consideration of public and private sector sources.

We are aiming to complete our review of public comments shortly so that agencies may soon take advantage of our transformed processes. While final decisions have not yet been made, you should anticipate that the major elements we described a moment ago will be incorporated, in appropriate fashion, in the final revisions to the circular.

Of course, our commitment doesn't end with publication of the circular. This is just a beginning. We will continue to work with agencies in crafting appropriate competition plans. Equally important, we will track results through our scorecard so that successes are promoted and shortfalls corrected.

Expanding Electronic Government

The Expanding Electronic Government Initiative is providing enhanced services directly to citizens over the internet and improving the management of the government's \$59 billion investment in information technology. This investment continues to make the federal government the largest buyer of information technology (IT) in the world, and agencies are deriving better value from IT. Indeed, more effective use of IT will improve the government's overall performance. This is occurring within agencies by reengineering their operations to support their mission more effectively and improve their own infrastructure and across agencies by simplifying and unifying activities around the needs of citizens.

The Executive Branch Scorecard includes criteria for Expanding Electronic Government. Agencies are assessed based on their progress addressing chronic problems with their management of IT, as well as their willingness to engage in cross-agency, citizen-centered approaches to service delivery.

Some improvements have been attained through better IT management within agencies, which is discussed in detail in Table 22-1 of the Analytical Perspectives volume in the President's 2004 Budget. Additionally, specific initiatives in the federal IT portfolio have started to deliver real successes in citizen services and government operations. For example:

- **FirstGov:** www.firstgov.gov is the gateway to the federal government. The site was redesigned to provide government services within “three clicks”. This was accompanied by the creation of the Office of Citizen Services at the General Services Administration, which integrated FirstGov with the operations of the Federal Consumer Information Center to serve as a single point of contact to the Government on-line and by telephone. The new strategy has increased the number of site visitors by 50 percent, and the site was named “One of the Top 50 Most Incredibly Useful Web Sites” by Yahoo.
- **GovBenefits:** The Government now provides one-stop access to information and services of almost 200 government programs representing more than \$1 trillion in annual benefits at www.govbenefits.gov. GovBenefits.gov receives over 500,000 visitors per month and appears on *USA Today's* list of “Hot Sites.”
- **Free Filing:** The Internal Revenue Service has created a single-point of access to free online preparation and electronic tax filing services, provided by industry partners, to

reduce burden and costs to taxpayers. As of January 2003, this service is available to a substantial majority of taxpayers at www.firstgov.gov and www.irs.gov.

- **GoLearn:** This on-line training initiative at www.golearn.gov is the number one most visited e-training site in the world, with more than 36 million hits for information on many thousands of e-training courses, e-books, and career development resources. GoLearn.gov has already allowed over 30,000 federal employees to receive training at a cost of pennies per course that would not have been possible prior to the launch of GoLearn. Traditional training approaches only serve a fraction of this number of people, often at as much as \$2,500-\$5,000 per class.

- **Departments of Defense and Veterans Affairs Sharing of Information**

Technology: The Department of Veterans Affairs has incorporated the Department of Defense's eligibility and enrollment system -- providing veterans with seamless services as they leave the military and apply for benefits at the Department of Veterans Affairs. The Departments also are working jointly on computerized patient medical records that will allow instant exchange of patient information between the two health care systems by the end of 2005. These joint efforts escalate the pace of coordination, reducing costs while increasing efficiency and healthcare quality for those who have served our nation.

- **Performance Based Data Management Initiative (PBDMI):** At the Department of Education, IT is being used to transform how state student academic performance information is collected and managed. Currently states and school districts are bogged down in complicated and redundant reporting that is not effectively shared among Department of Education programs or education partners. This initiative will result in

a streamlined data collection process that reduces burden on State governments and eliminates redundancy across the department.

- **I-MANAGE**: The cornerstone of the Department of Energy's efforts to improve management effectiveness, I-MANAGE will integrate disparate human resources, financial management, procurement, facilities management, budget formulation, financial and cost accounting systems. I-MANAGE replaces a less effective financial management system that was behind schedule. When implemented, I-MANAGE will provide real-time information enabling managers to monitor program performance.

The Government has also improved productivity and results from IT investments because of success in the way agencies identify, select and manage their IT investments. Some agencies -- including Office of Personnel Management and the Departments of Energy and Labor -- have made significant strides in identifying modernization “blueprints”, or Enterprise Architectures, to target IT investments that enable programs and business lines to achieve high priority effectiveness and efficiency goals.

Improved business cases and other information on agency IT investments allows the Administration to more accurately identify opportunities for agencies to achieve results. Specifically, the 2004 Budget includes roughly 1400 major projects at \$35 billion. IT investments were funded only when agencies demonstrated that the project would provide significant value to its mission, had a reasonable likelihood for success in meeting goals and objectives, incorporated sufficient IT security, helped achieve the President’s Management Agenda, and did not duplicate other investments.

Despite the major gains that the Government has made over the last year, we still have much work to do. OMB continues to monitor the performance of IT investments by

agencies. For example, of the \$59 billion in the 2004 Budget for IT investments, 771 projects representing \$20.9 billion are currently on an “At-Risk List.” This list includes mission-critical projects that do not successfully demonstrate sufficient potential for success through the business case, or do not adequately address IT security (currently 694 at risk projects accounting for \$18.9 billion). Agencies continually work to improve these projects and address the weaknesses that placed them on the “At Risk List.” OMB will allow investments on the list to move forward only after agencies present successful business cases.

Specific barriers to serving the citizen better through E-Government include: first, a shortfall in qualified project managers and IT architects needed to successfully manage the federal IT investments; and second, IT security continues to be an issue. Many agencies find themselves faced with the same security weaknesses year after year and are not adequately prioritizing security improvements in their IT investment portfolio. As a result, agencies seek funding to develop new systems while significant IT security weaknesses continue, especially in their legacy systems.

Conclusion

With both the Competitive Sourcing and Expanding Electronic Government initiatives, we are asking federal agencies to reconsider how they accomplish their missions. With Competitive Sourcing, we are asking them to test assumptions about the best provider through the competitive process. Competitive sourcing is laying the groundwork for improved mission performance through quality service at the lowest possible cost. With Expanding Electronic Government, we are asking them to find the most efficient way to provide services in the manner of the American citizens’ choosing.

Like any other effort that seeks to fundamentally transform the way we do business, these initiative have their challenges. But if we are steadfast in our commitment to improving the management of the federal government, we will no doubt deliver the quality service across government the taxpayers deserve.