Federal Acquisition Council

Manager's Guide to Competitive Sourcing

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EXECUTIVE SUMMARY

The Federal Acquisition Council (FAC), the Office of Management and Budget (OMB) and the Office of Federal Procurement Policy (OFPP) aim to help every federal agency successfully and transparently implement competitive sourcing. This guide provides a compilation of basic facts, sources, and aids to help agency managers gain a high level understanding of the competitive sourcing process and its requirements, and to achieve and exceed the goals identified in each agency's Green Plan.

The initial publication of the guide in October 2003 described the underlying purposes of competitive sourcing and provided an introductory primer on recent revisions to Office of Management and Budget (OMB) Circular A-76 that were made in May 2003 to improve the efficiency and effectiveness of competitions.

This 2004 revision to the Manager's Guide describes some of the promising management practices that have emerged over the past 2 ½ years as agencies work to make competitive sourcing a practical and thoughtful tool to lower taxpayer borne costs and improve mission performance. The best practices are culled from one-on-one and small group interviews with several agencies that have already demonstrated success with their competitive sourcing activities. However, we hope to hear of more "lessons learned" as agencies gain experience, and to make additional updates to the Manager's Guide as time goes on.

Those unfamiliar with the competitive sourcing process may want to first skip pages 5 through 14 and start at the section entitled "Competitive Sourcing Primer" on page 15. Those closely involved with competitive sourcing will probably find the best practices on page 5 through 14 most helpful.

Best practice highlights include:

- Overall Philosophy
  Creativity and a long term outlook together build an effective foundation for competitive sourcing decisions and processes. OFPP encourages reasoned risk-taking and is committed to providing prompt, constructive feedback on agency proposals. Cultivating a long term outlook among your employees institutionalizes the factors necessary for success.

- Setting up Your Competitive Sourcing Infrastructure
  Agencies noted that garnering active support from the senior-most officials of the department, oversight by a senior and impartial broker, and centralizing management while decentralizing execution were key factors to consider in crafting your competitive sourcing organization.

- Management Tools for Achieving Success
  Innovations developed by your fellow agencies include an internal scorecard, a two week time limit on all outstanding decisions, fostering a bigger picture, and close coordination with the Human Capital Initiative.

- Operational Best Practices: Grouping
  Agencies offer insight on grouping functions for competition.

- Pre-Planning
  Pre-planning (where business case analysis, feasibility studies and consideration of the private sector bidders' needs are critical) requires proactive, strategic thinking.

- Seeking Additional Guidance
  A partial, non-exhaustive list of support contractors has been added to the list of resources for your benefit. Their appearance on this list by no means represents a FAC or OMB endorsement. However, support contractors that have already been successfully used by agencies often have substantial knowledge, business acumen, and study experience that can help you in meeting your competitive sourcing goals.

We hope you will find this guide useful and welcome comments and suggestions for improvement.

The primary authors of this guide are Valerie Dumas of the State Department and Eileen Stephens of the Office of Management and Budget, with advice and editorial suggestions from dozens of others. Please send suggestions for improvement to: A-76@omb.eop.gov.

THE PURPOSE OF THIS GUIDE

As you already know, competitive sourcing has real implications for you, your employees, and your agency. This guide is a compilation of facts, sources, and aids to help you understand the competitive sourcing process and its requirements. A living document, it will be updated regularly on the OMB/OFPP website (http://www.results.gov) to reflect new information that may be of use to you, such as best practices or benchmarking data.

Those unfamiliar with the competitive sourcing process may want to first skip pages 5 through 14 and start at the section entitled "Competitive Sourcing Primer" on page 15. Those closely involved with competitive sourcing will probably find the best practices on page 5 through 14 most helpful.

UPDATE: BEST PRACTICES IN COMPETITIVE SOURCING

Integrating competitive sourcing into your agency's management operations can be challenging. This section highlights a selection of "best practices" intended to assist you as you work through the competitive sourcing process. They were gathered through numerous small group and one-on-one interviews with competitive sourcing managers at agencies and departments with successful competitive sourcing track records.

Should you develop any best practices based upon your own competitive sourcing experience, please email them to A-76@omb.eop.gov so that they can be included in future editions of this guide. Currently, FAC is especially interested in the following:

- agency experiences with administering A-76 performance decisions, including developing successful contracts and letters of obligation (LOO).
- agency experiences with integrating the competitive sourcing and human capital initiatives in decision making.
- additional web resources used by agencies.

OVERALL PHILOSOPHY

Creativity and a long term outlook together build an effective foundation for competitive sourcing decisions and processes.

- <u>Creativity and Innovation</u>
  OFPP advocates reasoned risk-taking and innovative problem solving in overcoming the agency-specific challenges of implementing competitive sourcing. Each department occupies a unique environment and one size does not fit all. Several interviewees recommended taking advantage of the flexibilities offered under the new circular to custom tailor solutions, and recognized OFPP's commitment to providing prompt, constructive feedback on agency requests for deviations.

- <u>Long Term Outlook</u>
  Competitive sourcing should not be treated as a short term end in itself, but as one tool in a toolkit of good management practices. Government groups should not perceive competitive sourcing as a threat – it's simple

management "common sense" to benchmark against competitors and do everything possible to be as or more efficient than competitors.

Some suggestions for incentivizing and training managers to think like business owners include:

- sponsoring scholarships to business schools
- sponsoring classes at the Federal Executive Institute
- encouraging evening school attendance
- looking for the appropriate managerial philosophy at hiring time – an MBA might be included as a "desired quality" within the hiring criteria
- publicizing and utilizing both annual and on-the-spot performance awards
- including appropriate performance goals in employee performance appraisals and link to "pay for performance"
- Allowing organizations to reinvest any savings resulting from competitive sourcing

SETTING UP YOUR COMPETITIVE SOURCING INFRASTRUCTURE

In any new endeavor, building effective capacity and infrastructure is a critical first step. It is important to ensure that the right people are in the right places to drive the process. To this end, agencies with successful competitive sourcing programs have set forth the following key concepts:

- <u>Support from the Top</u>

  All agencies interviewed by FAC noted that active and visible participation by top officials (the sub-cabinet level at a minimum and preferably the Secretary level) is essential to success. The more vocal top management is in supporting competitive sourcing, the more commitment lower level managers and employees demonstrate toward achieving results. In one department, bureau level chiefs send letters to all employees affected by a competition. In addition, the Secretary expresses, through editorials and department-wide communication, her support and commitment to preventing adverse effects from competitive sourcing. In another department, the most difficult competitive sourcing related decisions are made directly by the Secretary.

- <u>Oversight by senior, impartial broker</u>

  Competitive sourcing decisions encompass a wide variety of functions and require delicate balancing of divergent interests. Decision making is best undertaken by individuals with a broad perspective who have no vested interest in one function over another.

This broker should have sufficient clout to achieve results. However, it is critical that the Competitive Sourcing Official (CSO) be neutral and objective with respect to the various relevant functions (contracting, human resources, financial management, competitive sourcing, and grants management) to enable rational, big picture decision making.

One example of this can be found at the Food and Drug Administration (FDA), where a steering committee of center executive officers and directors of real property and acquisition, human resources, information technology, facilities, and equal employment opportunity meets to analyze the benefits and drawbacks of competing commercial activities currently performed by FDA employees. Final steering committee approval must be obtained before a competition is initiated. An employees' union representative participates on the steering committee (as a non-voting member).

- Centralized management, decentralized execution.

In FAC interviews, several departments stated that competitive sourcing policy should be standardized through a centralized office, while execution efforts should be tailored to meet the individual needs of each bureau or division.

In addition, an outside study commissioned by one agency found that:

- high-level steering or working groups at the departments should approve budget requests, approve and oversee large studies, hear briefings from study leaders and managers, and ensure accountability for follow-through on action items;
- central competitive sourcing offices should interpret policies, provide advice and assistance, collect and report on data, approve FAIR Act Inventories, and facilitate communication with steering groups and bureaus/divisions; and
- bureau/division offices should conduct studies and evaluations.

However, departments differed in the degree of autonomy given to bureaus and divisions. For example, the Department of the Interior (DOI) is quite decentralized, both geographically and organizationally. For this reason, DOI allows its bureaus and offices considerable leeway in implementing policy. In contrast, the Department of Energy (DOE) has made concerted efforts to centralize its competitive sourcing activities, ultimately creating Functional Area Study Teams that bring together members from diverse locations within the department. See below for more about DOE's organizational model.

Department of Energy: a Successful Model for Competitive Sourcing

At the top resides an Executive Steering Group, comprising the:

- Deputy Secretary of Energy (Chair)
- Director of the Office of Management, Budget and Evaluation/CFO
- Undersecretary of Energy, Science and Environment
- Undersecretary for Nuclear Security

plus, in advisory roles:

- General Counsel
- Director of Public Affairs
- Assistant Secretary for Congressional and Intergovernmental Affairs and
- national representatives from AFGE and NTEU.

This Steering Group typically meets quarterly. Duties include deciding areas of study, approving changes/pullouts from competitions, and generally ensuring consistency in decision making across the department. The participation of national representatives of unions ensures frequent and open communication with a major stakeholder group.

Instead of setting up competitive sourcing teams by bureau or agency, the DOE has established department-wide Functional Area Study Teams to enable department-wide business unit groupings. The leaders of these teams are chosen by and report to the Executive Steering Group.

Further, the central competitive sourcing office, which comprises a staff of four GS-14 and GS –15 employees, reports directly to the acting director of the Office of Management and Budget /CFO and to the Deputy Secretary. The staff does not make operational decisions for program offices or the functional area study teams, but has been chartered by the Secretary to create policies and procedures, maintain consistency across program offices, and validate FAIR Act Inventory coding, oversee feasibility studies, manage the execution of study funding, and serve as support staff to the CSO and as the Secretariat to the Executive Steering Group.

Finally, senior managers at DOE recommend that the Competitive Sourcing Official role be filled with an individual of at least the Assistant Secretary level, if not higher.

In DOE's case, the Director OMBE/CFO was an easy choice for CSO - not only does the position cut across the Department, but it currently participates as one of the four members of the Executive Steering Group. Finally, the position oversees offices with a continuing role in the A-76 program (procurement, budget, personnel, etc.)

MANAGEMENT TOOLS FOR ACHIEVING SUCCESS

Several agencies have developed creative approaches to driving competitive sourcing success. Their innovations include:

- Internal scorecard

  One department has instituted an internal scorecard for its operational divisions (in addition to the President's Management Agenda [PMA] scorecard) with great success. This highly visible indicator of progress and results has proven invaluable in rewarding and motivating staff and enforcing accountability, as it has with the government wide scorecard. Thanks in part to this tool the department has successfully completed eight standard competitions in less than 12 months.

- Unequivocal commitment to prompt decision making

  One sub-agency instituted a policy requiring any outstanding impasse to be resolved promptly by senior management. Although in writing this policy seems obvious, it is extremely effective in eliminating bottlenecks and ensuring consistent progress.

- Close coordination with the Human Capital Initiative

  The Human Capital Initiative and the Competitive Sourcing Initiative naturally complement and reinforce one another. Successful agencies took advantage of this synergy by:

  - Overlaying the competition plan with workforce planning to confirm that goals and deadlines are compatible.
  - Making sure that both the Human Capital representative and the Competitive Sourcing representative reported to the same individual. These representatives and their joint boss communicate frequently, attend each other's team meetings and meet twice a week.
  - Holding monthly meetings that bring Competitive Sourcing program managers, Human Resource Advisors and Human Capital managers together in one room.
  - Securing Voluntary Separation Incentive Pay/Voluntary Early Retirement Authority (VERA/VSIP) authority from the Office of Personnel Management as a precaution, before studies are completed, to save time and reassure employees who might be affected.

  DOI takes this idea one step further by integrating its competitive sourcing and human capital activities with its budget and performance integration

process. Appendix D illustrates DOI's vision of the way these three initiatives should work in concert.

- Frequent, open, honest communication with employees.

  Employees are understandably very nervous about the effect a competition may have on their careers. Most loss in productivity is due to misunderstanding or misinformation among employees of the true nature of the competitive sourcing process. Your efforts to open a frank communication channel with them will go far in building trust and morale and sustaining productivity.

OPERATIONAL BEST PRACTICES: GROUPING

Success in competitive sourcing doesn't result solely from building effective management systems and infrastructure. The task of perfecting and streamlining day-to-day operational activities is just as important. The topic of grouping was particularly significant in this round of interviews.

- The importance of grouping

  As competitions of "low hanging fruit" functions are completed, departments may find it increasingly difficult to plan additional competitions because no functions seem adequate in size or design. Grouping by function or geographic location enables larger and therefore potentially more attractive competitions. In fact, in the long term, as the number of FTEs available for competition dwindles, the application and use of function codes may need to be standardized across departments.

- Key factors to consider in grouping functions for competition

  - How closely the function is tied to the agency's or department's mission. The more distant the relation to core competencies, the more sense it makes to explore potential alternative service providers.
  - Timing issues. Even if two activities are functionally similar, it might be wise to delay competition of one or the other because it requires business process re-engineering. Other timing issues might include an agency's pocketbook - can it afford VERA/VSIP or Reductions-In-Force (RIF) costs in the event that the competition leads to outsourcing, or implementation of a Most Efficient Organization (MEO)?
  - The type of contract the private sector marketplace will support. This includes work scope, geographic location(s), employee dispersion, and timing. It is always wise to consider how a competition can be arranged to attract more and better bidders.

PRE-PLANNING

Some of the agencies interviewed by FAC also noted that pre-planning is an important step in the competitive sourcing process that requires especially proactive and strategic thinking.

- Maximize private sector interest in the competition

  Several agencies have completed all the pre-announcement steps of the competitive sourcing process only to find that there is insufficient interest from the private sector.

  This results in wasted taxpayer dollars and should be avoided. Suggestions to remedy this potentiality include:
  - Complete market research ahead of time to confirm the existence of a private sector market for a service. If there is no market, then the service should be coded A in the FAIR Act Inventory with appropriate justification.
  - Hold "industry days" or "bidder conferences" to generate interest in the competition and answer questions from potential bidders.
  - Aggressively consider grouping functions within or across agencies or departments, or by geographical location to generate sufficient scale to attract private sector bidders.
  - Initiate discussions with potential contractors on why they might not bid on a certain competition. Consider amending the competition to maximize the bidders' interest and thereby increase competition.

- Conduct business case analysis/feasibility studies where possible

  Feasibility studies are very important in ensuring a successful competition because they allow an agency to develop blueprints for an ensuing competition prior to announcement. By determining the following elements ahead of time, agencies can realize streamlined execution and maximum savings at the time of actual competition:
  - scope
  - mission impacts and risks
  - estimated savings
  - study type and
  - timeline

  Developing a business case analysis is also important. The Internal Revenue Service (IRS) conducts business case analyses before it undertakes competitions. The business case process takes into account an organization's strategic plan, culture, and potential for change in examining the scope and cost of doing work today and determining possible targets for re-engineering. Market research is then undertaken

to determine a "like-to-be" organization. Finally, the risks and benefits of moving from the current to the "like-to-be" organization are compared. IRS requires a minimum informally estimated 20-30% return on investment or significant qualitative benefits (such as improved productivity and customer service) to generate a decision to compete.

- Always form an MEO

  One agency recently failed to realize any savings when the government group won its competition because no MEO team was formed and the organization was not made more efficient. Always form an MEO when conducting a competition so that savings are realized no matter who wins.

SEEKING ADDITIONAL GUIDANCE

Finally, it's important that you understand you are not alone in facing the challenges of competitive sourcing. Numerous additional resources exist to aid you:

- Support Contractors

  Most agencies that have pursued competitive sourcing have sought the assistance of contractors to provide technical support and offer their business acumen. Contractor support has taken a variety of forms, from helping develop business cases to assisting in the development of a performance work statement. Numerous agencies have hired contractors to assist in the development and deployment of training materials.

  The following is a partial list of contractors that agencies have used recently. A full list of available contractors can be found at http://www.gsaadvantage.gov.

Contractor	Website	Services
Booz Allen Hamilton	http://contractvehicles.bah.com/mobis/a_76.html	
Warden Associates, Inc	http://www.wardenassociates.com/services/sourcing.asp	
Grant Thornton	http://www.grantthornton.com/content/13270.asp	
Sterling and Selesnick	http://www.sterlingselesnick.com	Relationship building between local unions and management
LMI	http://www.lmi.org/Services/group_HRM.htm	
Mgmt Analysis, Inc	http://www.mainet.com/services/services.html	
Technical Mgmt Services	http://www.tmsworkshops.com/A76.htm	Training
Abacus Technologies, Inc.	http://www.abacusokc.com/solutions.asp	PWS support

- Web-based Resources

The following is a partial list of resources to which agencies have referred to help familiarize themselves with competitive sourcing. Additional resources are identified at Share A-76! (http://emissary.acq.osd.mil/inst/share.nsf), a knowledgement management web site on competitive sourcing operated by DOD.

Name	Location	Content
Government Executive Magazine – A-76 and Outsourcing Web page	http://www.govexec.com/outsourcing/	Includes links to revised circular, several A-76 related agency webpages and related news.
'The Outsourcing Debate' – Special Issue of Government Executive Magazine. June 2003	http://www.govexec.com/features/0603/ots03mag.htm	General articles of interest on competitive sourcing.
Kaplan, T. and Ann Benson. (2003). The Human Resources Role in Managing Organizational Change. Alabama: FPMI.	http://www.fpmi.com/bk/show_book.cgi?book_id=123	Tutorial on HRM specialist activities within the organizational change process. Includes: developing staffing and transition plans, retraining and outplacement requirements, preparing the labor market analysis, classification and wage rate issues, conducting mock RIFs, etc.
Nelson, R. (2001). Building the Optimum Organization for Federal Agencies. Alabama: FPMI.	http://www.fpmi.com/bk/show_book.cgi?book_id=122	Explains how to use an A-76 study or functionality assessment to establish an MEO team, and how to plan, implement, analyze and track any study. Includes: MEO charter, technical performance plan, transition plan, management plan and certification.
Gansler, J. (2003). Moving Toward Market-Based Government: The Changing Role of Government as the Provider. IBM Endowment for the Business of Government.	http://www.businessofgovernment.org/pdfs/Gansler_Report.pdf	Describes a range of ways in which the private sector can be harnessed to perform public service with efficiency and effectiveness.
Sterling and Selesnick	http://www.fac.gov/documents/compassesstool.doc	Comprehensive assessment tool which enables agencies to compare current practices against detailed benchmarks in all spheres of competitive sourcing activity

- Training/Guidance documents used by your fellow agencies and departments

Several agencies have developed guidance documents for use within their organizations. These may be useful as templates for developing your own internal resources. Requests for hardcopies may be submitted to each agency's Competitive Sourcing Office.

Org	Document
USDA	• http://www.usda.gov/ocfo/compsorc/
DOE	• http://www.ma.mbe.doe.gov/a-76/ • DOE Competitive Sourcing Operational Guidelines • DOE Competitive Sourcing Operations Handbook (based on new circular) • Records management handbook (based on new circular) • Competition tracking system handbook (based on PBViews software) • Human Resources guidebook • Guide to Inventory Submission • Training manual for automated inventory system
HHS	• NIH A-76 website http://a-76.nih.gov/ • MEO draft letter of obligation
DOI	• http://www.doi.gov/pam/competitivesourcing// • The Management Plan (developing an MEO)
Defense	• Share A-76 http://emissary.acq.osd.mil/inst/share.nsf/BestPracticesStep?openform
IRS	• Presentation on conducting business case analysis

COMPETITIVE SOURCING PRIMER

WHAT COMPETITIVE SOURCING IS AND IS NOT

Competitive sourcing:

- is a form of management vigilance;
- is an effective, efficient way to foster a more results oriented focus within government agencies;
- is a tool to help you benchmark your organization against other possible service providers, to stimulate your own organization to think of ways to change in order to become the best it can be;
- involves conducting public-private reviews or competitions to assess how best to deliver services to the public;
- is a citizen/customer, not pro-business, initiative; and
- is outcome-neutral.

Competitive sourcing is not:

- outsourcing;
- reducing the federal payroll; or
- blindly giving work away to the private sector. In fact, work already contracted out may be competed and brought back "in-house."

THE DIFFERENCE BETWEEN PUBLIC-PRIVATE COMPETITIONS AND OUTSOURCING

Outsourcing: "Outsourcing" assumes, up front, that the private sector can perform activities better, cheaper, and/or faster than a government organization. The decision is made to obtain services from the private sector without first holding a public-private competition.

Public-Private Competitions: In contrast to outsourcing, public–private competition does not assume that the private sector is the preferred provider. In fact, according to the U.S. General Accounting Office, government organizations win more than half of all competitions. The purpose of holding a competition is to deliver the best value to the agency's customers, or more generally the American public, regardless of "who" performs the function.

Contracting out is just one possible outcome of a public-private competition. A function is contracted out if the competition process shows that the private sector or some other nonfederal provider can perform the function more cheaply, efficiently and effectively than the government.

Experience in state and local governments has shown that no matter who wins a competition, the public-private competition process provides on average cost savings/avoidance of 20-30 percent. The taxpayer saves money even when government organizations win because the competition process drives government groups to become as efficient as possible.

In one survey of the result of 2,287 competitions at DOD between 1975 and 2001, the average savings was 33%. There is a learning curve effect, since the average savings in studies surveyed that took place between 1994 and 2001, was 42%.

COMPETITIVE SOURCING MYTHS

Numerous myths surround competitive sourcing, some of which are contained in Appendix 1. Another excellent source of information is *"Moving Toward Market-Based Government: The Changing Role of Government as the Provider."* (June 2003) from the IBM Endowment for Government http://www.businessofgovernment.org/. Among the more persistent myths that this analysis debunks with facts are the notions that saving from competition fade quickly, and that decisions to contract out regularly mean significant reductions-in-force.

THE COMPETITIVE SOURCING PROCESS

Competitive sourcing will produce change in all parts of an agency, not just the business unit undergoing a competition. As such, competitive sourcing has real implications for you, your employees, and your entire agency.

Broadly, competitive sourcing involves three distinct areas:

- The FAIR Act Inventory, and its compilation
- The Competition Process
- Post-Competition Management and Accountability

As a manager, you may be asked to participate in each of these three areas, to varying degrees, even if you have no direct involvement with commercial activities.
The following sections will briefly describe each of these three areas.

THE FAIR ACT INVENTORY

The FAIR Act Inventory is an annual requirement that Congress created in 1998 through the Federal Activities Inventory Reform Act (P.L.270). Agencies must submit to OMB, by June 30 every year, a listing of all activities that are either commercial or inherently governmental in nature, in response to the FAIR Act and OMB guidance. Together, the lists should accurately and completely represent all the activities that an agency performs, and therefore should represent all FTEs in the agency.

The compilation of the FAIR Act inventory is more than an administrative exercise. Per the FAIR Act, activities commercial in nature are subject to public-private competition to ensure that the best value is delivered to the American taxpayer. Thus, the FAIR Act inventory defines the universe of possible competitions.

As a manager, your ability to communicate and promote change is key to ensuring fairness[1] and integrity in the creation of the FAIR inventory. Listed below is a step-by-step guide to successfully implementing the FAIR inventory process.

[1] Chan, Kim W. and Renee Mauborgne. *"FAIR Process: Managing in the Knowledge Economy."* Harvard Business Review. December 2002.

- Let your staff know when and how FAIR Act information will be used.

- Provide an opportunity for input into the decision. Engage your employees and explain the process to them. Ask them to review their position descriptions to make sure activities and contributions are accurately captured.

- Be clear about how decisions will be made, and who will make them.

- Explain the rationale behind a decision when it has already been made.

- Clarify and explain roles, responsibilities, performance standards, and expectations.

- Stay engaged throughout the process – few priorities are more important than communicating to your employees about this initiative and how it will impact them.

- Your employees may remember or have heard rumors about the "streamlining" of federal agencies in the mid-1990's, which had the simplistic goal of cutting federal employment. Some of them may have even been through the privatization push in the early 1980's. They may quite understandably but incorrectly view competitive sourcing as a return to the past. Your words and deeds as a manager must communicate how the present is different from the past.

- Identify the Challenge and Appeal authorities.

- Ask for support from your agency's centralized competitive sourcing office in explaining implications and next steps. Employees may ask, "Am I safe because I was coded an 'I/G' (inherently governmental)?" or "Am I a target because I am a 'C' (commercial)?" This process requires that your employees understand:
  - The inventory doesn't target specific employees, but instead focuses on activities. The submission to OMB does not contain names! Inventory analysis (deciding whether an activity is commercial or inherently governmental) is typically done on a position-by-position basis only because it makes it easier to crosswalk the staffing resources required to perform an activity.
  - Competitions are created and packaged based on functions. Many people perform activities that are a mix of commercial and inherently governmental tasks. The determination is made based on activities performed.
  - Every activity is reviewed. Where an individual winds up before, during, and after a competition depends on many factors that can be best addressed through your human resource advisor.
  - Being designated a "C" doesn't mean that a person will lose their job tomorrow. A position may be classified as "C" but may not be subject to a competition for a variety of reasons. Rely on your Agency's competitive

sourcing staff to explain your agency's study selection process for your organization.

- There are many reasons why an activity might be classified as "C" but is not slated to be competed immediately. Some of those reasons include: insufficient interest from private sector bidders; the function must first be made competitive through re-engineering; the agency lacks sufficient funding for VERA/VSIP and RIF payments; etc.

The centralized support staff in your agency will also provide criteria and guidance to ensure consistency within the process. Consistency is achieved not by treating everyone the same (e.g., all positions in a particular series are "C"), but by methodically and systematically applying the criteria specified.

COMPETITION PROCESSES

Two types of competitions are authorized in the OMB Circular A-76, which governs the competition process (http://www.whitehouse.gov/omb/circulars/index-procure.html):

- Standard
- Streamlined

The key differences between the two types of competitions are size, duration, and cost differential.

- Standard competitions are generally conducted for 65 FTEs or more, can take up to 12 months to complete and require the private sector or other nonfederal bidder to show incremental savings of lesser of $10 million or 10 percent of personnel-related costs above and beyond the government's bid in order to contract out the work. A 6-month study extension may be approved by a senior agency official.

- Streamlined competitions may be conducted for activities that involve 65 or fewer full-time equivalents (FTEs) and are generally required to be completed within 90 calendar days, though a 45 calendar day extension may be approved by a senior agency official. Streamlined competitions do not include any percentage cost-saving threshold. However, the Department of Defense, Interior, and if enacted Transportation-Treasury Appropriations Acts would require the Departments of Defense, Interior and Transportation to apply the 10 percent conversion differential for activities performed by more than 10 employees. For agencies covered by the Transportation-Treasury Appropriations, the conversion would be considered as part of the cost or price evaluation.

Numerous guides, training modules and FAQs discuss the specifics of streamlined and standard competition processes. A good starting point is the Department of Defense document repository A-76 Share! (http://emissary.acq.osd.mil/inst/share.nsf/) Only material dated since May 29, 2003 (effective date of the new Circular A-76) should be used.

As a manager, the most important contribution you can make to any competition process is to ensure that your organization is positioned to compete effectively:

- Communicate with stakeholders regularly. These include affected employees, unions, executive steering committees, and other interested parties. Your Human Resources office can help you ensure that your communications with affected employees adequately address their job security concerns. Several Departments have even included top national union leadership in their senior competitive sourcing meetings to maintain open dialogue.

- Make adequate resources such as outside consultant expertise available to enable the government organization to compete effectively. Outside consultants have proven an invaluable source of information and guidance, especially to those agencies just beginning the competitive sourcing process. If you do enlist consultant support, bear in mind that a good reputation doesn't necessarily translate to adequate experience in creating a PWS or government offer. Double check the consultant's actual experience level with competitive sourcing tasks.

- Train, read and talk about competitive sourcing. Discuss competitive sourcing with other agencies to glean their lessons learned. Using consultants to draft PWS or government offers *isn't an excuse to minimize your active involvement in the process.* You need to be as or even more knowledgeable than the contractor to ensure an accurate and high quality tender, the foundation for the government offer. Training should comprise a mix of A-76 specific topics, including PWS and MEO creation, in-house cost estimation, and general subjects such as Activity Based Costing, Performance-Based Service Acquisition, and business process reengineering.

- Dedicate staff resources to PWS or MEO teams as necessary.

- Guard against potential conflict of interests resulting from your participation, or that of your employees, in a study team. For example, if the family member of an employee from your MEO team were to work for a potential offeror, would it be a conflict of interest? Consult your agency's staff in charge of competitive sourcing, and your agency's designated ethics official, as appropriate, to help you evaluate potential conflicts.

POST COMPETITION AND ACCOUNTABILITY

Regardless of a competition outcome, the competitive sourcing process requires you to change an agency's behaviors and practices. Even if the government MEO organization wins, keeps the work in-house, and avoids a RIF, employees may be asked to perform different activities and operate in different ways than before.

As a manager, you may need to modify your organization to ensure that the terms of the PWS are being met. The MEO may be required to keep track of its workload and will be held accountable to the performance standards in the PWS – just as a contractor would be. Both the contractor and government personnel must comply with the requirements in the PWS.

APPENDIX A: COMPETITIVE SOURCING IS NOT THE SAME AS 'OUTSOURCING'

Competitive Sourcing ≠ Outsourcing	
Is about conducting a public-private competition to improve value.	Is about buying a service or product from outside the government.
Assumes that both government and the private sector are capable of performing commercial activities.	Assumes that the private sector can perform activities better, cheaper, and/or faster than a government organization.
Government organizations compete for work. Competition occurs between private, public and non-profit entities.	Competition is limited to private and non-profit bidders. Incumbent government organizations do not compete for work.
A function is only contracted to the private sector if it wins a competition – which experience has shown happens less than half of the time.	A function goes to the private sector without the opportunity for the public sector to compete - affected federal employees need to change jobs.

APPENDIX B: COMPETITIVE SOURCING IS NOT THE SAME AS 'PRIVATIZATION'

Competitive Sourcing ≠ *Privatization*	
Government retains responsibility for service delivery, generally retains ownership of assets, and becomes a customer of the private sector if the government does not win a competition.	Is the transfer of assets or responsibility from the government to the private sector. A key difference between public-private competitions and privatization is divestiture. Often includes a wide range of public-private partnerships, such as voucher systems, commercialization, franchising, and public-private partnerships. Even the creation of federal corporations, quasi government organizations, commercialization, and government-sponsored enterprises are often viewed as forms of privatization.

APPENDIX C: COMPETITIVE SOURCING FAQS

BACKGROUND

Q. What is competitive sourcing? Why is it being emphasized?

A. Competitive sourcing helps ensure citizens receive the best value from government. It involves conducting public-private competitions to compare the performance of a government organization with that of a private sector or other nonfederal organization.

The competition determines which service provider can supply mission related support and meet agency business requirements at the best price without compromise to quality or performance. Used judiciously, it can be one of the most effective tools for improving performance and cost-efficiencies – regardless of who wins. This ability to improve value through competition is why competitive sourcing is one of the five elements of the President's Management Agenda (PMA). (www.results.gov).

The public-private competition process is highly structured to ensure a level playing field for both private and government bidders. Fairness and transparency are essential.

Q. How does competitive sourcing differ from privatization?

A. The assumption that competitive sourcing is synonymous with privatization is incorrect. Privatization competitions involve only private sector service providers; governmental bidders are not allowed - federal activities are unilaterally handed over to private management, control, and/or ownership. Under privatization, the government no longer retains responsibility or control over the delivery of privatized goods or services. In contrast, competitive sourcing allows government employees to compete for work against non-federal organizations.

Q. What are the expected results of public-private competition?

A. One result of a public-private competition can be "contracting out." However, this happens only if the private sector can perform the function more efficiently and effectively than the government. Experience has shown that the government retains activities in-house approximately 50 percent of the time. Further, based on extensive data from state and local government and the Defense Department, public-private competition yields savings of 20-30 percent regardless of who wins, since the competition itself often stimulates new efficiencies within the public sector.

Public-private competitions can also be used to bring back in-house work that was previously contracted out if that means a better value for the taxpayer in terms of efficiency and effectiveness.

Q. Why are federal agencies engaging in competitive sourcing?

A. We are always looking for ways to provide better value to citizens, our customers, and improve our performance.

Further, OMB has told agencies that they may retain and reinvest any savings generated by competitive sourcing. With routinely tight budgets, this represents an opportunity to create more resources for an agency to use to better accomplish its mission.

Q. What will be studied under competitive sourcing?

A. Functions will be selected by your agency's own leadership based on business and mission requirements. Factors that would be considered when making competitive sourcing decisions may include, but are not limited to, operational risk, potential for performance improvement, potential to improve quality, potential for cost savings, workforce planning, projected employee attrition, and experience with employee recruitment and retention.

Q. Does competitive sourcing target blue-collar jobs?

A. No. Competitive sourcing assesses all of an agency's operations, and activities, and all categories of employees. Though inherently governmental activities are not subject to public-private competitions, commercial activities are reviewed and may be subject to competition regardless of who performs the activities, blue or white collar.

Q. Are there FTE reduction goals or targets associated with competitive sourcing?

A. There are no FTE reduction goals. The focus of competitive sourcing is not to mechanically or mindlessly reduce the government workforce, but to determine who can deliver the best value to the taxpayer. The competition process may change the staffing level needed to deliver the service or product even if activity is retained in-house. The scope and nature of the change required are a result of the competition process and are not guided by any predetermined expectations.

Q. How am I supposed to pay for these studies?

A. Agencies must budget funds to pay for the out-of-pocket cash costs associated with consultants and staff overtime costs. The base salary costs of employees working on competitive sourcing studies are generally considered part of the normal cost of operations, like any other task that a manager might assign employees. Contact your agency's budget office to discuss the particulars.

MANAGEMENT

Q. Why are federal managers so crucial in competitive sourcing?

A. Federal managers are the link between federal employees and the Administration. As such, they serve as the vital conduit that makes the government's employees aware of the Administration's goals and, conversely, make agency leadership aware of employees' concerns.

The competitive sourcing initiative may engender unease among some federal employees, particularly when it is falsely regarded as "downsizing" or "outsourcing". It is the federal manager's role to ensure that the myths about

competitive sourcing are debunked and federal employees understand what competitive sourcing truly means.

The input of managers is also essential in making the competition process run smoothly. After all, managers help designate employee functions as commercial ("C") or inherently governmental ("I/G"). They help establish the government offer if activities in their offices are competed. Throughout these and related processes, managers will interact with competitive sourcing representatives from their agencies and OMB. These sessions provide managers with an opportunity to ask questions so that they may better understand the competitive sourcing process. Moreover, it provides managers the opportunity to present and share their own recommendations concerning competitive sourcing.

Q. Why is competitive sourcing considered a crucial tool for federal managers?

A. Federal managers today work under ever tightening constraints. Staffers throughout federal government are being asked to work on a wider array of activities. Resource constraints require managers to explore novel ways to deliver value within budget. Competitive sourcing provides federal managers with savings of 20-30%, affording them the opportunity to reinvest in the core mission of their offices.

Competitive sourcing also provides managers with a mechanism for addressing difficult decisions with an eye towards strategic management and a return to core competencies.

Most importantly, competitive sourcing harnesses a new force in government: competition. Though competition can often be a destabilizing force that disrupts the everyday flow of an office, it can also be used as a mechanism for genuine change. It is a tool for addressing workforce-planning challenges; it fosters constant improvement in service delivery. Managers play the crucial role of ensuring that constructive change occurs. It is only through their proactive participation that the real, positive change envisioned by the competitive sourcing initiative will come to pass.

FEDERAL ACTIVITIES INVENTORY REFORM (FAIR) ACT

Q. What is the FAIR Act?

A. The Federal Activities Inventory Reform (FAIR) Act of 1998 (P.L. 105-270), requires the head of each executive agency to submit to OMB by June 30 of each year a list of commercial activities their agency performs. OMB subsequently required agencies to submit a list of inherently governmental activities as well, and reviews and approves both lists.

The law requires that the head of the agency review the list and decide which activities will be subject to a competition under the guidance of OMB Circular A-76. The Circular guides executive agencies in administering competitions.

Q. How does the FAIR Act relate to A-76?

A. Essentially, the FAIR Act inventory is the planning document from which activities are selected for A-76 (public-private) competitions. The FAIR Act Inventory should fairly, accurately, and completely represent the activities being performed at an agency in meeting its mission. The FAIR Act requires that an executive agency use a competitive process, under the guidance of OMB Circular A-76, to select the source for the performance of commercial activities within its FAIR Act inventory.

Q. What is a commercial activity?

A. Simply put, commercial activities are services that are obtainable from a commercial source – for example, activities that are listed in the yellow pages. A more technical definition is found in OMB Circular A-76. Commercial activities fall into two categories:

- Activities performed in-house by federal personnel.
- Contracted activities provided by contractor personnel. OMB defines commercial activities as anything that can, could, or should be contracted.

Q. What is an inherently governmental activity?

A. An inherently governmental activity is a function so intimately related to the public interest of the United States that it requires federal employees to perform it. Inherently governmental activities include those activities that require either the exercise of substantial discretion in applying government authority, or the making of value judgments for the government. Typical examples include law-enforcement and awarding contracts. OMB Circular A-76 contains further details regarding the definition of an inherently governmental activity.

Inherently governmental activities broadly fall into two categories:

- The act of governing, i.e., the discretionary exercise of government authority, and
- Determinations relative to monetary transactions and entitlements.

Q. How are decisions made concerning which activities are inherently governmental and which are not?

A. OMB has provided criteria to be used in determining whether a function is inherently governmental in Circular A-76. Each agency uses the criteria to develop its inventory.

Q. Will every function listed in the inventory be competed?

A. No. All commercial activities must be inventoried under the provisions of the FAIR Act and OMB Circular A-76. However, the inclusion of a function on the agency's inventory of commercial activities does not mean that the agency is required to compete the function. The FAIR Act requires that each agency review its inventory of commercial activities and mission requirements. Executive agencies conduct a review, which may include a consideration of adequate competition for the activities under review, mission requirements, core capabilities, and other alternatives to competition. Core capabilities (among those designated as Reason Code A in the

FAIR Act Inventory) are unique to each agency, and must be decided by the Competitive Sourcing Official for the agency, as required under OMB Circular A-76. It is the positions associated with Reason Code B in the FAIR Act Inventory that an agency is generally expected to compete.

Further, it is expected that competing most of the eligible commercial activities will take some time for most agencies. The final percentage competed will vary across agencies depending on the unique nature of each agency.

Q. Are there activities that cannot be contracted?

A. Yes. These are inherently governmental activities that are so closely related to the public interest that they require performance by federal government personnel (see OMB Circular A-76 for additional information). For example, a contracting officer must be a federal employee because he/she can bind the government by signing a contract.

Q. Can work that has been already contracted out be brought back into government?

A. Yes. This can happen under a public-private competition. Some business units already have a mix of public and private employees performing work. However, there may be overriding concerns (process and technology changes, human capital, performance issues, etc.) in which activities that were previously contracted out can be brought back in-house. The mechanism that facilitates this decision is a public-private competition process where costs of contracting out the services are compared to those of performing them in-house.

Q. Can the inventory be challenged?

A. Under the FAIR Act, "interested parties" can challenge an agency's judgment about what is included in the inventory within 30 working days after the inventory is published; the inventory is published after review and consultation with OMB. Interested parties include current employees and their representatives, as well as current or prospective contractors. Under new rules in the revised Circular A-76, reason code designations can also be challenged.

Q. What recourse do affected employees have to challenge the way that their activities have been classified on the FAIR inventory?

A. Interested parties, including current employees and their unions, who are actual or prospective offerors for a function, can challenge both the classification of an activity and the application of the reason codes. Any challenge must be made in writing within 30 working days of the date a notice is published in the federal Register by OMB that the inventory is available.

Q. Has any contractor won an A-76 study by appealing a tentative decision to award the work to the government?

A. Yes. In certain cases the General Accounting Office's Comptroller General has overturned agency A-76 decisions to retain a function in-house. In those cases, the appealing contractor won the study on appeal.

OMB CIRCULAR A-76

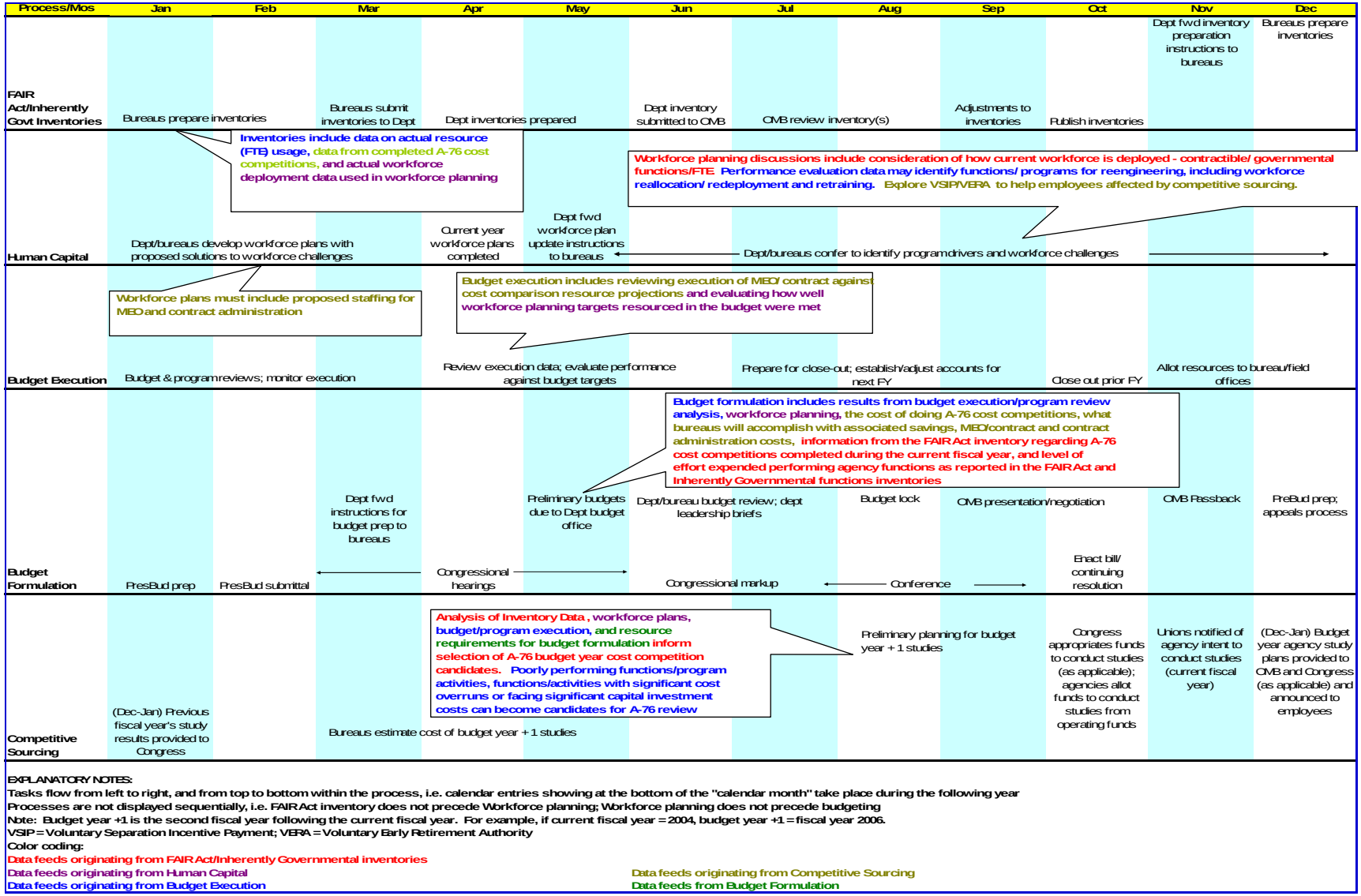
Q. What is the OMB Circular A-76?

A. Originally issued in 1955, OMB Circular A-76, Performance of Commercial Activities, is the guidance for executive agencies for the public-private competition process. The competition process is a highly prescribed method for comparing the value of a government provider to that of a private, non-profit, or other organization.

The fundamental concept behind the Circular A-76 is that society gets the greatest value from its government if commercial functions in the public sector are periodically competed with the private sector. Competition enhances economy and productivity in the government, and provides services to the public in the most cost-efficient and effective manner possible.

OMB revised the Circular on May 29, 2003 to expand the program and improve its efficiency.

APPENDIX D: INTER-RELATIONSHIP OF FAIR ACT, HUMAN CAPITAL, BUDGET AND PERFORMANCE INTEGRATION, AND COMPETITIVE SOURCING PROCESSES (AS PROPOSED BY DOI)



EXPLANATORY NOTES:

Tasks flow from left to right, and from top to bottom within the process, i.e. calendar entries showing at the bottom of the "calendar month" take place during the following year
Processes are not displayed sequentially, i.e. FAIR Act inventory does not precede Workforce planning; Workforce planning does not precede budgeting
Note: Budget year +1 is the second fiscal year following the current fiscal year. For example, if current fiscal year = 2004, budget year +1 = fiscal year 2006.
VSIP = Voluntary Separation Incentive Payment; VERA = Voluntary Early Retirement Authority
Color coding:
Data feeds originating from FAIR Act/Inherently Governmental inventories
Data feeds originating from Human Capital
Data feeds originating from Budget Execution
Data feeds originating from Competitive Sourcing
Data feeds from Budget Formulation