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OMB'S FINANCIAL MANAGEMENT LINE OF BUSINESS INITIATIVE DO RECENT CHANGES TO THE IMPLEMENTATION GUIDANCE CLARIFY THE RULES?

HEARING

BEFORE THE

SUBCOMMITTEE ON GOVERNMENT MANAGEMENT, FINANCE, AND ACCOUNTABILITY

OF THE

COMMITTEE ON GOVERNMENT REFORM

HOUSE OF REPRESENTATIVES

ONE HUNDRED NINTH CONGRESS

SECOND SESSION

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OMB'S FINANCIAL MANAGEMENT LINE OF BUSINESS INITIATIVE DO RECENT CHANGES TO THE IMPLEMENTATION GUIDANCE CLARIFY THE RULES?

WEDNESDAY, JUNE 28, 2006

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON GOVERNMENT MANAGEMENT,
FINANCE, AND ACCOUNTABILITY,
COMMITTEE ON GOVERNMENT REFORM,
Washington, DC.

The subcommittee met, pursuant to notice, at 2:06 p.m., in room 2247, Rayburn House Office Building, Hon. Todd Russell Platts (chairman of the subcommittee) presiding.

Present: Representatives Platts, Duncan, and Foxx.

Staff present: Mike Hettinger, staff director; Tabetha Mueller, professional staff member; Erin Phillips, clerk; Adam Bordes, minority professional staff member; and Teresa Coufal, minority assistant clerk.

Mr. PLATTS. This hearing of the Government Reform Subcommittee on Government Management, Finance, and Accountability will come to order.

In 2004 the Office of Management and Budget announced the creation of its line of business initiatives which was designed to consolidate duplicative functions across the Federal Government using a shared services model. Today this model is being used on a small scale to consolidate functions within departments and to create efficiencies for smaller bureaus and agencies.

Applying the shared service concept on a larger scale—Government-wide in this case—may present greater challenges. In fact, as the financial management line of business has evolved, Federal managers and commercial sector hosts have raised important questions with regard to the structure of the initiative and the competition framework.

On March 15th of this year this subcommittee held its first hearing on the topic and it provided a constructive discussion on some of the challenges inherent in such a large undertaking. It was evident that Federal managers and commercial host providers were eagerly awaiting clear sub-guidelines, and OMB released its draft migration planning guidance on May 22, 2006. That new guidance made significant changes to the original concept, and this hearing will provide OMB with an opportunity to outline those changes.

We will also discuss what these changes will mean for stakeholders, including commercial hosts and Federal employee unions. If

this initiative is to be successful, we must ensure that all stakeholders are fully informed and that the user community is ready, willing, and able to embrace this proposal.

We certainly thank all of our witnesses who are going to be with us here today. On the first panel we will have the Honorable Dr. Linda Combs, Controller of the Office of Federal Financial Management at the Office of Management and Budget, and Ms. Mary Mitchell, Deputy Associate Administrator of the General Services Administration. Our second panel will include Mr. James Krouse, Acting Director, Public Sector Market Analysis for INPUT; Ms. Jacque Simon, Public Policy Director for the American Federation of Government Employees; and Mr. Stan Soloway, president of the Professional Services Council. We look forward to all of your testimonies.

[The prepared statement of Hon. Todd Russell Platts follows:]

COMMITTEE ON GOVERNMENT REFORM

SUBCOMMITTEE ON GOVERNMENT MANAGEMENT, FINANCE, AND ACCOUNTABILITY

TODD RUSSELL PLATTS, CHAIRMAN

OVERSIGHT HEARING:

OMB's Financial Management Line of Business Initiative Do Recent Changes to the Implementation Guidance Clarify the Rules?

Wednesday, June 28, 2006, 2:00 PM
2247 Rayburn House Office Building

OPENING STATEMENT OF CHAIRMAN PLATTS

In 2004, the Office of Management and Budget announced the creation of its Lines of Business initiative, which was designed to consolidate duplicative functions across the Federal government using a shared services model. Today, this model is being used on a small scale to consolidate functions within Departments and to create efficiencies for smaller bureaus and agencies.

Applying the shared service concept on a larger scale – government wide in this case – may present greater challenges. In fact, as the Financial Management Line of Business has evolved, Federal managers and commercial sector hosts have raised important questions with regard to the structure of the initiative and the competition framework. On March 15, 2006, the Subcommittee held its first hearing on this topic, and it provided a constructive discussion of some of the challenges inherent in such a large undertaking. It was evident that Federal managers and commercial host providers were eagerly awaiting a clear set of guidelines, and OMB released its Draft Migration Planning Guidance on May 22, 2006. That new guidance made significant changes to the original concept, and this hearing will provide OMB with an opportunity to outline those changes. We will also discuss what these changes will mean for stakeholders, including commercial hosts and Federal employee unions.

If this initiative is to be successful, we must ensure that all stakeholders are fully informed and that the user community is ready, willing, and able to embrace this proposal.

I'd like to thank our witnesses for being here today. On the first panel will be The Honorable Dr. Linda Combs, Controller at the Office of Federal Financial Management in the Office of Management and Budget and Ms. Mary Mitchell, Deputy Associate Administrator of the General Services Administration. Our second panel will include Mr. James Krouse, Acting Director of Public Sector Market Analysis for INPUT, Ms. Jacque Simon, Public Policy Director for the American Federation of Government Employees, and Mr. Stan Soloway, President of the Professional Services Council. I look forward to the testimony of each of our witnesses.

Mr. PLATTS. We would ask the first panel of witnesses to stand and be sworn in.

[Witnesses sworn.]

Mr. PLATTS. The clerk will note that both witnesses affirmed the oath.

While we will give you guidance of roughly that 5 minutes as far as opening, we certainly are again grateful for your preparation and being here with us today, and if you need to go over, that is fine. We look forward to getting into Q&A after your testimonies.

Dr. Combs, we will begin with you.

STATEMENTS OF LINDA COMBS, CONTROLLER, OFFICE OF FEDERAL FINANCIAL MANAGEMENT, OFFICE OF MANAGEMENT AND BUDGET; AND MARY MITCHELL, DEPUTY ASSOCIATE ADMINISTRATOR, GENERAL SERVICES ADMINISTRATION

STATEMENT OF LINDA COMBS

Ms. COMBS. Thank you, Chairman Platts.

Chairman Platts, Congressman Towns, and members of the committee, I thank you for the opportunity to appear before you once again to discuss financial management line of business initiative. I am pleased to provide you with an update on the financial management line of business and describe how recent accomplishments bring us closer to our over-arching objective of ensuring that Federal managers have accurate and timely financial information for decisionmaking.

Since I last testified, a great deal has been accomplished. First of all, we have released a draft of the migration planning guidance and received several hundred comments from agencies, commercial service providers, and others. We are currently reviewing and updating the migration planning guidance based on these comments.

We have released, in conjunction with the draft migration planning guidance, a memorandum presenting a competition framework for financial management line of business migrations.

We have continued ongoing efforts with a common Government-wide accounting code and the standard business process projects.

None of these tasks could have been performed without the commitment, support, and input from the Federal financial management community, from both the public and the private sectors. As always, we appreciate the opportunity to have formal and informal discussions with you, Mr. Platts, and your staff.

The migration planning guidance supports the financial management line of business vision that I articulated in my last appearance here, to improve the cost, quality, and performance of financial management systems by leveraging shared service providers and implementing other Government-wide reforms that foster efficiencies in Federal financial systems and in operations. Its purpose is to help agencies prepare for and manage a migration of their financial management system operations to a shared service provider by outlining provider and client responsibilities.

The Financial Systems Integration Office has received over 700 written comments on this material and has been working feverishly with my staff to respond to each of those comments. While we don't

have answers, obviously, today for every one of those comments, we really look forward to addressing those with you as we go through them ourselves, and we certainly have a commitment that we will continue to work over the next several months until we have addressed all of them.

OMB believes that the routine use of competition as part of the migration process will help agencies to maximize value by considering alternative solutions in a reasoned and structured manner to select the best available public or private provider of financial management services. The approach we have taken and continue to take with the financial management line of business and all of its underlying projects is one that has been open and transparent. We continue to incorporate the most current thinking in financial systems and operations, as well as to gain buy-in from the individuals, agencies, and commercial partners who are responsible for implementing the financial management line of business vision.

As I stated when I last testified, more must be done to advance the objective of having accurate and timely financial information for decisionmaking, particularly with respect to implementing financial systems. The financial management line of business is our opportunity to strengthen how we select, implement, and operate the Government's financial systems. By doing so, the administration is asking that agencies consider the investment risk, implementation risk, and life cycle cost when they perform their analysis.

As with any new initiative, there will be questions and some uncertainty. I remain committed to answering those questions and keeping this initiative open and transparent to all of its stakeholders.

I look forward to our dialog today.

Thank you.

[The prepared statement of Ms. Combs follows:]

Statement of The Honorable Linda M. Combs
Controller, Office of Federal Financial Management
Office of Management and Budget

Before the
Subcommittee on Government Management, Finance and Accountability
House Government Reform Committee
June 28 , 2006

Chairman Platts, Congressman Towns, and Members of the Committee.

Thank you for the opportunity to appear before you again to discuss the Financial Management Line of Business initiative (FMLOB). I am pleased to provide you with an update on the FMLOB and describe how recent accomplishments bring us closer to our overarching objective of ensuring that Federal managers have accurate and timely financial information for decision-making.

Since I last testified, a great deal has been accomplished. I will briefly mention each accomplishment and then touch upon some in more detail during the remainder of my testimony.

1. Released a draft of the Migration Planning Guidance and received several hundred comments from agencies, commercial service providers, and others. We are currently reviewing and updating the Migration Planning Guidance based on these comments.
2. Released, in conjunction with the draft Migration Planning Guidance, a memorandum presenting a "Competition Framework for Financial Management Lines of Business Migrations" signed by myself, Karen Evans (Administrator, Office of E-Government and Information

Technology), and Robert Burton (Associate Administrator, Office of Federal Procurement Policy).

3. Continued ongoing efforts with the Common Government-wide Account Code and the Standard Business Process projects.

None of these tasks could have been performed without the commitment, support, and input from the Federal financial management community from both the public and private sectors. And as I indicated earlier, we have received several hundred comments and questions on our guidance. Each comment is being addressed by the full-time, dedicated, and accountable staff at the Financial Systems Integration Office (FSIO) working in conjunction with the Chief Financial Officer (CFO) and Chief Information Officer (CIO) communities. FSIO has been assigned the FMLOB project management responsibility under the direction of the CFO Council FSIO Transformation Team. As the day-to-day managers of the FMLOB, FSIO coordinates all of the FMLOB projects to ensure that they are completed timely and meet the goals of the FMLOB and the policies set by the Office of Management and Budget (OMB).

The Migration Planning Guidance (the Guidance) has been the most significant document prepared and released publicly by the FMLOB and FSIO. The Guidance supports the FMLOB vision to improve the cost, quality, and performance of financial management systems by leveraging shared service providers[1] and implementing other government-wide reforms that foster efficiencies in Federal financial systems and operations. Its purpose is to help agencies prepare for and manage a migration of their

[1] A shared service provider is an entity that provides services (e.g., financial management) to multiple organizations.

financial management system operations to a shared service provider by outlining provider and client responsibilities.

The Guidance is comprised of six chapters as follow:

- Chapter 1 - Overview and Frequently Asked Questions: In additional to general background on the Guidance and FMLOB, this section answers questions from customer agencies, shared service providers, and others about the vision, requirements, implementation, and risks of migrating to a share service provider.
- Chapter 2 - Procurement Guidance Tools: This section contains information on the capabilities required of shared service providers, includes the OMB guidance on FMLOB competitive migrations, contains procurement templates (some of which are still under development), and includes a series of proposed performance measures to assist in measuring the performance of shared service providers.
- Chapters 3 – 6 – Other tools: These sections contain general tools for change management and project management; describe the types of services offered by the FMLOB shared service providers; and defines terms and acronyms referenced in the FMLOB guidance.

FSIO have received over 700 written comments on this material and has been working feverishly with my staff to respond to each comment. While we don't have answers for every comment, you have my commitment that we will continue to work over the next several months until we have addressed them all.

I would like to briefly touch upon the Competition Framework for Financial Management Lines of Business Migrations which has raised a number of questions from this Subcommittee as well as the public and private sector. The Competition Framework informs on three areas. First, the guidance reiterates OMB's policy that, with limited exception, an agency seeking to upgrade to the next major release of its current core financial management system or modernize to a different core financial management system must either migrate to an shared service provider (public or private), or be designated as a shared service provider. Second, the guidance clarifies that agencies must, at a minimum, consider pursuing hosting and application management services as part of its FMLOB migration. Finally, the guidance provides a framework for public - private competition and reminds agencies that, in most cases, consideration must be given for existing "in-house" support for core financial management operations. OMB believes that the routine use of competition as part of the migration process will help agencies to maximize value by considering alternative solutions in a reasoned and structured manner to select the best available public or private provider of financial management services.

OMB's framework for public-private competition is consistent with Section 842(a) of P.L. 109-115 which prohibits, with limited exceptions, an executive agency from converting work performed by more than 10 full-time equivalents (FTEs) employees to private sector performance absent a showing, through competition, that performance by a contractor would be less costly to the agency. Specifically, agencies must follow Circular A-76 for FMLOB migrations that are conducted through public-private competition and involve the potential transition of activities currently performed by more than 10 FTEs in the customer agency. Regardless of how many FTEs are

impacted, all agencies are required to prepare an Exhibit 300 which defines the proposed cost, schedule, and performance goals for the financial system investment if funding approval is obtained.

The approach we have taken with the FMLOB, and all of its underlying projects, is one that has been open and transparent. We continue to incorporate the most current thinking in financial systems and operations as well as to gain buy-in from the individuals, agencies, and commercial partners who are responsible for implementing the FMLOB vision. The private sector panel that testified before this Subcommittee in March indicated that they support the FMLOB. This has been the general feedback that I continue to hear from all of my colleagues.

As I stated when I last testified, more must be done to advance the objective of having accurate and timely financial information for decision-making, particularly with respect to implementing financial systems. The FMLOB is our opportunity to strengthen how we select, implement, and operate the government's financial systems. By doing so, the Administration is asking that agencies consider the investment risks, implementation risks, and lifecycle costs when they perform their analysis. As with any new initiative, there will be questions and some uncertainty. I remain committed to answering those questions and keeping this initiative open and transparent to all of its stakeholders.

Mr. PLATTS. Thank you, Dr. Combs.
Ms. Mitchell.

STATEMENT OF MARY MITCHELL

Ms. MITCHELL. Chairman Platts, Congressman Towns, and members of the subcommittee, thank you for this opportunity to participate in today's hearing. As the Deputy Associate Administrator for the General Services Administration Office of Technology Strategy and the Financial Systems Integration Office executive, I also serve as the project manager for the financial management line of business.

As you know, Kathleen Turco, GSA's Chief Financial Officer, appeared before your subcommittee recently and testified how GSA fully supports the FMLB initiative and is participating in the four work streams that we are undertaking under this year's activities.

I am also here looking forward to discuss how the initiative has evolved since its inception in 2004 and appreciate your subcommittee's interest in this important initiative.

First, let me address GSA's role in this effort. You asked about our role, and in December 2005 the Financial Systems Integration Office was moved under the GSA Office of Government-wide Policy, formerly known as GFMIP, Joint Financial Improvement Program, it was placed within my office. The financial management line of business responsibility came with that move.

GSA was named as the managing partner by OMB and made responsible for the project management, including organizing the work effort, which involves really the entire Federal CIO community, and seeking to accomplish the schedule set forth by us in the priorities established by OMB and our executive sponsors.

GSA's management role and the Office of Government-wide Policy is to serve all executive agencies by providing those agencies with the tools necessary to succeed in implementing the FMLOB concept. We have worked closely with OMB and the Chief Financial Officers Council to update the scope of activities.

We continue to support the historical functions under the formal JFMIP staff office that came along. I want to review just briefly what those responsibilities are.

The FSIO office is responsible for the requirements, development, and testing of Federal financial systems. We work with agencies to develop new requirements and also to conduct testing and certification of commercial Federal financial management systems. Both agencies and vendors are involved in this process.

We also undertake special priority projects under the direction of OMB and the CFO Council. The financial management line of business is just one of those, only a very large special project. So our office is responsible for really planning and managing those work activities and organizing the work teams to accomplish the work.

We have brought together subject matter experts from the vast majority of the Federal agencies and focused their efforts to develop, review, and upgrade tools that will be used in helping agencies make better decisions about migrating to a shared service provider concept. Some of these tools Dr. Combs has already mentioned, migration planning guidance, but also performance meas-

ures and the important standards efforts and business process standards and a common Government-wide accounting code.

Our last major responsibility is outreach. We conduct annually a financial management conference and related activities that are aimed at improving the core competencies of the Federal financial community.

Historically, JFMIP, and now under its new name, FSIO, we have served as a well-respected, impartial intermediary between Federal agencies and the private sector; in other words, the honest broker that seeks to balance the interests of key stakeholders.

We operate separately from the Office of the Chief Financial Officers Federal shared service provider effort known as the Federal Integrated Solutions Center, and their mission is really to provide best value on products and services for other Federal agencies.

The FMLOB governance structure was also an area of your interest. We have brought together the key stakeholders in really the following structure. The Office of Management and Budget is the central authority that sets policy and works with us to set our priorities. They also and we also interact heavily with the Office of Electronic Government. They both participate in all of our management meetings. We have an Executive Steering Committee that has been stood up, and that is comprised of myself and the chairman of the CFO Council Transformation Team, as well as six Executive agency CFOs or deputy CFOs.

The next level down is a transformation team that operates really at the advisory level. It is made up of representation from all of the CFO Act agencies. We really rely on this team and have called them to help us maintain the credibility of the work products we are producing, participating and drawing in their own agency into the internal review function and forwarding and formulating recommendations for consideration by the Executive Committee.

I wanted to spend a few minutes talking about the original business case and how that concept has evolved into today's effort. The concept basically is formed around consolidating financial management systems across the Federal Government into Federal shared service providers, both Federal and commercial. At a minimum, these services were to provide the IT hosting and application management for the financial service products that agencies use. Further, the initiative called for standardization of core business processes that would facilitate really that consolidation.

Some of the goals and efficiencies we hoped were really long-term reduction in cost in maintenance and operations, the ability to retire stovepiped and outdated agency financial systems, really facilitating more reliable and accurate financial information coming out of those systems in a standard format; in other words, to help agencies make better decisions and improve their financial systems.

The original concept really is unchanged. We have made minor refinements, but the concept is still firmly in place. The concept calls on leveraging shared service solutions and implementing Government-wide reforms to foster efficiency in Federal financial operations.

The goals include: providing timely and accurate data for better decisionmaking; facilitating stronger internal controls; reducing

cost by providing better competitive alternatives for agencies; standardizing systems, business processes, and data elements; and achieving seamless data interchange between those systems.

We have evolved this concept in a few ways that I think are important. The scope of agency migrations was initially to limit the migration really to that technical architecture, the IT hosting environment. The current approach encourages agencies to evaluate their end-to-end financial operations and select appropriate additional services. The initial business case called for new Government-run SSPs and running an open competition with the commercial sector, thereby driving the service and cost and performance improvements across all of the shared service providers with the private sector competing for shared services among those agencies.

The current approach allows for, on the term and timing of the migration, the current approach allows for the business process standardization to be delivered on a timeline that is really driven by the agency financial replacement instead of driving that standardization prior to migration.

The scope of the migration: currently there are 84 executive branch organizations and 4 legislative branch organizations that have migrated or are in the process of migrating to the shared service provider concept. In addition, when we look at commercial experience with the shared service provider concept and State and local experience, the evidence is really compelling. If done right, this is really an easy case to be made.

One other difference in the original business concept was it was really based on an assumption of six shared service providers. Currently, we have designated four Federal shared service providers, and commercial shared service providers are being identified through an open competition at the agency when they determine it is the right time to migrate. Our four Federal shared service providers are the Department of Treasury's Bureau of Public Debt, the Department of Interior National Business Center, the Department of Transportation Enterprise Services Center, and the GSA Federal Integrated Solutions Center.

Prior to selecting these Federal shared service centers, a couple of agencies had already made this decision. The Small Business Administration began its migration to a commercial financial service provider, Corio, in 2003, and more recently the Department of Labor selected an Oracle solutions provider, Mythics.

Let me also address the timing of the business process standardization work. This is a major thrust of the 2006 work program. We have looked at what is the best time and what is the appropriate time for agencies to begin adopting these standard business processes that we are developing and have determined that what should be done is that agencies should look at their own enterprise architecture once we have finalized on these standards and evaluate the right path for them to evolve into implementing these standards.

We expect to have the exposure draft for these detailed business process standards and data standards to be released in the fall, and then we will begin working with agencies on an implementation strategy. The OMB migration policy calls for agencies to con-

duct a public/private competition in determining what migration path is appropriate.

In summary, we believe that the FMLOB has great promise, significant participation and momentum. The tools that are being developed under the FM line of business will give agencies the tools to make better decisions.

I wish to thank you for the opportunity to appear here today and am delighted to answer any of your questions.

[The prepared statement of Ms. Mitchell follows:]

STATEMENT OF
MARY MITCHELL
DEPUTY ASSOCIATE ADMINISTRATOR

OFFICE OF TECHNOLOGY, STRATEGY AND THE FINANCIAL SYSTEMS INTEGRATION OFFICE (FSIO) EXECUTIVE

OFFICE OF GOVERNMENTWIDE POLICY

U.S. GENERAL SERVICES ADMINISTRATION

BEFORE THE

COMMITTEE ON GOVERNMENT REFORM
SUBCOMMITTEE ON GOVERNMENT MANAGEMENT, FINANCE, AND ACCOUNTABILITY

U.S. HOUSE OF REPRESENTATIVES

WEDNESDAY, JUNE 28, 2006

Chairman Platts, Congressman Towns, and Members of the Subcommittee:

Thank you for the opportunity to participate in today's hearing.

As the Deputy Associate Administrator of the General Services Administration's (GSA's) Office of Technology Strategy, and the Financial Systems Integration Office (FSIO) Executive, I also serve as the project manager for the Financial Management Line of Business (FMLoB). As you know Ms. Kathleen Turco, GSA's Chief Financial Officer, appeared before the Subcommittee earlier this month and testified how GSA fully supports the FMLoB initiative and the four FMLoB work streams that the Office of Management and Budget (OMB) has initiated. I look forward to discussing how this initiative has evolved from its inception in 2004 until now. We appreciate your Subcommittee's interest in this important initiative.

GSA's Role in Implementing FMLoB Government-Wide

First, in your invitation letter, Chairman Platts, you asked me to discuss GSA's role in implementing the FMLoB government-wide. In December 2005, the Financial Systems Integration Office (FSIO), formerly known as the Joint Financial Management Improvement Program (JFMIP) staff office, was moved to the Office of Governmentwide Policy and placed within my office. With that came responsibility for the Financial Management Line of Business (FMLoB) initiative. GSA was named as managing partner by OMB and made responsible for the project management of the FMLoB, including organizing the work effort, involving the Federal CFO community in the initiative, and setting the schedule of priorities with input from an Executive Steering Committee of agency partners. In a very broad sense, FSIO's purpose in support of GSA's management role is to serve all executive agencies by providing the agencies the necessary tools to succeed in the implementation of the FMLoB vision and goals.

We have worked closely with OMB and the Chief Financial Officers Council to update FSIO's mission and scope of activities. FSIO continues to support the historical functions of the former JFMIP staff office along with the additional responsibility of managing the FMLoB initiative.

The FSIO office has three major areas of responsibilities:

1) Requirements Development and Testing for Federal Financial Systems - Our office develops and prioritizes new Federal financial system requirements and develops and conducts testing and certification of Federal financial management systems, and works with both agencies and vendors on the adoption of these requirements.

2) Special Projects - FMLoB Initiative - FSIO provides support to the

Federal financial community by taking on special priority projects As determined by the OMB Controller and the CFO Council. The current special project is the FMLoB project which is extremely significant and central to the core mission of the office. In this role, my office plans and manages the work activities and FMLoB work teams, which are comprised of agency representatives supported by contractors. We use subject matter experts from Federal agencies, focused on narrowly-scoped tasks established to develop, review, and upgrade tools for agencies to implement the FMLoB initiative. Examples of these efforts include the Migration Planning Guidance, Performance Measures, Business Process Standards and Common Government Accounting Code.

3) Outreach - Conducting outreach through an annual financial management conference and other related activities aimed at improving the core competencies of the Federal financial community.

Office of the Management Budget Circular A-27 on "Financial Management Systems" stated that FSIO is responsible for establishing processes for testing "off-the-shelf" software supporting core financial system requirements.

FSIO serves as a well-respected and impartial intermediary between Federal agencies and the private sector. We believe the FSIO is viewed as a trusted partner and "honest broker" by both Federal agencies and the private sector in coordinating the development of Federal financial management system requirements. The Federal financial management community has relied on FSIO for its independent testing and certification of commercial off-the-shelf core financial systems software.

Operating separately in the Office of the GSA Chief Financial Officer, GSA is a Federal Shared Service Provider (SSP) providing financial management services to other agencies, boards and commissions through the Federal Integrated Solutions Center (FSIC). GSA was selected by OMB as a SSP because it is GSA's mission to provide best value products and services to other Federal agencies so that other agencies can focus on their missions. Ms. Turco addressed the CFO's perspective, GSA's role as a SSP, when she testified before you last month.

FMLoB Governance Structure

Several key stakeholders provide accountability and appropriate oversight in the management of the FMLoB initiative. They are:

1) The Office of Management and Budget. OMB is the central authority on all Lines of Business. Also, OMB's Office of Federal Financial Management (OFFM) provides executive sponsorship, and financial management policy guidance. As the FSIO Executive, I am accountable to the OMB OFFM Controller, Linda Combs, who is a key stakeholder, for progress on the FMLoB.

2) FSIO & FMLoB Executive Steering Committee - This committed group of executive stakeholders provides direct governance of FMLoB activities.

   - The purpose of the FSIO and FMLoB Executive Steering Committee (ESC) is to provide strategic direction and agency sponsorship, assist in priority setting, and approve partner agency resource contributions. The ESC meets quarterly or on an as-needed basis.

   - The ESC consists of myself, representing the FMLoB managing partner (GSA), six representatives from CFO Act agencies at the CFO or Deputy CFO-level, a non-voting representative from OMB's Office of E-Government and a non-voting representative from OMB's Office of Federal Financial Management. The ESC members were selected from the CFO Act agencies to represent diverse perspectives in regards to size of agency, financial management technical platform and migration status.

3) FSIO Transformation Team - This larger group includes agency representatives from all CFO Act agencies that provides working-level advice to the FSIO ESC and direct two-way communication between the FSIO and the agency representative when needed.

   - The team functions as an advisory group to the FSIO ESC, manages the delivery of interdisciplinary work packages, and makes recommendations to the FSIO Executive Committee and the FMLoB managing partner. The team is responsible for 1) maintaining the credibility of the final work products by providing internal review function, 2) providing recommendations to the FMLoB Project Management office for vetting, and 3) continuously seeking to refine processes to increase credibility and buy-in for their work products.

Original Business Case for FMLoB

The original intent of the 2004 FMLoB business case was to describe the concept and benefits of the FMLoB common solution. This concept consisted of consolidating financial systems across the Federal Government into a shared services model where select providers (Federal and commercial) would provide,

at a minimum, IT hosting services to client agencies. The concept also called for the development and implementation of standard core financial business processes that would enable consolidation.

The business case outlined that anticipated financial benefits and efficiencies would be realized through several means:

- By reducing long-term investment requirements and operations and maintenance expenditures;
- By retiring stove-piped agency financial systems;
- By improving the buying power of the Federal Government with suppliers;
- By facilitating more reliable and accurate financial information in a common format across the Government;
- By enabling agencies to make better decisions through improved financial reporting;
- By enhancing financial management functionality in a cost-effective environment; and,
- By leveraging best practices in a variety of critical financial areas.

The Evolution of FMLoB

The original concept of the FMLoB is unchanged, as are its goals, although the words may have been refined from those in the original business case.

The overall vision of the FMLoB, as worded today, is "to improve the cost, quality, and performance of financial management (FM) systems by leveraging shared service solutions and by implementing other government-wide reforms that foster efficiencies in Federal financial operations."

The goals of the FMLoB include:

"Implementing Federal financial systems that:

- Provide timely and accurate data available for decision-making;
- Facilitate stronger internal controls that ensure integrity in accounting and other stewardship activities;
- Reduce costs by providing a competitive alternative for agencies to acquire, develop, implement, and operate financial management systems through SSP solutions;
- Standardize systems, business processes, and data elements; and

- Provide for seamless data exchange between and among Federal agencies by implementing a common language and structure for financial information and system interfaces."

However, how FMLoB intends to actualize these goals has been refined. This refinement has been the result of a deeper understanding of, and changes in, the market, a better understanding of the collective needs of the agencies, and additional knowledge on existing capabilities of Federal and potential commercial providers. In developing the Migration Planning Guidance, the FMLoB has spent a great deal of effort speaking with its stakeholders about their requirements and concerns while considering the various states of consolidation among agencies.

The FMLoB details have evolved in several areas:

- The scope of agency migrations. The initial business case assumed that agencies would only seek to limit migration of their financial system operations to a hosted information technology (IT) environment. The current approach encourages agencies to evaluate their financial operations from end-to-end and select appropriate additional services.

- The identification of SSPs. The initial business case assumed the development of new, government-run SSPs and open competition with the commercial sector. We continue that approach by scaling and driving service and cost/performance improvements by having existing Federal SSPs and new Federal SSPs, if justified, and commercial SSPs compete to provide the best solutions to agency needs over time.

- The timing of agency migration. The initial business case planned that the standardization of business processes would drive consolidation of Government financial operations. The current approach allows for business process standardizations to be driven by the timeline of the agency financial system replacement.

Scope of Migrations

The initial business case assumed that agencies would only seek to migrate their financial system operations to a hosted IT environment. However, cross-servicing of a precursor to SSPs in Government, related to financial management systems, has occurred for some time and has included no only system operations but also business operations.

Currently an impressive number of agency clients -- 83 executive branch organizations and four legislative branch organizations -- have migrated to the SSP concept.

In addition, our analysis of metrics from commercial sources, as well as state and local Governmental institutions, indicates success in cost savings and efficiencies in migrating their financial system operations to a SSP model. The concept of SSPs is well-established in industry. Major enterprises found that moving to a single financial system and at the same time implementing consistent data and technology standards can cut cost of finance operations by 23 percent ("Companies Can Cut Finance Costs by 23 Percent by Using a Single ERP, Implementing Technology and Data Standards," the Hackett Group Press Release, 8/9/05). Centralization and shared financial systems services are proven best practices, resulting in an average reduction in finance costs of 44 percent (Hackett's 2005 Business Processing Source - EU Shared Services 2005 Study). It is for these reasons that the FMLoB is now providing tools to assist agencies in analyzing the benefits of migrating business operations to a SSP. We are confident that this analysis will demonstrate that the SSP results in the best value for the U.S. taxpayer.

Identification of SSPs

The initial business case for FMLoB assumed the development of new, government-run service centers and open competition with the commercial sector. In addition, this business case assumed six providers but indicated that the actual number would be determined through a competitive process.

Last year, OMB designated four agencies as Federal SSPs. Each of these Federal SSPs had the infrastructure and operations already in existence to support other agencies through a cross-servicing arrangement, and a set of existing clients that were using a range of services, from IT hosting, through transaction processing.

The Department of Treasury's Bureau of Public Debt Administrative Resource Center currently hosts financial systems and business operations for over 30 Government organizations, including most Treasury bureaus and 15 non-Treasury related organizations. The Department of Interior National Business Center hosts financial systems and business operations for 32 external executive branch organizations, and three legislative branch organizations. The Department of Transportation Enterprise Services Center hosts financial systems and business operations for all Transportation bureaus and three other small executive branch organizations. And, as I mentioned previously, the General Services Administration Federal Integrated Solutions Center hosts financial systems and financial operations for over 43 external executive branch agencies, boards and commissions, and one legislative branch agency.

In addition, some agencies have already begun to move their financial system operations to commercial providers. The Small Business Administration began contracting out the operation of its financial system to Corio in 2003. Department of Labor recently selected an Oracle solutions provider, Mythics.

Timing of Business Process Standardization

A high-level government-wide business process standardization framework was developed for the enterprise architecture level agency-wide level in 2004. The detailed government-wide business process standardization work is still on-going with the help of the agencies.

Due to individual agency needs to migrate sooner than completion of the detailed government-wide business process standardization framework, business process standardization is not currently a precedent for agency migration. However, these agencies are expected to use the high-level framework in developing their own enterprise architecture.

Agencies will be expected to adopt the business process standards and to standardize their processes as part of their migration once the detailed business process standards are completed. However, a schedule for this adoption will be determined later. This detailed business process standards work consists of further decomposing and defining business process and data standards for select core financial management functions. The exposure draft of the detailed business process and data standards is planned to be released in the fall.

Clarification on Relationship between OMB Exhibit 300 Business Cases and Public-Private Competition

Finally, Mr. Chairman, I would like to clarify the relationship between the planning requirements encompassed in OMB's Exhibit 300 business case, as set forth in OMB Circular A-11, and the policy of public-private competition, as articulated in OMB's May 22, 2006 guidance on competitive migrations and Circular A-76. In a nutshell, the role of these documents are related and work together to ensure agencies make sound investments of taxpayer dollars, but address different aspects of the migration process.

OMB Exhibit 300, also known as the Capital Asset Plan and Business Case, is a budget planning document that is used to justify funding requests. In the context of the FMLoB initiative, agencies would use the Exhibit 300 analysis to demonstrate if funds should be requested to maintain an existing system or modernizing to a different core financial management system. If the Exhibit 300 analysis supports a decision to upgrade or modernize, then OMB's migration policy calls for the agency to conduct a public-private competition, as a general matter, to ensure that the agency considers alternative public and private sector

solutions in a reasoned and structured manner. The competition process will enable the customer agency to select the best possible provider. If the requirement involved commercial work currently being performed by more than 10 Federal full-time equivalent (FTE) employees, the policies and procedures of Circular A-76 would be used to guide the competition. So the 300 and A-76 do not detract from the other, but A-11 Business Cases and competitive sourcing requirements complement one another.

In summary, the FMLoB has great promise, significant participation and momentum. I am happy to take any questions at this time.

Mr. PLATTS. Thank you, Ms. Mitchell.

We are pleased to be joined by the gentleman from Tennessee, Mr. Duncan. Thank you for being with us.

Mr. DUNCAN. Thank you.

Mr. PLATTS. We will go to questions. Maybe I will start first with just the relationship with GSA and OMB.

It seems with GSA being basically identified as a project manager for the financial management line of business and kind of the day-to-day responsibility, and as we move forward finalize the migration guidance and everything will the agencies and departments be coming to GSA for answers or will it be OMB? How is that going to work, that kind of routine oversight or interaction with those who are looking to migrate or looking to become shared service centers, whatever it may be?

Ms. COMBS. Let me address that first, and then if Mary has something else to add I am happy to have her do so. One of the things that Mary pointed out in her testimony was the fact that OMB sets the policy and the priority for the work that her group does. I, as Controller of OMB and Chair of the CFO Council—that is a joint work product setting venture.

We do work that the other CFOs believe is going to be important to them across Government, and having been a participant in the CFO Council for many, many years as a CFO, myself, as well as now chairing that group. And as controller at OMB, I certainly have a view of how important it is to set the right priorities and set the right policies. The policies and priority setting is what comes through OMB. Mary and her group are the operational support that we rely on in carrying out those policies and procedures.

In reality, the way it works, obviously, because I have a dual role as chair of CFO Council and have a very close working relationship with CFOs and deputy CFOs, when they have an initiative that they want to embark upon, whether it is financial management initiative or, as we have talked about, our A–123 controls, many of those important cross-cutting efforts, the CFOs and deputy CFOs work with me and my deputy, Danny Werfel, very, very closely.

So often we get questions of a policy nature. We get questions sometimes of an operational nature, as well. Then we rely very heavily on the good work that Mary and her group do to carry out all of their duties, not just the special ones that they are working with us on.

Mr. PLATTS. So the way I hear you or understand is that the GSA's responsibility is really not in that policymaking field or discretion. It really goes to the issue, because you are a shared service center in the sense of any kind of conflict of interest, you are really not setting the parameters by which somebody could be deemed a shared service center or how they will operate as a shared service. That is with OMB as a policymaker?

Ms. MITCHELL. Right.

Mr. PLATTS. OK.

Ms. MITCHELL. So GSA would be gathering the data, the evaluation materials on how the shared service providers are doing, and OMB would be then making the decisions.

Mr. PLATTS. OK. On the migration planning guidance that was put out May 22nd and comments, I realize you are still kind of

working through those as far as definitive answers. Are either of you able to summarize a common theme that you are hearing in the responses to the guidance that has been put out?

Ms. COMBS. We have received a number of comments, and we are happy to have received a number of comments, because I think the more comments we have from the various stakeholders the better policies that we can create. I know you folks would agree with that. It helps us to work with you all better, too, to say, here is what we are hearing from the community.

I think the comments that we have looked at so far, and we did kind of a special look knowing we were going to be talking with you today to see if there were any categories comments that fell into line here. I think that one of the things that we have been asked in some of the comments was: should commercial vendors be prescreened, as well, much like we have done our Federal entities?

One of the things that we have talked informally with your staff about, too, that we know has been a concern that has also been expressed was, what happens if there are contract disputes between Federal agencies if there are public participation here?

I guess one of the other things that we have been looking at, as well, in the comments, people have been thinking about how they are going to define their performance matrix for shared service providers and what kinds of remedial actions would need to be taken for non-performers, or what kind of out-of-the-box performance matrix do the customers need to have and what kind of quality measures do we need to make sure that the providers have.

So there are comments from all segments of the stakeholder community, and we are quite happy that we have had those comments.

I guess one of the other categories might be what I would classify as the level playing field, with potential level playing field between Federal and commercial, as well.

Mr. PLATTS. I want to expand on that, but I will come back to that specific area.

In your opening statement you talked about, over the coming months, working through. Is there a timeframe that you have in mind when you hope to have a final guidance revised and issued?

Ms. COMBS. Yes. We are hoping we can work through these this summer and that this fall we will have a final guidance issued, but we have a lot of work to do with the stakeholder community, you folks. We want your full participation in this and we want the full participation of the stakeholder community, as well. We expect it is going to take us a few more months to do that.

Mr. PLATTS. And, as our dialog back in March and again here today and with staff in between and as we go forward, your efforts in soliciting those comments and taking them to heart and working through them, because certainly the intent here is one that is a worthy intent and it is doing it in a way that the buy-in from all participants is substantial so that success can be achieved.

Mr. Duncan, did you have questions?

Mr. DUNCAN. Yes, Mr. Chairman.

Let me ask you this. You know, I have been following the Congress and politics and Government since at least the early 1960's, and then I came here in 1988, and long before I got here I frequently heard people say, well, Government needs to operate more

like business, and I bet everybody here has heard things like that. I guess what I am getting at, you know, I read through some of this and I see a lot of flowery language and I see a lot of bureaucratic language.

I read here "a high-level, Government-wide business process standardization framework was developed for the enterprise architecture level, agency-wide level in 2004. Detailed Government-wide business process standardization work is still ongoing with the help of agencies due to individual agency needs to migrate sooner than completion of the detailed Government-wide business process standardization framework. Business process standardization is not currently a precedent for agency migration."

I bet there are very few people here that could tell you what I just read. In fact, just in the short time I have been here I have noticed four people—I haven't even been counting or looking around, but I have seen four people with their eyes closed halfway asleep.

What I am wondering about, can either of you put this in plain, down-to-earth, east Tennessee language and tell me what we are trying to accomplish here and how we are going to do that with an agency? You know, the Government is filled with good people. The Federal Government is filled with good people, and they think they are working really hard and doing great jobs. And so you are going to go to an agency now, XYZ agency, and you are going to come in with this new FMLOB process, the financial management line of business, I think is what it is called.

How is that going to work? What are we going to be doing differently? What are we going to accomplish? I am not against it; I am just wanting to understand it better. I want to get it in plain, down-to-earth language, 60 Minutes or USA Today type language.

Ms. COMBS. Well, Mr. Duncan, let me try.

Mr. DUNCAN. OK.

Ms. COMBS. I have been married to a man for 36 years from east Tennessee, so maybe I can help.

Mr. DUNCAN. Good. He must be a good man.

Ms. COMBS. Oh, my, you just made his day, I am sure. You know, I think one of the things that we do lose sight of, and, as you say, we try to explain things and we try to explain them in a way that maybe is not as clear from time to time as it needs to be, but what we really are trying to do here is to bring best practices, lowest cost, and higher competition into all of the things that we are trying to do in financial management.

Now, one of the things that I would share with you is we have standards in many of the departments, but we haven't escalated that to a higher level. We haven't escalated it across Government-wide. So in some departments you will find accounts payables and accounts receivables being done in a very consistent way, much like you would find in a small business in east Tennessee. But in some departments it is going to be done differently.

We are trying to make consistency across Government-wide on doing that because, one, that helps us with all of our employees Government-wide. I think if you were running a worldwide business you would try to be doing that, and that is what we are doing. We are running a worldwide business.

Mr. DUNCAN. Right.

Ms. COMBS. My vision is that we would be able, eventually, to exchange seamlessly information, financial information, across Government agencies. That is one of my visions. Right now we are not able to do that, and in order to get a Government-wide clean opinion at some point in time, as well as be more productive and have more useful information to the managers in these departments and agencies that manage these programs that our taxpayers pay good money for, we need to be able to have more standardization and more consistency across Government than we have right now.

Mr. DUNCAN. I guess, you know, what I was kind of getting at, I don't know when this program was first created. When was it? A year ago? Two years ago?

Ms. COMBS. I believe it was created before I came on the scene, and I believe that was in 2004.

Mr. DUNCAN. All right. What I was getting at was trying to see, you know, I wonder if people from those agencies in 2003 would have said, well, you know, we are already doing this or attempting to do this under a program by a different name. Are you going to have problems doing that when you have departments and agencies doing such different functions? I mean, the Defense Department and what they do is totally different from what the National Park Service does, and the National Park Service is totally different from the Social Security Administration, and on and on and on.

Ms. COMBS. Before I became Controller I was the CFO at EPA and the CFO at the Department of Transportation. Those are very different entities. Yes, within those two entities we did have some very similar things that we needed to do, however, and they related to the financial management functions of those departments or agencies, regardless of their mission. I like to say debits are debits and credits are credits.

We have to figure out ways to put those in ways of arraying the financial information that is going to be useful to the program managers who are managing those specific programs, whether it is air and water in EPA or whether it is trains and planes in DOT. In all simplistic terms, that is what we are trying to do. We are trying to create a more simplistic system for every department and agency that would be more standardized across all of the Federal Government.

Mr. DUNCAN. Well, I tell you this, those sound like good goals. Some people know I was a lawyer and a judge before I came here. Even in the legal community, though, I think we need to get away from some of the legalese in certain situations. But all I am saying is this: I certainly am for lower cost. Every group up here rates me one of the most fiscally conservative Members of Congress.

One article said that the main question I always ask at some of these hearings is how much does it cost. Not enough people ask that. And so these sound like good goals, but what I am saying is I hope, because I have seen things like this, initiatives or programs like this in the past that seem to leave us right where we are today, and I hope that we can get beyond the bureaucratic and flowery language and actually accomplish some of these things.

Ms. COMBS. Thank you. That is a very good suggestion. We are all about results and accomplishments at a reduced cost.

I think one of the things that may help us talk about this and have a conversation about it, as well, is, when we think about the cost, we are not asking agencies or departments to do anything until they have a need to upgrade their systems. That helps, as well, with the cost, because there are certain life cycles of some of these initiatives that they have had before in financial management, for example, or certain financial systems that they are already working with. They may not be consistent Government-wide right now, but they are working for that department. We are not asking them to do anything right now until that life cycle cost and life cycle of that particular endeavor is over. Then when they do that is when the trigger would start for some of these other standardizations.

Mr. DUNCAN. Let me ask you one last thing. You set me off on another thing when you said upgrade the systems, because, you know, every time a Government agency messes up they always say one of two things or both. They say they were underfunded, when they are getting way more money than they were getting 5 or 10 years ago, or they say their computers are not talking to each other or are out of date.

Well, you know, they tell me that the computers are obsolete the day they are taken out of the box. So are we going to run into this situation before we can implement this? You said they can't really do it until they upgrade their systems. Now, are we going to have one agency that has upgraded its system or its computers and then another one hasn't done it yet, so then you can't get it system-wide? Do you see what I am getting at?

Ms. COMBS. I see exactly what you are getting at because that is where we are right now. We have various departments at various stages of implementation, and we are not saying to them, you need to upgrade your system in order to keep controls, for example. We don't listen to that argument when they come in and say, I can't get a clean audit because I don't have a good financial system to help me do that. No. You can keep control of your financial systems whether you have a good financial system or not. People did it for years before we ever had such.

Mr. DUNCAN. Right.

Ms. COMBS. What I am saying though—and if I mis-spoke, I apologize—we are not asking agencies to invest any money to do these simple things that they could be doing anyway. We really have a mixture right now of agencies at various levels, and we will have for a while. We can't do this overnight. It is very complicated.

Mr. DUNCAN. Well, I have to say you have done a pretty good job explaining a very complicated thing even to somebody like me, so thank you.

Ms. COMBS. Thank you. I told you I have had 36 years experience.

Mr. DUNCAN. You did all right.

Mr. PLATTS. I thank the gentleman for his questions and participation, as always.

It really is a point where I want to pick up on the life cycle issue, Dr. Combs and Ms. Mitchell. One, I think the OMB envisions this

is really about what we think is a 10-year project because people are going to come into line with the FMLOB as they do make these major life cycle changes. I guess where I would like to come back to is: what do you envision or how do you define a major life cycle change that kicks in the requirement that they either become a shared service center or migrate to a shared service center?

Ms. COMBS. Yes. That trigger that Congress can see is that request for development, modernization, and investigation funds. That is the trigger that tells you that the agency has decided it is time to replace the financial system or the operating environment that runs in with more modern technology. That is the trigger.

Mr. PLATTS. Is there a dollar value on what they request, or is it more the program they are using is going to be replaced?

Ms. COMBS. It is really out of date. They need to do functions that are no longer being supported or aren't being supported adequately in the product and environment they have. That determination of what is the appropriate time is something an agency does need to consider. And this migration strategy really was aimed at getting around the fact of doing duplicative investments to upgrade and modernize. By migrating to a shared service center, they are already gaining that modern technology. They are already gaining the experience and the skill base to lower the risk in that migration that typically has been troublesome in many agencies.

I guess a couple of questions here. One, how defined is that going to be in the guidance for that trigger? Again, it is probably subjective, because I think every department agency is probably every year making capital investments with technology and program, the new version of whatever program.

Ms. COMBS. Sure.

Mr. PLATTS. So if it is very subjective, that is a big issue. Again, when does the trigger kick in?

Ms. MITCHELL. Some of them are very obvious. When they want to migrate from one major financial system to another or a major release, that is a clear, easy trigger. When they need to replace or add major components that are costly components, that is another obvious choice. It is when you get down to, well, I want to upgrade and do some minor enhancement, that is where that level is not—that needs to be a discussion that happens. You can't just arbitrarily set a dollar limit, because these systems are tied together. You have financial feeder systems, and so you need to consider the big picture in making that decision.

Mr. PLATTS. Who will that discussion occur between, GSA and the entity or OMB?

Ms. MITCHELL. OMB. So we would provide the tools that would make it clear what options are available to them and what some of the considerations, what some of the industry practices are, and OMB would work with that agency.

Mr. PLATTS. OMB would say, yes, you either need to migrate or become a shared service based on this action that you are looking at taking?

Ms. COMBS. Yes. We tell people the very, very first thing you should do if you are even thinking about either an upgrade or a change in your financial management system is come talk to us, come talk to OMB. That is the No. 1 tenet that has to take place.

We have, of course, such great working relationships with our CFOs that happens automatically.

Mr. PLATTS. And once that conversation happens and there is a decision, yes, this is a major life cycle change, so the trigger kicks, they need to do the exhibit 300 analysis.

Ms. COMBS. Correct. Yes.

Mr. PLATTS. And I guess I would like to maybe go back to my colleague's approach about the simple layman's understanding. The way I have come to look at the financial management line of business is more of a process re-engineering than just simply a capital investment. You are making a change on your process approach. So, whereas exhibit 300 seems to be more of a capital inventory analysis can you explain why that is a good match for this initial review internal?

Ms. COMBS. Yes. Yes, we can. So first of all that major business process re-engineering, that is a significant part of this initiative, but it really is a recommended practice for any major IT investment, right? You shouldn't begin by plowing the cow path again. You should do that. But the 300 really does include some fairly significant technology investments. You are talking about the hosting environment, the financial system, all of the ability to interface other systems to that system.

All of those things really do fit well within that summary OMB 300 exhibit. But that exhibit is just a summary. All of the analysis and examination of alternatives really goes behind and happens behind the scenes before an agency comes to prepare that capital investment plan.

Mr. PLATTS. So it is not just the 300; it is really a broader analysis that really gets to the cost/benefit issue here.

Ms. COMBS. Correct.

Mr. PLATTS. That is what we are really after.

Ms. COMBS. Correct.

Mr. PLATTS. Let me stay here. I want to recognize that we are glad to be joined by the gentlelady from North Carolina, Ms. Foxx. We will come to you if you have questions shortly.

The business case assumes that, for somebody who is going to migrate, on average a $5 million cost for the migration. Do I understand that assumption correctly? And, if so, how is that arrived at?

Ms. COMBS. I understand that was in the original business case. I don't know that we have any updated information on that yet relative to anything specific. The original business case that was done back on 2003 and 2004, probably we need to look at that and we will do that as part of our ongoing effort here.

Mr. PLATTS. I guess I'd encourage——

Ms. COMBS. Yes.

Mr. PLATTS [continuing]. Because certainly that is part of the cost/benefit analysis——

Ms. COMBS. Absolutely.

Mr. PLATTS [continuing]. For the whole plan, not just the individual migrations but there has to be some determination of when it is wise to migrate, even if the trigger kicks in, that you need to make the analysis, migrate or not, and what does an average or expected migration cost versus the long-term benefit of the migra-

tion? So I think that is something that needs to be fleshed out a little more.

Ms. COMBS. We will definitely do that. Mary may have something else to add, but I would just say that in those initial development stages, that, of course, is a very important step.

Ms. MITCHELL. Right. I can talk to the work process that happened in coming up with that figure, which was the work team took a look at the core financial requirements, which include really that core financial requirement as well as some very common interfaces. This was a rough order of magnitude estimate. They looked at a couple of systems that had recently migrated and relied really on those figures, and then went back to the 15 agencies who were participating in that task force effort to say, does this sound about right? It did. That is the number they went with as a rough estimate.

Mr. PLATTS. Is it fair that in that analysis they were all smaller agencies that were involved?

Ms. MITCHELL. Well, it wasn't every interface that every agency has across its entire enterprise. It was a few limited core interfaces and assuming one instance of an implementation, not trying to modernize a whole enterprise agency through all of its bureaus and departments.

Mr. PLATTS. Is more of a limited migration what you are looking at?

Ms. MITCHELL. Correct.

Mr. PLATTS. That is something I want to get into in more detail later, but as part of that modeling was there an assumption that there will be some failures in migration and what impact that would have on that cost, that you would plan to migrate and seek to migrate but it would not end up playing out as hoped?

Ms. MITCHELL. I am not aware. I will have to do some further research on that in the historical files.

Mr. PLATTS. I have some other questions I want to come back to.

On the original business case again, and you talked in your testimony a little bit, but there is originally assumed to be six then centers of excellence or shared service centers, and we have four identified now. In the original plan was it assumed that all six would be Government. Or was six Government or private or mix thereof? What was the initial assumption?

Ms. MITCHELL. The assumption was that it would be a mix of Federal and commercial.

Mr. PLATTS. The fact that we only have four now and are moving forward has an impact on how quick the migration can happen if there are no additional, at least in the near future, just in the ability of those four to handle migrations. Ms. Mitchell, I believe it was in your comments you talked about private sector shared service centers and that the way they will come to be is in open competition at basically each agency as it decides that it wants to migrate, that then there will be an open competition for a private sector entity to become a shared service center; is that correct?

Ms. MITCHELL. That is correct.

Mr. PLATTS. Can you walk me through what you mean by that?

Ms. MITCHELL. Sure.

Mr. PLATTS. Really, in your testimony you reference SBA migrating to Corio in 2003 and Department of Labor recently to Oracle, an Oracle solutions provider, Mythics. How do those migrations happen with private sector entities? And does that mean that these entities are shared service centers?

Ms. MITCHELL. Actually, that is a topic that is open for discussion. Those decisions were made, particularly the SBA one, before the FMLOB concept.

Mr. PLATTS. That was prior to the formal FMLOB?

Ms. MITCHELL. Right, so SBA actually is on our Executive Board, and they could speak better to whether the requirements that we have set for shared service providers are met by their provider. The Department of Labor was actually at that point in time one of the originators in the financial line of business concept, and they had access to all of the information, to the degree that it had been formalized when they did their competitive selection. There is at least one other agency who has been using the materials from the FMLOB and is in process of doing an open competition right now. Their decision has not been made yet.

Mr. PLATTS. But when you referenced SBA and then even Department of Labor, it sounded like the individual department will get to decide if they are with a shared service center?

Ms. MITCHELL. Currently OMB——

Mr. PLATTS. It seems an FMLOB decision.

Ms. MITCHELL. OMB is not designating commercial providers currently.

Mr. PLATTS. Right, so——

Ms. COMBS. Let me just clarify a minute about what happened with the Department of Labor. They held an open competition at the Department of Labor.

Mr. PLATTS. An A–76 competition?

Ms. COMBS. An open competition with public and private both competing. The private won out in that particular case.

Mr. PLATTS. When you say open competition, though, was it a formal A–76 with most efficient?

Ms. COMBS. It was not an A–76. No.

Mr. PLATTS. Are they less then 10 employees? It sounds like yes.

Ms. COMBS. Yes, they are.

Mr. PLATTS. I am seeing a head nod back here. So they are less than 10, so they didn't have to do a formal A–76; they did some open competition, and that really leads to another area I want to get into.

Ms. COMBS. Right.

Mr. PLATTS. But let's stay here first on the fact that they did a competition and they went to a private provider, but for that to be OK under financial management line of business that private provider needs to be a shared service center designated to be approved under the plan, right? It is not just having a competition; it is having a competition that you are going to be either shared service, yourself, or you are going to migrate to a shared service center?

Ms. COMBS. Well, what we have said is that we want a limited number of stable, high-performing service providers.

Mr. PLATTS. Public or private?

Ms. COMBS. Public or private, that are providing competitive alternatives, because we know with competitive alternatives we will get the best for the American taxpayer. And we want these agencies, as they invest in these modernizations of their financial systems, we want them to, first and foremost, be competitive and enter into competitive processes, public and private.

Mr. PLATTS. But the first assessment is just internal of whether they cannot compete with somebody else but can they, themselves, be a shared service center.

Ms. COMBS. In their own agency.

Mr. PLATTS. Correct.

Ms. COMBS. Right. If we can just step back for a minute, when we talked about doing the business case 300's and the other kinds of considerations that have to take place during that decision-making time, one of the steps that each agency has to look at at that same time when they have decided on the business case, OK, this is what I want, this is what I need, the very next step they have to go through in their own internal agency is to say to themselves, do I have anything in-house here in my own department or agency that will help me to do this? So that is actually the next step.

Then, if they do, then they say, OK, if this in-house solution will work, then does it contain more than 10 FTEs? We can talk about that a little bit further, too. I am sure you may want to get into that. But if the answer is no at that point, that they don't have anything in-house to help them do what they want to get done and share the service within their own internal department or agency, then they have to look at a private/public competition, and they would go out to the market at that point and do a public/private competition. Public and private competition, I should say.

Mr. PLATTS. I guess first within house.

Ms. COMBS. Right.

Mr. PLATTS. They say, we believe we can stay in-house. To do that, my understanding is OMB is then going to have to say, OK, we designate you as a shared service center, yourself, so you don't have to migrate to another shared service center.

Ms. COMBS. If that makes sense at that point in time, but remember——

Mr. PLATTS. Who makes that determination?

Ms. COMBS. We, talking with the department and agency, will make that determination. Obviously, the department or agency will have a great deal of thought, because they will have gone through, by that point, a lot to determine what they actually need. They will realistically be able to look at what they've got in-house to determine whether or not they can be capable of doing that.

Mr. PLATTS. Right. Using the specific example of the Department of Labor, they went through their analysis, decided we are not going to stay in-house. We are going to go outside and compete, selected a private sector that they've now gone with, but that private entity has not yet been deemed a shared service center. So how did they know that they could go to that entity and comply with the requirements of FMLOB?

Ms. COMBS. We are very smart. We have a lot of expertise. One of the things that we have done is we do work very, very closely

with these departments and agencies, and we do help them understand what is out there that has already been designated. If they could fit the bill at that point in time, they could become—we haven't hit that particular scenario yet.

Mr. PLATTS. But they have migrated since you started in 2004. They are recent migration, so Mythics has not been designated, right, as a shared service center?

Ms. COMBS. Well, the agency would make the call at that point. Of course, they'd consult with us, but they make the call whether or not what they could do in-house would be supported by their business case.

Mr. PLATTS. But we come back to a little bit where we were in March. Some of it is maybe getting the cart ahead of the horse because we are doing migrations and we haven't finalized the terms, the guidance for those migrations, and we are doing migrations to entities that have not been deemed a shared service center.

So if I am going to compete and do an open competition, there is no use for somebody to compete that is not going to be deemed a shared service center. What's the use of having them in the competition? So I need to know that this entity is a shared service center and eligible to compete for my migration. But that has not happened, yet the migration has happened. So, Ms. Mitchell——

Ms. MITCHELL. Could I address that?

Mr. PLATTS. Please do.

Ms. MITCHELL. Yes, OMB has not designated commercial shared service providers. We do not have a pre-qualification process that looks at all of the requirements and says, you meet them all, you are on the list. However, those requirements, the agencies that are competing for these migrations are incorporating those requirements in their request for proposal, so the requirement to have service level agreements and the requirement to go through some of the same due diligence items that the Federal agencies were evaluated on before they were designated, that is the process that is currently in use. The guidance will formalize that a lot more than it was. The two agencies, the one that has selected, Labor, and the one that is in the process of making that determination, we are working very closely with the FMLOB project and we were reviewing those documents before they were put out under their request for proposal.

Mr. PLATTS. Is there a reason to not wait for the migration to occur and to finalize your guidance so you know exactly what is required prior to continuing to migrate agencies to entities that may not end up being designated shared service centers? I guess if they are designated a shared service center and in this manner with the competition that is not A–76 compliant because it is not required, it was less than 10, but once they are designated as a shared service center, if an entity that is competing that is larger than 10, how is that going to impact? I mean, again it gets in to some of the details. Good or bad, I am a stickler for details in whatever I am engaged in or involved with. How does that work?

Ms. COMBS. Let me just add one thing. You know, we have been doing a lot of shared service provider work across Government for many, many years. People have been doing it on their own. They have been able to determine what they need and go out and find

it in many, many different places and have been engaging in that for quite some time.

So when the agency determines that if a private provider, for example, can do this work for them, then they would do an open competition. But the agency has to know what they need, first and foremost. That is very, very important. Often we are able to help them with that because we have seen a lot of different people who have engaged in either upgrading their financial management—having done it myself, I am keenly aware of what it takes, but it takes a very, very long time to do these.

I think the point of not stopping something in order to start something else is one we can't lose here in our discussion, because people do have needs. They have things that they have worked on for a very, very long time. That is why in our original guidance, both in December and even in the one we are working on that we will be coming out with now, we are offering flexibility and some exceptions to doing some things here that we know people need to do because they are in various stages of integration and movement from one system to another, for example.

Mr. PLATTS. That raises a couple of issues. One is it sounds like the importance of deference to the agency because they know what their needs are, and that kind of came back to where I started on this question with Ms. Mitchell's comment about an open competition in agencies in looking at private sector, that in some way they would have that discretion as part of their competition to say this private entity does fulfill the requirements of the guidance and meet our needs. So the agency will decide that, as opposed to OMB actually being the arbiter of that.

Ms. COMBS. Well, we certainly should consider this as we are moving forward here. We are very much appreciative of that concern. We have that concern, as well. We share that with you.

The other thing I think we have to keep in mind, though, is we have some very, very important projects that are underway right now that we can't just stop in the middle or tell agencies you must stop these or do something else, because they have been involved in these for a very, very long time.

Ms. MITCHELL. If I could just add to that, yes, you have an agency who has a significant need now, or in all reality a year or two ago when they decided, it is time for me to modernize. I need to make a decision and move forward. They decided, along with OMB, to use the best available guidance to help them make that decision. And yes, the guidance will be finalized and published, but the reality is we will continue to incorporate the best practice and experience as we have learned from these migrations. So those tools will never be perfect and we can't stop making improvements while waiting for perfection.

Mr. PLATTS. So is it assumed that those migrations that are happening are deemed shared service centers because the migrations have been allowed to go forward, that Department of Labor, Mythics, is a shared service center?

Ms. COMBS. I don't think that is an appropriate assumption.

Mr. PLATTS. When will the Department of Labor know if it is an absolute fact and not just an assumption? Because if they are not,

it seems that they have contradicted the whole intent here, which is to migrate to a center with certain standards that are required.

Ms. COMBS. Well, they have a business need for doing what they are doing right now. That is why they are embarking upon the process that they are on right now. They haven't embarked upon this in order to become a shared service center. They have embarked upon this to satisfy the business needs that they have at the Department of Labor.

So one of the things that I think we have learned and we have talked about and we have engaged in some conversation is how much stability do these places need in order to become a shared service center. Well, everybody isn't going to be a shared service center just because they are getting together their own business case and they have the needs for themselves. They may not choose to provide service for someone else in another agency or department.

Mr. PLATTS. Is it fair to say that those at Department of Labor, and I think there was another one ongoing right now, that because the guidance is not yet finalized they are not, in a technical sense, under the financial management line of business requirements, and that they are where they need to be for the time being, and that they are going to be allowed to stay there, and the next time they need to make a major life cycle change, whether it is 5 years from now or 10 years from now, and the guidance is finalized by then, that then it would be a more definitive treatment of that provider being yes or no shared service center or not?

Ms. COMBS. Obviously, as we clarify specific things in the guidance, as the guidance becomes more complete, we will obviously hold those standards to the agencies that are using them at that time.

Ms. MITCHELL. The other thing I would like to point out is, as those agencies take advantage of those commercial entities, these are acquisitions that have option years, that have the ability to put requirements as they are defined by the financial management line of business into those agreements so that we have this common set of performance matrix and measures, service level agreements, and all of the requirements so that——

Mr. PLATTS. Not set in stone.

Ms. MITCHELL. Correct. On an annual option year, or whatever their term, their acquisition contract term is, they have the ability to improve on those requirements.

Mr. PLATTS. OK. Go ahead.

Ms. COMBS. I was just going to say also, as you recall, in the previous discussions we have had, we have talked about exceptions to some of these policies, as well, and how we don't know that all the lights are green along the way. We may come upon some things where we need to have some limited exceptions in some of the ways that we are doing business.

Mr. PLATTS. I was going to go to a different area, but that raises something that was further down on my list, and that is the possible exception or a flexibility in how you deal with the question we talked about in March. We dealt with GSA and the clean audit, or you not getting a clean audit.

Is there more thought to what happens if a designated shared service center that has had entities migrate to them then loses their clean audit, which was a requirement to become a shared service center? What happens to those that have migrated there and its status as a shared service center once it has lost it, especially if the audit problems relate to the operations that pertain directly to it being a shared service center?

Ms. COMBS. Right. I think one of the things we talked about in our previous discussion is that the department in one specific case lost their clean audit, but the particular entity had not had specific problems, as well. But even if it did, the departments and agencies, as they are preparing to move into the new financial system that they are trying to acquire, and as they start developing their business case and doing the work necessary to do that, that is obviously one of the things that they are to look at, and that is important for them to consider for any shared service provider.

Mr. PLATTS. So the entity that is looking to migrate should, in the terms of their agreement with the shared service center, individually spell out in that agreement what the ramifications are if they lose their audit? It will not be a standard OBM, that you are responsible then for the cost of them migrating to somebody else if they choose?

Ms. COMBS. Well, that is one of the things we are looking at in our documents right now. I think that was one of the sub-avenues of one of the things I pointed out to you earlier.

Mr. PLATTS. Failed, and the need to re-migrate or, you know, to change who covers that cost?

Ms. COMBS. Well, my opinion is that if we do a good job in spelling out both what is important for the provider in terms of specifics and what they are required to do, and we spell out what are some of the things that the people who are seeking service should be looking for, if we do a good job with both of those we will have hopefully none of those scenarios that we know are potentially out there, but we hope, if we do a good job spelling out the requirements and holding the providers to those specific requirements, and holding the people who are seeking the service accountable for keeping quality very, very high, that then we will be in good shape.

Mr. PLATTS. Somewhere, either in the overriding guidance and requirements or in those individual agreements, though, you need to account for—if it remains that a requirement to be a shared service center is having a clean audit, which I believe is still the case or was in the previous guidance. If that remains a requirement, then somehow you have to spell out definitively what happens if you lose your clean audit for future years. I appreciate that is something that is still part of the mix as you go forward in trying to finalize.

Ms. COMBS. We appreciate your thoughts on that, as well.

Mr. PLATTS. One of the other aspects of the original business case was the development of a Government-wide standardization of core business processes, and that would occur prior to the migration. I believe when we talked in March that the hope was to have the goal of developing that common accounting code by September 30th of this year. I was just wondering where we are on that and

how does that relate to the hope of finalizing the guidance before this fall, as well.

Ms. COMBS. We are doing very, very well with that. Mary will be able to speak about the specifics, but we are definitely on target for defining our standards and the common data definitions and standard processes that we have and Mary and the very, very broad group that meets monthly with dozens of agencies to spell this out will definitely be defining those standards by the end of September. So we are going to have a very, very busy fall. I think we have really some very, very good work that is going on across Government relative to that. We have a very large group of stakeholders from the Federal financial community that are working through this.

One of the things though I think we need to step back and understand is that, while we may have the standards set out and the standards in place, that it is probably going to take a number of years for all of the departments and all of the agencies to actually be working under the standards that we have.

Mr. PLATTS. So the hope is still, by later this year, to get an across-the-board standard, but that won't necessarily be in place or in use across every department or agency for several years?

Ms. COMBS. Right. Putting this in use entails an awful lot, as you can imagine, of work.

Mr. PLATTS. Does that impact the guidance at all? No?

Ms. MITCHELL. No. So yes, overall standardization will make a tremendous amount of difference, and it is not something you do overnight but it is a very worthwhile goal.

Mr. PLATTS. I agree.

Ms. MITCHELL. But yes, once we get the standard in place we really need to bring both the Federal agencies, along with some of the industry, together to determine what the best implementation strategy is, because there can be some major differences in the speed and success of really implementing and adopting those standards. That may be one of the factors that draws agencies to a shared service provider, success in already having implemented those new sets of standards.

Mr. PLATTS. The variation of the standards on accounting is the standards for the competition, and we have touched on a little bit the issue of A–76 and how standardized this process is going to be. I want to make sure I understand what is envisioned by an entity, an agency wanting to make a major life cycle change and therefore trigger to make the evaluation to become a shared service center or migrate, and, if you migrate, public versus private. So they are going to do the 300 cost/benefit analysis on the exhibit 300 and review of that data and make an analysis that we are going to stay in-house and have the ability to do it or no, we are going to openly compete it. Is that the first step?

Ms. COMBS. You have it.

Mr. PLATTS. OK. When they've decided we are going to compete, is it up to that agency whether they are just going to compete within the Government, public to public, or are they required to open it up to anybody, public or private, to compete for the work, regardless of size?

Ms. COMBS. Well, right now we are asking them to do as much competition as they possibly can because we realize more competition, both public and private, will lead to better pricing, thus better savings for the taxpayer. So we are asking them to do both public and private.

Mr. PLATTS. But that is not something you are asking them right now, are you?

Ms. COMBS. Well, we have people at all stages, so if somebody came to me today I would say competition is good.

Mr. PLATTS. This may sound like we are going backward a little bit here——

Ms. COMBS. That is all right.

Mr. PLATTS. If I am going to compete it, I would think as an agency I want to compete it with designated shared service centers, and right now there are only four and they are all public. There is no private designated shared service centers. So, again, am I just asked to do it but if I want to keep it in-house and think, hey, I am just going to do it with the public sector, that is my agency choice, how much of an individual choice is that for the agency versus a requirement versus a request? And then, if it is you have to do it with private included, who do they compete with now without any private entities that have been designated?

Ms. COMBS. Well, because private entities have not been designated doesn't mean they are not out there offering shared services. There are private companies out there that do shared service, obviously.

Mr. PLATTS. But they are not a designated shared service center in fulfilling the requirements of the financial management line of business program?

Ms. COMBS. Correct. They are not designated.

Mr. PLATTS. That is who I am supposed to migrate to, right? I am supposed to migrate to an approved shared service center?

Ms. COMBS. You are supposed to do a public/private competition.

Mr. PLATTS. Among designated or approved shared service centers, right? Or among anybody?

Ms. COMBS. Competition. We haven't said that if you are in the private sector you can't come in and bid.

Mr. PLATTS. So it is not a requirement that I have to migrated to a shared service center; I just have to migrate to whoever will give me the best deal?

Ms. COMBS. No. In the public there are four public shared service centers that are identified.

Mr. PLATTS. Right.

Ms. COMBS. And if one of those four meet your needs, then you go to the next step of several laws that come into play at that point, you know, one of them being section 842. So we have several steps along the way after you decide, OK, in-house we can't do it. OK?

Mr. PLATTS. Right.

Ms. COMBS. So if we can't do it in-house, then we decide does it have 10 FTE or more, and if it has more than 10 FTE then we go into another step which says public/private competition that includes we look at the A–76, we look at section 842, both of those. We have to make a decision at that point then whether we would

select a shared service provider from those or whether we would have a non-shared service provider from in-house.

Mr. PLATTS. It seems like we still don't have an answer, though. That basic premise from where we started in March—and I continued to be under the understanding—is if I am the agency and the trigger kicks in, I have to migrate to a shared service center if I am not to be one myself, an approved shared service center.

Ms. COMBS. We have four public shared service centers to date.

Mr. PLATTS. So if I am going to compete today, openly compete, I am only going to have those four public shared service centers compete for my work, because that is the only four that are out there, public or private, at this point in time? That is where we are?

Ms. COMBS. We are not restricting public competition.

Mr. PLATTS. But how do you compete a private entity if they are not a designated shared service center? Why would I include them in my competition if OMB, GSA, somebody hasn't said, yes, they are an approved shared service center that you can migrate to? I mean, somebody has got to make that determination or there is no use having them spend money to compete with me in the competition.

Ms. MITCHELL. Right. So under the one that is underway currently, what was done is they incorporated all of the requirements that are stated for shared service provider, service level agreement, use blah, blah, blah, blah.

Mr. PLATTS. In their request for proposals——

Ms. MITCHELL. Right.

Mr. PLATTS [continuing]. You had all those requirements.

Ms. MITCHELL. Correct.

Mr. PLATTS. With the understanding that if you meet all these you are, therefore, a designated shared service center, which is the requirement to get my competition, get my work under financial management line of business?

Ms. MITCHELL. So they are technically evaluated to have the experience and meet those requirements. OMB is the one who would designate. Right now the agency does not designate.

Mr. PLATTS. Because in our last hearing we had a private entity, CGI, and they said they were a shared service center. I said, well, how did you get that designation? And they said, we were just deemed it. We were just made a shared service center.

Ms. COMBS. They gave it to themselves.

Mr. PLATTS. But it doesn't——

Ms. MITCHELL. This is one of the issues that is under work and this is one of the ones that Linda mentioned that we are still working on.

Mr. PLATTS. And I think that is clear that if I am a public entity and I am required to compete, and I am encouraged to compete publicly and privately, that I am only going to compete, have people compete for my work that I know at the end of the day are going to be shared service centers as required by the financial management line of business.

Ms. COMBS. Well, let me just say this. We have not, as I mentioned before, we have not pre-screened any private sector shared service providers.

Mr. PLATTS. Is that envisioned?

Ms. COMBS. Let me carry it one more step before I answer that question.

Mr. PLATTS. Sure.

Ms. COMBS. Agencies can still choose any of the private sector entities that are out there that offer them the services that they have described that they need in their proposal and in their 300's and in their business cases. The agencies have an obligation to describe what they need. There are a number of private companies that will respond and say they can provide X, Y, or Z, and if it is screened out technically, as Mary just talked about, in the departments and agencies, and it is determined that these private entities can meet the business needs, then they would be able to compete with those.

Mr. PLATTS. So my understanding though all along from the beginning of this program, was that OMB was going to put in place standards, you know, to get the efficiencies which we are all after, either within the public side, or if it is private, but to get the efficiencies in a fair and responsible way, and that OMB was going to say these are the standards that we are going to have everyone follow. If you want to do a major life cycle change, then you have to review internally.

Can you handle it inside to upgrade your abilities and be a shared service center? Then it was called center of excellence. And if you can't or don't want to, then you have to migrate to a center of excellence/shared service center, and that OMB will decide who meets that. But what we are really saying is that if you are an agency out there and you are competing your work, that as long as that agency can go forward with a total comfort level that, in their request for proposals for that competition, as long as they put, here are the existing, as we best know them today, requirements of a shared service center.

As long as you meet these requirements or this guidance, then we can compete with you or you can compete for us with the work and you will be deemed a shared service center, regardless of what OMB, itself, really thinks, but because you can comply with these requirements or this guidance. So it really comes back to that individual entity saying, all right, we want to compete, we want these guys to compete, and we have laid out the guidance as part of the request for proposals that they said they can meet that; therefore, they are a shared service center and we can go with them.

Ms. COMBS. Well, that is as it is today. You are exactly correct. You described it beautifully. The decisions that we have before us now with the comments that are coming in, we need to look at this very, very carefully and see whether or not the current determinations that we have made, which was not to certify shared service providers that are private, we need to look at that and see whether or not we should make it either a different decision than the current operation that we are undergoing or whether we need to maintain the posture that we have currently.

Mr. PLATTS. I think that is an absolute necessity for the final guidance. You need to lay out very clearly when you compete, you know, either clearly that private entities can pre-screen and be designated so that they are competing as pre-designated shared serv-

ice centers so that agency has that comfort, or, in the alternative, you need to lay out that for the agencies, if you compete, including with the private sector, you know, being part of the competition, that as long as the requirements of the guidance that are laid out in the guidance to be a shared service center, as long as they are part of the request for proposal and those requirements are met, then you in good faith can move forward and with all assurance that OMB is going to sign off on who you went with. One or the other has to be in there, or even a variation of both, really.

Ms. COMBS. OK. I thank you for those comments and certainly that will be one of the areas that we will want to come up and have some additional discussions with you.

Mr. PLATTS. I will look forward to it.

I do want to touch on one final area just a little bit more. Our second panel has been very patient. It is the issue of A–76. The original, from our meeting in March, the way I took it, it was not initially envisioned that A–76 would apply to these competitions, and the fact that some competitions are already happening that seem to be outside of A–76 that maybe should have been in, based on where we are today it is clear, and I appreciate the actions OMB has taken in making it clear that A–76 does comply for 10 or more FTEs.

The open competition that happens where it is less than 10 will still emulate the goals of the A–76 as far as the competition, the manner in which it goes forward? And also, in the language of having at least a 10 percent or $10 million savings, is that going to continue to apply even to those non-A–76 competitions?

Ms. COMBS. We believe that if we generally rely on circular A–76, that we can ensure that Federal employees are treated consistently in private and public competitions. We also believe that is very, very important as we move forward in our considerations here to make absolutely certain that we are complying with all of the laws and all of the regulations that have been set before us.

I think the nature of the migrations that we expect certainly, as we have talked about, we want to hold up the spirit and letter of the law, but at the same time we will probably run into some few cases where we may need to look for some deviations or some methodologies that are going to, on a case-by-case basis, as I said, be consistent with laws and principles and values that we hold dear in fairness and transparency. But we may run into some cases when we haven't anticipated some of these and we need some flexibility to work through some of that.

Mr. PLATTS. I should know the answer to this, or part of this. With A–76, if it is a competition internal so it is to look at one of the other four existing public shared service centers, so it is not private competition, A–76 is not kicking in in the sense because you are not going private, correct?

Ms. COMBS. That is correct.

Mr. PLATTS. And so if 1 of the 4 or down the road and there is 10, and there is a shared service center that is a public entity but the work is all by that shared service center contracted out, so they did an A–76 competition years back or tomorrow or whatever, and so they've got a private contractor doing all their work, but then they go and compete for other work to have migrated to them.

Is A–76 going to kick in if the actual work is being done by private contractors for that public entity that is the shared service center? So if GSA's work is done by a private contractor that they are going to get, they are, in essence, kind of the front partner, so agency A says, all right, we are going to migrate to GSA. In reality, that work is going to be done by a private contractor who is contracting with GSA. Is A–76 going to apply to that competition or not, because the front person is a public entity?

Ms. COMBS. If I understand the premise of your question, you are speaking of shared service providers that are both public and private.

Mr. PLATTS. If agency and Department of Defense says, the trigger is kicked in, we are going to migrate to somebody. We are going to migrate to GSA, and GSA I think contracts with CGI actually to do this work. When I look to migrate and have my work from Defense agency XYZ, the competition is currently within the public entity—GSA is another public entity—but the work is really being done by a private contractor, CGI. So does A–76 apply to that competition with GSA?

Ms. COMBS. Well, you know, I think you have to go back to who the entity is that is actually providing the service. In this case it is GSA. So I would say at that point I am not sure we have any of those right now.

Ms. MITCHELL. We do have partners that are providing some of the services.

Ms. COMBS. Some, but not all.

Ms. MITCHELL. But they tend not to be in the transaction or the financial transactions.

Mr. PLATTS. But it seems that there is some of that type of participation now and potential for a lot more, and it is one of those questions that I think we need to think about going forward, because if A–76 does not apply, otherwise you could have public agency XYZ say, all right, we are going to be a shared service center and we are going to contract all this out.

Ms. COMBS. OK.

Mr. PLATTS. And then go after work. It would be a way of circumventing the A–76 requirements, which is not appropriate.

Ms. COMBS. I understand exactly where you are headed, and that would certainly not be the intent, to circumvent that.

Mr. PLATTS. I appreciate that, because we want to fulfill not just the letter of the law but the intent of the laws.

Ms. COMBS. Right.

Mr. PLATTS. I would encourage you to look at that in the guidance, that if the work that is being contracted out migrated to Public Entity XYZ, say GSA, if the work is actually going to be by a contractor for GSA, then spell out that A–76 does apply, whether it legally under A–76 says that, but in your guidance you are going to require that as part of the financial management line of business. That way the intent of A–76 is fulfilled and not circumvented.

Ms. COMBS. Thank you. I appreciate that. We will definitely look into that.

Mr. PLATTS. I think that is the way we get what we are all after—competition in the most transparent, fair——

Ms. COMBS. Right.

Mr. PLATTS [continuing]. And the manner in which Congress and the executive branch have said we are going to do it where it is truly private jobs competing for work that is currently public.

Ms. COMBS. OK.

Mr. PLATTS. I appreciate both of your patience with me as we have worked through the details. As I said, I am a stickler for those details. As we go forward we look forward to continuing to work with you. I appreciate your testimonies and your answers to my questions and, again, day in and day out your devotion to our country and trying to improve the management of the Federal Government, which is what we certainly all share as an important goal for our Nation.

Is there anything you want to add that we didn't touch on or you want to summarize?

Ms. COMBS. I just want to say thank you again for your interest in this area. We are trying to do something that hasn't been done before and we appreciate your patience and your thoughtfulness. Your staff gives us time and energy. We appreciate that very, very much because it is working together that we will come out with the best product possible. We can't do it alone. We thank you for your kindness and your efforts on our behalf.

Mr. PLATTS. I appreciate the kind words. It is the intent here. No question is intended to create a problem, but just to avoid a problem down the road by thinking all the scenarios and possibilities through that we, up front, give the best guidance possible to the agencies as they look to make the right decision for their agency and for the taxpayers. So thank you again.

We are going to take maybe a 3-minute recess while we reset for the second panel and then we will reconvene.

[Recess.]

Mr. PLATTS. We are pleased to have our second panel and especially appreciate their patience with the hearing, especially my lengthy questions of the first panel.

We are glad to have with us Mr. James Krouse, acting director of the public sector market analysis for INPUT; Ms. Jacque Simon, public policy director, American Federation of Government Employees, and Mr. Stan Soloway, president, Professional Services Council.

Would all three of you stand to be sworn in?

[Witnesses sworn.]

Mr. PLATTS. The clerk will note that all three witnesses affirmed the oath.

We are going to begin, Mr. Soloway, with your testimony, then we will move across.

Again, we will use the 5-minutes as a kind of guide, but if you need to go over a little bit we understand that.

Your written testimony was very helpful. I call it my homework. I especially appreciate your getting it in early. Usually I do it about midnight the night before, and all of you were very helpful in getting it to me early, so I actually did it during the daylight hours yesterday in preparing for the hearing. We appreciate that.

We are told that we have probably a lengthy series of votes probably between 4:45 or 5. Our hope is if we get your testimonies and some good exchange, that we will get done in the next hour so that

you are not sitting here waiting, because I think it is going to be a lengthy round of votes.

With that, Mr. Soloway, if you would like to begin.

STATEMENTS OF STAN SOLOWAY, PRESIDENT, PROFESSIONAL SERVICES COUNCIL; JACQUE SIMON, PUBLIC POLICY DIRECTOR, AMERICAN FEDERATION OF GOVERNMENT EMPLOYEES; AND JAMES KROUSE, ACTING DIRECTOR, PUBLIC SECTOR MARKET ANALYSIS, INPUT

STATEMENT OF STAN SOLOWAY

Mr. SOLOWAY. Thank you, Mr. Chairman. On behalf of the Professional Services Council we thank you very much for the invitation to testify here today to share our perspectives on the lines of business initiative. PSC and our more than 200 member companies are committed to working with OMB and the Congress to make the initiative a success.

My comments today address the entire LOB initiative and are not solely related to the financial management element. In the interest of time, let me simply just summarize the five major points.

First of all, the foundation for the Government's lines of business initiative is sound and rational. It is the right thing to do. To its credit, OMB has clearly put a great deal of thought and effort into the various initiatives and is committed to their success. They also recognize many of the steep challenges they face.

OMB also recognizes that the initiative is a long-term undertaking and that full migration could easily take 10 or more years as it and the individual agencies struggle with decades-old legacy systems, processes, and, significantly, cultures, let alone a substantial change management and communications challenge. Indeed, this initiative is fundamentally not about information technology or even about outsourcing. Rather, it is about rationalizing broad agency business practices and processes, and achieving that goal requires the early and continuing involvement of all stakeholders.

Notwithstanding the sound strategic underpinning of the initiative, there are some unresolved questions relating to its implementation. First, I think it is fair to ask whether entrepreneurial government genuinely serves the public interest when agencies build business capabilities unrelated to their core mission. It is one thing, for instance, for the Department of Interior to share its expertise in natural resource management with other agencies; it is entirely another thing for that department or any other to build a business line completely disassociated from that core mission.

Questions also abound relative to the competitive playing field on which such activities will be conducted. Today, as the Government faces severe budget and human capital challenges, it is all the more important to carefully assess whether it is beneficial to devote the people, technology, and other resources required to continuously maintain excellence in a function outside of a designated agency's core mission requirement. This is particularly true for smaller agencies for which these investments are especially onerous.

As you know, one of the Government's greatest challenges for many years has been finding adequate resources to maintain pace

with rapid advances in technology and associated technology skills, resources that companies derive from their profits. In today's environment, it is difficult to imagine how organic shared service providers are going to be able to maintain that currency for a long period of time.

Second, the success of the LOB is directly tied to the creation of appropriate performance measures and matrix and to agency and Government-wide adherence to them. The inter-agency developed migration guidance issued by OMB contains just such a list. Our initial review suggests that the list, itself, might be too extensive and could result in some sub-optimization, but it certainly represents an important start.

The more salient and immediate question is whether that list, properly streamlined, could as effectively serve as the Government-wide baseline requirements for any significant investments and upgrades that all agencies must meet, while leaving agency implementation to a competitive best value procurement conducted among commercial providers, either those who have competed to become shared services providers or, where appropriate, through an open market procurement.

As it stands now, OMB's business case process has imposed a significant hurdle for any agency investment or acquisition decision other than migration to a designated Federal agency shared service provider.

Third, as a result of the fiscal year 2006 Transportation Treasury Appropriations Act, OMB has determined that virtually all activity conducted under the line of business initiative must utilize the procedures under OMB circular A–76. If the requirements of A–76 are forced against the LOB initiatives, the initiative will face potentially insurmountable obstacles to success. There is a reason that industry, by and large, has walked away from A–76. It is not because companies are afraid of competition, because they face it every day. But A–76 competitions take 2 to 3 years to complete and are so fraught with process inequities and so burdened by unique restrictions, including restrictions on the use of best value source selections, which are the accepted norm not only throughout Federal contracting but in the commercial sector, as well, that most companies have determined that, except in rare circumstances, the A–76 field is far too tilted to justify the expenditure of precious bid and proposal resources. That is why most A–76 competitions have no real competition at all.

For the LOB initiative the problem is further exacerbated by the potential need to impose A–76 at two levels, first in the competitions among and between agencies and commercial companies to be designated as shared services providers, and then again each time an agency opts to utilize a designated shared service provider for a given requirement.

There is also an important political dimension to the A–76 issue that cannot be ignored. Virtually every announced A–76 competition becomes the focus of a targeted congressional amendment to prohibit the competition from going forward in the first place. In virtually every case where a private contractor has won an A–76 competition, a rare event in and of itself, there have been efforts

in Congress, sometimes successful, to legislatively overrule the procurement process.

For example, just last week the House adopted, with no debate, an amendment to the Defense Appropriations Act that would prohibit the implementation of a duly awarded contract at Walter Reed Army Medical Center, a contract that was awarded only after an almost unprecedented post-award oversight process that included GAO protests and detailed reviews by the Army Audit Agency. Can you imagine if every LOB agreement were subject to that kind of uncertainty, political interference, and schedule slippage?

Without relief at least from the new statutory restriction, the effect could be devastating to the entire initiative and deny the agencies and the taxpayer the substantial value that would otherwise be possible.

Fourth, as OMB has recognized, the success of the initiative is also dependent upon the clarity, quality, and firmness of the Government's requirements. It is unfortunate but true that the Federal landscape is littered with examples of great technological and business solutions that fail to deliver the expected and promised results because the Government requirements process, itself, was unclear and/or constantly shifting.

For the initiative to succeed and achieve the anticipated savings and synergies, it is essential that disparate agencies agree on a firm, clear, rational, and common framework for each element of the initiative, a framework that meets the needs of both the large and small agencies without becoming so riddled with individual customer demands that it loses the very efficiencies and synergies it was designed to create and, as a result, it drives costs upward.

Further, there is an important cross LOB requirement connected to this initiative. For example, HR systems must interface with finance, travel, and other functional areas. As such, some further explanation or understanding as to how business reference models and architectures are integrated across the various elements would be helpful for both the Government and its industry partners.

Just last month the Center for Strategic and International Studies released a report detailing the critical trends in the Federal professional services marketplace relating to the nature and scope of Government buying and the ways in which the professional services industry is responding to and being shaped by the Government's activities. The report clearly documents a growing market squeeze on mid-sized firms and limited growth opportunities for small businesses. This brings me to the fifth and final comment I would like to make.

There are questions as to whether the LOB initiative could serve as a barrier to access to or growth within the Federal market for businesses of all sizes, particularly small and mid-sized firms, especially if shared service providers become mandatory or near mandatory sources for their relevant functional capabilities. This has not been widely discussed as part of the LOB initiative, but we believe it is essential to promptly do so.

Mr. Chairman, we applaud OMB for launching the initiative and believe it is the right thing to do. My comments today are truly not intended to suggest otherwise. But we do have concerns about criti-

cal implementation challenges and important policy dimensions of the initiative. As such, we continue to look forward to working with OMB and this committee on strategies to help ensure the long-term success of the initiative.

Thank you for your time. I look forward to your questions.

[The prepared statement of Mr. Soloway follows:]

STATEMENT OF

STAN SOLOWAY
PRESIDENT

BEFORE THE

SUBCOMMITTEE ON GOVERNMENT MANAGEMENT, FINANCE AND ACCOUNTABILITY

COMMITTEE ON GOVERNMENT REFORM

HEARING ON

"OFFICE OF MANAGEMENT AND BUDGET'S FINANCIAL MANAGEMENT LINE OF BUSINESS INITIATIVE: DO RECENT CHANGES TO THE IMPLEMENTATION GUIDANCE CLARIFY THE RULES?"

JUNE 28, 2006

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Introduction

Chairman Platts, Ranking Member Towns, and members of the Subcommittee, on behalf of the Professional Services Council (PSC), thank you very much for the invitation to testify today to share our perspectives on the OMB Lines of Business (LoB) initiative. The Professional Services Council is the leading national trade association representing the full range of contractors in the government services sector. Among our advocacy functions is to work collaboratively with our government colleagues to identify solutions to many of the procurement, outsourcing, and general business challenges we collectively face. PSC and our more than 200 member companies are committed to working with OMB and Congress to make this LoB initiative a success.

In discussing the LoB initiative, I have divided my comments into three distinct, though inter-connected, categories: the overarching strategic framework, implementation challenges and the role of government, and the competition framework. Each is essential to the success of the overall LoB program and each must be considered and assessed both independently and as part of the whole. Finally, my comments today are intended to address the entire LoB initiative and are not solely relevant to the Financial Management element.

A Sound Strategic Framework

The foundation for the federal government's Lines of Business initiative is sound and rational. It is the right thing to do. The Office of Management and Budget's (OMB) stated goal is to eliminate duplicative and redundant administrative systems and operations, improve operational efficiencies and visibility, and deliver better results for the agency and the taxpayer. If an institution of any size can harmonize and synthesize its common support functions, real and meaningful business value will be gained. To its credit, OMB has clearly put a great deal of thought and effort into the various LoB initiatives and is committed to its success; they also recognize many of the steep challenges this initiative faces. In fact, perhaps the single most important factor that will drive its long-term success and effectiveness is the level of leadership focus and attention that OMB is giving to the initiative.

OMB also recognizes that the LoB initiative is a long-term undertaking and that full migration could easily take ten or more years as it, and the individual agencies, struggle with decades-old legacy systems, processes and, significantly, cultures. In recognition of the enormity of this challenge, the May 2006 draft Migration Guidance that OMB issued for the Financial Management LoB properly devoted an entire chapter to Change Management and communications. This is particularly important because, while this initiative has largely been viewed as an E-Government program implemented through the leadership of agency chief information officers, it is fundamentally <u>not</u> about information technology. Rather, it is about rationalizing broad agency business practices and processes. For that same reason, it would be inappropriate to view this initiative as an attack on the existing federal workforce, or a means to outsource the work.

But the degree of success for this initiative is dependant on the extent to which federal agency communities of interest, at the leadership and operational levels of all affected agencies, are involved and fully invested in it. That willingness and ability also ties directly to the overarching business value that the initiative can deliver for each individual agency and how best to achieve that value. These are essential predicate steps that must be taken before an agency makes a decision to commit to a specific LoB activity. For the first round of LoB initiatives, it appears that the decision process is inappropriately ahead of the requirements development and transition analysis processes.

Implementation Challenges and Questions About the Proper Role for Government

Notwithstanding the sound strategic underpinning of the LoB initiative, there are a number of additional questions relating to the six LoB areas already under way, the three new LoB areas OMB announced in March, and the creation of government-based Shared Service Providers as a key element of the initiative.

For example, as a result of being designated a Shared Service Provider, such agencies will naturally be inclined to robustly build up their business functions covering their specific LoB element. It is not clear that the emergence of such Shared Service Providers will add critical value to important agency programs. In other words, it is fair to ask whether "entrepreneurial government" genuinely serves the public interest where agencies build business capabilities unrelated to their core mission areas. It is one thing for the Department of the Interior, for example, to share its expertise in natural resource management with other agencies; it is entirely another thing for that Department, or any other, to build a business line completely disassociated from that core mission.

This is not a new issue for the federal government. It is precisely what occurred with the rise of the franchise fund activities that were designed to offer various interagency services. Serious questions are still raised about the rationale for such activities, let alone the fairness of the "playing field" on which they compete (or don't) with the private sector. Today, as the government faces severe budget and human capital challenges, it is all the more important to carefully assess whether it is beneficial to devote the people, technology and other resources required to continuously maintain "excellence" in a function outside of the designated agency's core mission requirements. It is also important for agencies and Congress to conduct the same strategic assessment that any high performing institution conducts when determining what activities are truly central to its mission and thus worth the investments and infrastructure required to maintain excellence and which functions are better left to others.

The success of the LoB initiative is also directly tied to the creation of appropriate performance measures and metrics, and to agency and government-wide adherence to those measures and metrics. OMB has clearly recognized this fact and the interagency-developed Migration Guidance OMB issued contains just such a list. Our initial review suggests that the list itself might be too long, too detailed and could result in a sub-optimization of the effort, but it does represent an important start. However, although the performance measures and metrics most likely can be achieved whether the government

itself uses Shared Services Providers to execute that work, the issue of the government's role is largely absent from the list.

Therefore, the more salient question is whether that list, properly streamlined, could as effectively serve as the government-wide baseline requirements for any significant investments and upgrades that all agencies must meet, while leaving the agency's implementation to a competitive, best value procurement conducted by the customer agency. This would allow each agency to determine, within the confines of government-wide requirements, how to best fulfill its mission and still meet these standards. However, we are concerned that, as it stands now, OMB's business case process has imposed a significant hurdle for any agency investment or acquisition decision other than migration to a designated federal agency Shared Service Provider.

Some suggest that these government Shared Service Providers offer agencies access to high quality technology and solutions at a lower cost, without having to pay the "profits" companies build into their prices. However, this is a pyrrhic argument.

Many of the capabilities to be offered by the Shared Service Providers are already, or will be, procured by the centers from private sector sources. Therefore there is no reason to believe that the profit element will be any less present in Shared Service Providers than it would be through a more traditional procurement model. In addition, among other important benefits, company profits provide the essential resources for reinvestment in both the workforce and continuous process and technology improvement. One of the government's greatest challenges for many years has been finding those very same kinds of resources to maintain pace with changes in technology and technology skills. Especially in this era of budget and resource constraints, it is difficult to imagine how organic government Shared Service Providers could maintain that currency.

Despite a lot of rhetoric to the contrary, it is also a fact that one of the great advantages of direct contract relationships with the private sector is that they provide the agency with levels of accountability and control that it cannot otherwise achieve. Contracts provide firm definitions of the work to be performed and the price to the government for performing the work. No such construct exists with interagency agreements. We are just beginning to see whether the "letter of obligation" under competitive sourcing awards can provide such equalized benefits, but even there, significant, unavoidable limitations exist that in turn limit an agency's ability to fully hold organic activities accountable.

Finally, today there is pressure throughout government to re-evaluate the use of interagency contracting vehicles, to some extent because of concerns about the value received in return for the fees agencies pay to other agencies. Much of the stigma currently attached to interagency contracting is wholly unwarranted, although some of the questions are fair and reasonable. Similar questions should be asked of the LoB initiative.

The Competition Framework is Highly Problematic

As a result of the fiscal year 2006 Transportation-Treasury Appropriations Act enacted last year, OMB has determined that virtually all activity conducted under the LoB initiative must utilize the competitive sourcing procedures under OMB Circular A-76. While we did not have this LoB initiative in mind during last year's congressional consideration of that appropriations act, PSC strongly opposed that provision because of its adverse effect on the existing and future competitive sourcing program.

If that statute and the requirements of OMB Circular A-76 are forced against the LoB initiatives, our view is that the initiative will face serious, if not insurmountable, obstacles to success. It is notable that over the last few years, OMB's own reports on competitive sourcing have documented that private industry is, by and large, unwilling to invest precious bid and proposal resources in the A-76 process because it is beset by problems and the opportunity for bidding and execution success are low.

The A-76 process, especially as Congress constrained it last year, is almost wholly inconsistent with the objectives of a LoB because it effectively prohibits the very kind of best value source selection that is intended to be at the heart of LoB decision-making. Instead, because Congress determined that A-76 decisions, unique among all other government procurements, must be made solely on the basis of the lowest cost, agencies are precluded from making smart trade-offs between cost and innovation, performance, and continuous improvement that the LoB initiative is designed to achieve. In the technology space more than anywhere else, cost is important but often not nearly as important as innovation, technical capability, transition experience, continuous improvement, and more. Best value is an acquisition strategy that allows the agency the flexibility to combine the best of strategic and creative thinking, with firm performance and evaluation criteria.

Further, the A-76 process takes longer to conclude than procurements of similar size and complexity conducted under the regular procurement process. To subject to the A-76 process each and every cross-agency request for support from a Shared Service Provider would be a strong disincentive for an agency to undertake the LoB analysis and for the private sector to participate.

Additionally, there are significant procedural questions associated with the application of the A-76 Circular to the LoB that must be addressed, such as how to form the government's "most efficient organization," how to prepare the agency tender, and clarity around the applicable appeal and protest processes.

There is also an important political dimension to the A-76 issue that cannot be ignored. In virtually every case where an agency announced a competitive sourcing study, there have been political efforts, many of them successful, to preclude the agency from going forward. Whenever a private contractor has won an A-76 competition—a rare event in and of itself—there have been efforts in Congress to legislatively overrule the procurement process. For example, just last week the House adopted an amendment to

the Defense Appropriations Act offered by Delegate Eleanor Holmes Norton that prohibits the implementation of a duly awarded contract at Walter Reed Army Medical Center—a contract that was awarded after an almost unprecedented post-award oversight process that included detailed reviews by the Army Audit Agency and Army Inspector General and protests at the Government Accountability Office (GAO). Those reviews were prompted by the disclosure of substantial procurement integrity violations by the government's bidding team. This type of legislative action is, unfortunately, the norm rather than the exception and will serve as a substantial disincentive to both private sector and agency participation in the LoB initiative. As a side note, the post-award reviews related to the Walter Reed contract have dragged on for nearly two years. Can you imagine if every LoB agreement were subject to that kind of uncertainty, political interference, and schedule slippage? For the FM LoB, the result would be continued financial management cost inefficiencies and stagnation of agency financial systems, which would greatly hinder agencies' ability to improve their compliance with FFMIA and other important federal financial management laws.

The Requirements Process Must be Optimized and Rationalized

As OMB seems to recognize, regardless of whether the government itself operates Shared Service Providers, it is clear that the success of the LoB initiative is also dependent upon the quality, clarity and firmness of the government's requirements. It is unfortunate but true that the federal landscape is littered with examples of great technological and business solutions that failed to deliver the expected and promised results because the government requirements process itself was unclear and/or constantly shifting.

For the LoB initiative to succeed and achieve the anticipated savings and synergies, it is essential that disparate agencies agree on a firm, clear, rational, and common framework for each element of the initiative. It is essential to recognize that the ultimate effectiveness of any individual LoB initiative will hinge greatly on the degree to which that common framework meets the needs of both the large and small agencies without becoming so riddled with individual customer demands that it loses the very efficiencies and synergies it was designed to create. Unless properly and carefully managed over a long period of time, a loosely defined, evolving, overly-customized requirements process threatens the effectiveness of the entire LoB initiative. It could create untenable business risks for the service provider, whether an agency activity or one or more contractors, and, as history has shown us, could drive costs up and results down.

Further, it will be important for individual elements of the LoB initiative to interface and integrate with others. This "cross-LoB" requirement is essential, since, for example, HR systems must interface with finance, travel, and other functional areas. As such, further explanation or understanding as to how the Business Reference Models and architectures are integrated across the various LoB elements would be both helpful and important for both the government and its industry partners.

The Potential Effects on the Broader Marketplace Cannot be Ignored

Just last month, the Center for Strategic and International Studies released a report titled: "Structure and Dynamics of the U.S. Federal Professional Services Industrial Base." This report details the critical trends in the federal marketplace relating to both the nature and scope of government buying and the ways in which the professional services industry is responding to and being shaped by the government's activities. The report is relevant to this hearing because the LoB initiative could have unintended impacts on the services industrial base that supports the federal government. The report clearly documents a growing market squeeze on mid-size firms, and limited growth opportunities for small businesses beyond their small business status, and more.

One question that has been around since the LoB initiative was launched relates to the degree to which it could serve as a barrier to access to, or growth within, the federal market for businesses of all sizes, particularly if Shared Service Providers become the mandatory or near mandatory sources for agencies for the relevant functional capabilities. In the commercial sector, this is a common dynamic. But the commercial world's procurement system and rules are not constructed around the set of competition, socio-economic and other related requirements that exist in the government market. In that sense, the LoB initiative could create a conflicting policy and business environment. This area has not been widely discussed as part of the LoB initiative but we believe it is essential to promptly do so.

Conclusion

Mr. Chairman, we applaud OMB for launching the LoB initiative and believe that it is the right thing to do. At the same time, we do have concerns that are focused on critical implementation challenges and important policy questions. We look forward to working with OMB and this committee on strategies to help ensure the LoB initiative's long-term success.

Thank you for your time. I look forward to your questions.

STATEMENT REQUIRED BY HOUSE RULES

In compliance with House Rules and the request of the Subcommittee, in the current fiscal year or in the two previous fiscal years, neither I nor the Professional Services Council, a non-profit 501(c)(6) corporation, has received any federal grant, sub-grant, contract or subcontract from any federal agency.

BIOGRAPHY

Stan Z. Soloway is president of the Professional Services Council, the principal national trade association representing the government professional and technical services industry. PSC is known for its leadership on the full range of government acquisition/procurement and outsourcing and privatization issues. Mr. Soloway assumed the presidency in January 2001.

Mr. Soloway is an expert on the relationship between the public and private sectors and is routinely sought out by the media, federal agencies, congress and others to provide commentary and perspective on the full range of procurement and outsourcing issues. He also writes a monthly column in *Washington Technology* magazine (a publication of The Washington Post) and was a member of the congressionally mandated, national panel on the future of government outsourcing chaired by the Comptroller General of the U.S.

Prior to joining PSC, Mr. Soloway served as the deputy undersecretary of defense (acquisition reform) and concurrently as director of Secretary of Defense William Cohen's Defense Reform Initiative. As deputy undersecretary, he was the department's senior official responsible for the development and implementation of far-reaching reforms to DoD's acquisition processes and policies and for the oversight of the training, education and career development of the 200,000-member defense acquisition workforce. As director, DRI, Mr. Soloway led significant department-wide re-engineering and reform initiatives in areas as diverse as privatization and outsourcing, electronic commerce, financial management reform, logistics transformation, and the quality of life for American troops.

In recognition of his leadership at DOD, Mr. Soloway was awarded both the Secretary of Defense Medal for Outstanding Public Service and the Secretary of Defense Medal for Distinguished Public Service.

Mr. Soloway is a principal of the Council on Excellence in Government, and was an expert panelist for studies conducted by the Center for Strategic and International Studies on the future of defense technology and acquisition policy. He is also a member of the Board of Advisors of the National Contract Management Association, was a 2005 recipient of the prestigious Federal 100 Award, and speaks frequently to industry and government organizations on government technology, acquisition, human capital, and strategic management issues.

Before his appointment to DOD, Mr. Soloway was a public policy and public affairs consultant for more than 20 years and a highly regarded expert in, and frequent lecturer

on, acquisition, privatization, and outsourcing issues. He also co-produced the critically acclaimed "Great Confrontations at the Oxford Union", a series of prime-time specials that aired nationally on public television. He earned a degree in political science from Denison University, where he was elected to the National Men's Journalism, National Men's Leadership, and National Political Science honorary societies.

Mr. PLATTS. Thank you, Mr. Soloway.
Ms. Simon.

STATEMENT OF JACQUE SIMON

Ms. SIMON. Thank you, Chairman Platts, for allowing AFGE, which represents more than 600,000 Federal employees across the Nation and around the world, the opportunity to present our views on OMB's controversial financial management lines of business initiative.

Chairman Platts, AFGE commends you, in particular, for your attention to the details and consequences of this initiative, your determination to get answers about it from a frequently unforthcoming OMB and your interest in hearing a diverse range of views on the initiative at today's hearing.

We started hearing about this initiative in late 2005 in the form of warnings from senior procurement officials with whom we normally spar over A–76. Official after official and agency after agency warned us that an alternative to A–76 was being prepared in relative secrecy, and that this alternative to A–76 would be used to conduct direct conversions of information technology functions.

Direct conversions is a polite euphemism for taking work away from Federal employees and giving it to contractors without any public/private competition or even any promise of savings; that is, wasting taxpayer dollars and stealing jobs from Federal employees. Unfortunately, those warnings have proven to be accurate.

Mr. Chairman, I think we can all stipulate, as the lawyers say, that, regardless of whether one supports the FMLOB initiative and regardless of how OMB may try to present its case to you, its guidance in no way provides for the use of so-called competitive sourcing. In fact, OMB has repudiated its own rhetoric and its own rules in preparing its FMLOB initiative guidance on what it alleges is competition.

Direct conversions, as we said, wasting taxpayer dollars and stealing jobs from Federal employees, are encouraged for functions involving up to 10 FTEs and are thus inevitable for larger functions. Financial management work performed by Federal employees can be moved to another agency and then privatized without any public/private competition. Agencies can use a form of so-called best value that is so subjective, so costly, and so extreme that even OMB would not include it in its 2003 revisions of A–76. OMB's guidance encourages agencies to come up with their own rules for privatization reviews which, if passed as prologue, will be contrary to the interest of taxpayers and Federal employees. All new Government work and all already outsourced Government work related to financial management will continue to be a monopoly for contractors.

There is actually more to this that is even worse. The FMLOB initiative is actually a revival of the very worst principles of OMB's discredited wholesale privatization agenda. In 2001 OMB imposed numerical privatization quotas on all agencies, insisting that they review for privatization under A–76 at least 5 percent of the jobs on their Fair Act inventories in fiscal year 2002, another 10 percent in fiscal year 2003, as down payments on an OMB dictate that all agencies combined review for privatization by the end of 2004 at

least 425,000 Federal employee jobs. Agencies were explicitly encouraged to use direct conversions to achieve these infamous numerical privatization quotas.

It is so extreme and so indefensible that it is difficult to conceive of today: OMB officials insisting, in a classic one-size-fits-all approach, that all agencies, regardless of their needs or missions, compete under A–76 or directly privatize specific numbers of Federal jobs in all but the most extraordinary circumstances, or else face sanctions in the budget process. Fortunately, the Congress outlawed the use of numerical privatization quotas, and in its May 2003, rewrite of A–76 OMB officials were forced to abolish direct conversions absent specific authority from OMB.

As OMB officials reluctantly provide this subcommittee with details of the FMLOB initiatives, many Federal employees are experiencing a sense of deja vu. Again OMB is insisting that all agencies in all but the most extraordinary circumstances compete or directly convert a certain number of jobs or else face sanctions in the budget process. However, instead of that numerical privatization quota being 15 or 50 percent of an agency's entire commercial work force, it is, instead, 100 percent of an agencies financial management work force.

Indeed, the FMLOB initiative may actually be worse for agencies in that OMB has unilaterally determined that financial management functions in all agencies, regardless of those agencies' needs or missions, are commercial, and that every agency's financial management functions are appropriate for contractor performance.

Agencies consequently have no flexibility under these new numerical privatization quotas. They certainly cannot decide either to compete or convert financial management functions which have been outsourced to in-house performance.

Mr. Chairman, thank you for this opportunity to present to your subcommittee AFGE's concerns about OMB's financial management lines of business initiative. I would be delighted to respond to any questions from you or your colleagues.

Thank you.

[The prepared statement of Ms. Simon follows:]

STATEMENT BY

JACQUE SIMON
PUBLIC POLICY DIRECTOR
AMERICAN FEDERATION OF GOVERNMENT EMPLOYEES, AFL-CIO

BEFORE THE

HOUSE COMMITTEE ON GOVERNMENT REFORM
SUBCOMMITTEE ON GOVERNMENT MANAGEMENT, FINANCE AND ACCOUNTABILITY

ON THE
OMB'S FINANCIAL MANAGEMENT LINES OF BUSINESS INITIATIVE

JUNE 27, 2006

Introduction

Mr. Chairman and members of the subcommittee, thank you for allowing AFGE, which represents more than 600,000 federal employees across the nation and around the world, this opportunity to present our views on the Office of Management and Budget's (OMB) controversial Financial Management Lines of Business (FMLoB) initiative.

Mr. Chairman, AFGE commends you in particular for your attention to the details and consequences of the initiative, your determination to get answers about the initiative from a frequently unforthcoming OMB, and your interest in hearing a diverse range of views on the initiative at today's hearing.

We started hearing about the initiative in late 2005 in the form of warnings from senior procurement officials with whom we normally spar over the OMB Circular A-76. Official after official, in agency after agency, warned us that an alternative to the A-76 circular was being prepared in relative secret, and that this alternative to the A-76 circular would be used to perpetrate "direct conversions" of information technology functions. "Direct conversions" is a polite euphemism for taking work away from federal employees and giving it to contractors without any public-private competition or proof of savings, i.e., stealing dollars from taxpayers and stealing jobs from federal employees. And those warnings have proven to be accurate. The OMB insists that the A-76 circular will be used in the FMLoB initiative. But in fact, the OMB's guidance

1. encourages agencies to give work to contractors without any public-private competition;

2. fails to ensure that related work transferred to a federal shared service center that is ultimately contracted out is not first subject to public-private competition;

3. allows agencies to use a version of the subjective "best value" (sic) competition process so extreme and so vulnerable to abuse that it has been outlawed by the Congress and repudiated by the OMB;

4. encourages agencies to make up their own rules for specific competitions; and

5. fails to ensure that related work that's already been outsourced will be reviewed for insourcing.

OMB's Edict: The Fundamentally Flawed FMLoB Initiative

The FMLoB initiative is typical of the schemes that come out of the OMB, regardless of who is president, in which OMB officials insist on substituting their own judgment for that of the career officials in agencies who are actually responsible for the delivery of important services to the American people and who are the most knowledgeable about what is necessary to ensure that such services are actually provided.

In requiring that all agencies, in all but the most extraordinary circumstances, dismantle their financial management functions in favor of having such vital services instead be provided by a tiny handful of contractors and agencies, the FMLoB initiative also reflects the OMB's quintessential bigger-is-better, one-size-fits-all approach. That each agency has its own mission, its own workforce, its own culture, and, most importantly, its own needs for accountability and quality control, all of that is imperiously swept aside by OMB officials who insist that they know best.

In fact, OMB officials should restrict their role to setting standards and metrics for the performance of financial management services—and then getting out of the way so that agency managers can make their own decisions as to what arrangements would best promote their missions and minimize their costs. Current funding shortfalls and budget crunches are all the incentives agencies need to generate efficiencies in the performance of financial management services. Divestiture-and-consolidation/privatization, along the lines of the FMLoB initiative, may be an appropriate option in some instances; however, it should not be dictated by the OMB in all but the most extraordinary circumstances.

While FMLoB certainly qualifies as a classic OMB power-play undertaken at the expense of agencies' autonomy, the integrity of the initiative is further undermined by this OMB's obsession with wholesale privatization. As one contractor insisted in a discussion earlier this year about another lines of business initiative, "The government shouldn't really be in the HR/payroll business."[1] In weaker moments before contractor gatherings, OMB officials have let similar feelings show: "'We want improved focus on agency core missions,' (said OMB's associate administrator of E-government and IT). Agencies should spend 'more time and resources fulfilling their own responsibilities.'"[2] That has often been this OMB's code for forcing agencies to divest themselves of support services and to directly convert them to contractor performance.[3] Although this OMB's officials consider themselves to be on the cutting edge, their wholesale privatization approach is rejected by the less ideologically blinkered managers in the private sector and local government.[4]

This OMB is also well-known for its hubris and overreach on issues affecting federal employees. Its schemes to undermine civil service protections against politics and favoritism and to bust federal employee unions in the Departments of Defense and Homeland Security have been struck down by the courts. Its National Security Personnel System (NSPS) is so disliked that not a single member of the House of Representatives was willing to speak on the floor in opposition to an amendment to block funding for the labor relations and employee appeals portions of the NSPS regulations that was offered last week to the FY2007 Defense Appropriations Bill. And, of course, the Congress rarely passes up opportunities to reject and reform this OMB's scheme to force agencies to review for privatization 850,000 federal employees through "competitive (sic) sourcing", blustery veto threats notwithstanding. Indeed, as the Congress, particularly the Appropriations Committees, looks more closely at the FMLoB initiative, the more likely it is to meet a similar fate.

OMB's Guidance on "Competition" (sic) for the FMLoB Initiative

OMB officials have always known what *they* wanted for the FMLoB initiative, and they haven't been particularly interested in what the Congress or any of the stakeholders have to say. As Clay Johnson, OMB's deputy director for management famously said, "We have said this is the way that we're going to run the federal government and that's the way we're going to run it."[5] And in no aspect of the FMLoB initiative is that more true than with respect to competition. In fact, the OMB published its draft guidance with this stern warning: At this time, the OMB is "soliciting comments on the Guidance from the public. Reviewers are encouraged to comment freely on all aspects of the Guidance, with the exception of the *Competition Framework for Financial Management Lines of Business*..."[6] Indeed, the OMB's FMLoB "competition" (sic) guidance is likely to be in violation of the Administrative Procedures Act for making broad and sweeping changes to the A-76 circular without first providing for a notice and comment process through the *Federal Register*.

AFGE thanks you, Mr. Chairman, for giving the federal employees we represent the opportunity "to comment freely" on the "competition" (sic) guidance that the Administration has otherwise refused to afford to the public, except for a handful of favored contractors.[7]

1. The OMB's guidance encourages agencies to give work to contractors without any public-private competition.

In direct contravention of the A-76 circular, as revised by this OMB on May 29, 2003, the guidance provides that an "agency may, but is not required to follow Circular A-76...for activities involving 10 or fewer FTE's (Full-Time Equivalents)." Please note that the OMB did not thus authorize "direct conversions" in *particular* instances for the FMLoB initiative for financial management functions performed by up to ten FTE's; rather, the OMB is authorizing it in *every* instance

The sanctioning of the abusive "direct conversion" practice is nothing less than a complete change of the OMB's own regulation and policy. Indeed, for almost three years, the OMB has explicitly prohibited the abusive practice of "direct conversions". In 2003, the OMB eliminated "direct conversions" in order to "(c)lose the loopholes that diminish return on taxpayer investment..."[8] At the time, the OMB noted that through "direct conversions," agencies "may be foregoing opportunities to reap savings and make better economic decisions through public-private competition..."[9]

Now, for financial management services, agencies are free to choose providers without any public-private competitions and without any consideration of in-house workforces. Even if an in-house workforce is cheaper and better, the guidance allows an agency "not (to) consider an incumbent provider"[10] if the function is provided by up to ten FTE's.

But wait—it gets worse. Although the "direct conversion" authority nominally applies to all financial management functions performed by up to ten FTE's, in fact, it could be used to contract out far larger functions. According to the Bush Administration's first Administrator for the Office of Federal Procurement Policy (OFPP), agencies had historically broken up larger functions into smaller parts in order to perpetrate "direct conversions"—which played a significant part in the OMB's 2003 decision to eliminate the practice entirely.[11] In other words, the OMB's FMLoB guidance, effectively, allows agencies to steal money from taxpayers and jobs from federal employees on a significant scale through the use of a "direct conversion" practice that OMB officials have already acknowledged is both wasteful and vulnerable to abuse.

2. The OMB's guidance fails to ensure that related work transferred to a federal shared service center that is ultimately contracted out is not first subject to public-private competition.

Much work that is performed by one agency for the benefit of another agency is ultimately performed by a contractor. That is true with respect to agencies that are designated federal service centers pursuant to the FMLoB initiative. The guidance does not ensure that there would be a public-private competition before work is moved to a federal service center that would ultimately be performed by a contractor.

3. The OMB's guidance allows agencies to use a version of the subjective "best value" (sic) process so extreme and so vulnerable to abuse that it has been outlawed by the Congress and repudiated by the OMB.

The use of "best value" (sic) in public-private competitions has been outlawed for the Department of Defense since the enactment of the FY2004 Defense Appropriations Bill and for all other agencies except the Transportation Security Administration since the enactment of the FY2006 Transportation-Treasury-HUD Appropriations Bill. Despite the OMB's blithe assurances, the Congress has understood that the highly subjective "best value" (sic) process is too easily abused to the disadvantage of federal employees and taxpayers, particularly when the OMB is pressuring agencies to privatize functions performed by federal employees whenever and however possible.

Of course, OMB officials also understand how easily the "best value" (sic) process can be abused. The current A-76 circular, as revised by this OMB, in May 2003, severely limits the use of subjective, non-cost factors in all competitions, including for competitions for functions performed by up to 10 FTE's. Indeed, the current A-76 circular states that "(a)n agency shall not use a (best value) source selection process for activities currently performed by government personnel..." unless several specific procedures are followed, including that "the specific weight given to cost or price shall be at least equal to all other factors combined..."[12] In other words when a "best value" (sic) procurement occurs under the current A-76 circular, an objective factor, cost or price, must be as significant an evaluation factor as all others combined.

In direct contravention of the procedures in the current A-76 circular—which, please recall, was completely revised by this OMB—the FMLoB guidance explicitly allows agencies to use the "procedures in FAR Part 15 if conducting a negotiated acquisition, including: application of the policies in FAR 15.101-1 if performing (best value) tradeoffs..." for financial functions performed by up to 10 FTE's.[13] By referencing FAR 15.101-1, the guidance not only sanctions, but actually encourages the use of subjective factors "to consider award to other than the lowest price offeror."[14]

In other words, OMB officials are not just directing agencies to use a "best value" (sic) process for financial management functions performed by up to ten FTE's (as well as for all larger functions that can be broken up illicitly to qualify) that the Congress has outlawed for all functions performed by more than ten FTE's, but they are also directing agencies to use a form of "best value" (sic) that is so subjective and so extreme that OMB officials would not allow it when they revised the A-76 circular in 2003.

But wait—it gets worse. The guidance makes two references to the *general* use of "best value" (sic), regardless of the size of the in-house workforces, on page two of the memorandum and page one of the attachment:

> "An agency may rely on its in-house core financial management system operations without being designated as an SSC only if the agency demonstrates that its internal operations represent a *best value*...over the life of the investment."
>
> "Migration shall result in the selection of a public or private sector service provider with a demonstrated ability to leverage technology, expertise and other resources to achieve *best value* for the taxpayer."

The message of the OMB's guidance is clear: agencies should use subjective factors to make contracting out awards for financial management functions. One can't help but wonder if the OMB's guidance is a thinly-veiled attempt to overrule the statutory constraints imposed on the use of "best value" (sic) in the Defense and Transportation-Treasury-HUD Appropriations Bills.

4. The OMB's guidance encourages agencies to make up their own rules for specific A-76 circular privatization reviews.

The OMB's guidance explicitly encourages agencies to seek "deviations" from the A-76 circular's rules which govern privatization reviews: "Agencies are encouraged to consult with OMB to discuss the most effective and efficient means for conducting a public-private competition."[15]

Encouraging agencies to come up with their own rules for A-76 circular privatization reviews conducted pursuant to the FMLoB initiative is especially worrisome for taxpayers and federal employees when one remembers that the OMB is also encouraging agencies to make subjective award decisions and to give work to contractors without any public-private competitions. What criteria will OMB use in sanctioning deviations? What transparency, if any, will there be for federal employees and taxpayers with respect to agencies requesting deviations and the OMB granting those deviations?

Of even greater urgency, what deviations will OMB officials foist on agencies? Mr. Chairman, allow me to provide the subcommittee with two examples of deviations carried out by the OMB during the tenure of former OFPP Administrator David Safavian, over the objections of agency managers.

In 2005, the Mint decided in favor of the in-house workforce performing truck maintenance after contractors failed to submit a single bid. However, contrary to the A-76 circular and federal law, Administrator Safavian's OFPP insisted that a second A-76 circular privatization review be conducted.[16]

Also in 2005, a contractor at the Defense Distribution Depot Cherry Point, North Carolina, failed to perform so completely that the contract had to be cancelled and the work brought back in-house. However, Administrator Safavian's OFPP, in granting the deviation requested by the Defense Logistics Agency that allowed the Cherry Point Depot to once again have the work in question be performed by reliable and experienced federal employees, insisted that the installation could only use federal employees on a temporary basis and that those federal employees should under no circumstances be allowed to compete before their work was given to another contractor.[17]

The OMB also does a poor job of ensuring that agencies adhere to the terms of their deviations. For example, in 2003, the OMB granted the Department of the Army a deviation to conduct an A-76 circular privatization review of base operations support services at Walter Reed Army Medical Center using the old circular's rules—provided that the Army make a final decision by September 30, 2004, or cancel it. In fact, this A-76 circular privatization review went on so long—a final decision was not made in favor of the contractor until January 2006—that it was in violation of the Anti-Deficiency Act and will cost so much to carry out that taxpayers will lose anywhere from $5 million to $14 million, according to the Army's estimates. Fortunately, the House of Representatives passed without any objections last week an amendment to the FY2007 Defense Appropriations Bill that would prevent the Army from carrying out this illegal and wasteful privatization review, and the Senate is poised to do the same. However, this waste and disruption could have been avoided if the OMB had simply enforced its own rules and forced the Army to cancel this privatization review for being in violation of the deviation.

5. The OMB's guidance fails to ensure that related work that's already been outsourced will not be reviewed for insourcing.

Despite rhetoric that "competitive (sic) sourcing" is all about generating savings and improving services, only work performed by federal employees is ever subject to public-private competition through the A-76 circular. Although OMB officials acknowledge that the public-private competition process in the A-76 circular can be used for insourcing competitions as well as for outsourcing competitions, countless billions of dollars of new work and already outsourced work are reserved exclusively for contractors. Federal employees are rarely if ever allowed to compete for new work and already outsourced work. Almost all work currently performed by contractors has never been subject to public-private competition. Indeed, as the Government Accountability Office and various Inspectors General have reported, contractors acquire and retain countless numbers of contracts on a sole-source basis or with extremely limited competition. If public-private competitions can generate savings for work performed by federal employees, then, surely, similar savings are possible from allowing federal employees to compete for new work and already outsourced work, especially given that federal employees have won, according to the OMB, 80% of the A-76 circular public-private competitions conducted over the last three years.

However, the FMLoB guidance is typical of the OMB's one-sided "competitive (sic) sourcing" approach: competitions (and conversions) for financial management work performed by federal employees, around-the-clock, but none for financial management work already performed by contractors. In fact, the OMB's guidance actually encourages agencies to request deviations from the A-76 circular in order to subject financial management work performed by federal employees to two competitions, the first public-public and the second public-private.[18] Perhaps encouraging agencies to subject federal employees to two competitions is the OMB's way of making up for not subjecting its contractors to even one public-private competition!

Conclusion

Mr. Chairman, I think we can all stipulate, as the lawyers say, that, regardless of whether one supports the FMLoB initiative, the OMB's guidance in no way provides for the use of "competitive sourcing." In fact, the OMB has repudiated its own rhetoric and its own rules in preparing its FMLoB initiative guidance on "competition" (sic). Direct conversions—stealing money from taxpayers and stealing jobs from federal employees—are encouraged for functions up to ten FTE's and thus inevitable for larger functions. Financial management work performed by federal employees can be moved to another agency and then be ultimately performed by contractors without any public-private competition. Agencies can use a form of "best value" (sic) so subjective and so extreme that even the OMB would not include it in the A-76 circular the OMB revised in 2003. The OMB's guidance encourages agencies to come up with their own rules for A-76 circular privatization reviews, which—if past is prologue—will be contrary to the interests of taxpayers and federal employees. And new work and already outsourced work related to financial management will continue to be contractor monopolies.

But wait—it gets worse. The FMLoB initiative is actually a revival of the very worst principles of the OMB's discredited wholesale privatization agenda. In 2001, the OMB imposed numerical privatization quotas on agencies, insisting that they review for privatization under the A-76 circular at least five percent of the jobs on their Federal Activities Inventory Reform Act inventories in FY02 and another ten percent in FY03, as downpayments on an OMB edict that all agencies combined review for privatization by the end of 2004 at least 425,000 federal employee jobs. Agencies were explicitly encouraged to use "direct conversions" to achieve these infamous numerical privatization quotas.

It's so bizarre and it's so perverse that it's difficult to conceive of today—OMB officials insisting, in a classic, one-size-fits all approach, that all agencies, regardless of their needs or missions, compete under the A-76 circular or directly convert specific numbers of federal employees in all but the most extraordinary circumstances—or face sanctions in the budget process. Fortunately, the Congress outlawed the use of numerical privatization quotas; and in its May 2003 rewrite of the A-76 circular, OMB officials were forced to abolish direct conversions, absent specific authority from the OMB.

As OMB officials reluctantly provide this subcommittee with details of the FMLoB initiative, many federal employees are experiencing a sense of déjà vu. Again, the OMB is insisting that all agencies, in all but the most extraordinary circumstances, must compete under the A-76 circular or directly convert a certain number of jobs—or face sanctions in the budget process. However, instead of that numerical privatization quota being 15% of an agency's entire "commercial" workforce, it is instead 100% of an agency's financial management workforce. Indeed, the FMLoB initiative may actually be worse for agencies in that the OMB has unilaterally determined that financial management functions in all agencies, regardless of those agencies' needs or missions, are "commercial" and that all agencies' financial management functions are appropriate for contractor performance. Agencies, consequently, have no flexibility under these new numerical privatization quotas to instead decide to compete or convert functions which are considered clearly "commercial" in place of financial management functions that managers believe are actually best performed in-house by reliable and experienced federal employees. There they go again, indeed.

Mr. Chairman, thank you for this opportunity to present your subcommittee with AFGE's concerns about the OMB's FMLoB initiative. I would be delighted to respond to questions from you and your colleagues.

[1] *Government Computer News*, "Agencies should embrace private outsourcing of HR services: panel" (March 9, 2006).

[2] Ibid.

[3] For example, See GovExec.com, "Procurement chief weighs changes to job competition rules (January 14, 2005): "The Office of Management and Budget's recently confirmed federal procurement chief is rethinking his predecessor's decision to bar agencies from outsourcing even small numbers of jobs without giving in-house employees a chance to defend the positions. Transfers of work to the private sector without a public-private competition, known as `direct conversions,' may be appropriate if an agency decides a certain `business line' is not central to its mission, said David Safavian, head of OMB's Office of Federal Procurement Policy, in an interview with *Government Executive*."

[4] Deloitte, *Calling a Change in the Outsourcing Market: The Realities for the World's Largest Organizations* (April 2005): "Organizations have now begun to recognize the real costs and inherent risks of outsourcing. Instead of simplifying operations, outsourcing often introduces complexity, increased costs, and friction into the value chain, requiring more senior management attention and deeper management skills than anticipated. In addition, outsourcing has allowed organizations to transfer financial and operational risk to vendors, but organizations are discovering that their contracts will never fully protect them against customer damage and business losses caused by service disruption. Many have responded by bringing operations back in-house and by exploring alternatives to traditional outsourcing, such as the Transform-Operate-Transfer model."

Mildred Warner, *From Reinvention to Public Service: Local Government Privatization Trends 1992-2002* (April 2005). While the percentages of services performed by local governments that are provided by contractors and public sector employees have held constant, new contracting out has decreased dramatically, although not as dramatically as new contracting in has increased. In fact, the services most often contracted out are in many instances the services most often contracted in, suggesting that local governments are not reluctant to bring services back in-house when they are poorly performed by contractors—a marked contrast to federal practice where one poorly performing contractor is all too often replaced with yet another poorly-performing contractor.

[5] *GovExec.com*, "Tangled Lines of Business" (April 15, 2006).

[6] Release Notes for the Public Draft for Comment of the Migration Planning Guidance for the Financial Management Line of Business (May 22, 2006).

[7] *GovExec.com*, "OMB: Competition key to consolidating financial systems" (April 28, 2006): "The General Services Administration, which is the lead agency managing the financial management line of business, already has released those documents to 12 selected private sector companies. GSA invited some companies that had responded to an initial request for information on financial management OMB released in 2004 to submit preliminary comments on advance copies of the guidance. Some industry sources said the process amounts to circumvention of the public review and comment period. `The government is doing a pre-public comment period with a selected vendors,' said an industry vice president, on condition of anonymity."

[8] 68 *Fed. Reg.* 32,134-5 (May 29, 2003).

[9] *Ibid.*, at 32,317.

[10] See May 22, 2006, Guidance, Attachment, page 5, 2(d)(ii).

[11] GovExec.com, "Procurement Chief Weighs Changes to Job Competition Rules" (January 14, 2005): "Agencies generally used direct conversions for outsourcing fewer than 10 full-time positions. But OFPP didn't have a good grasp on how frequently agencies performed direct conversions, and couldn't make agencies prove they saved money through the practice, (former Office of Federal Procurement Policy Administrator Angela) Styles said. Concerns arose that agencies were breaking tasks performed by 50 or 60 people apart into smaller chunks so that they could complete direct conversions, she added."

[12] OMB Circular A-76, Attachment B, page B-8, paragraph D(3)(a)(3), "Tradeoff Source Selection Solicitations Provisions."

[13] See May 22, 2006, Guidance, Attachment, page 4, 2(b)(ii)(F), "Use of FAR policies and procedures."

[14] See FAR 15.101-1.

[15] See May 22, 2006, Guidance, Attachment, page 3, paragraph 2(b)(i).

[16] *GovExec.com*, "OMB directed U.S. Mint to reopen job competition" (June 10, 2005).

[17] *Federal Times*, "DLA employees barred from competing for jobs" (June 27, 2005).

[18] See May 22, 2006, Guidance, Attachment, page 5, 2(d)(i): "OMB will consider deviations by agencies that wish to consider alternative models. As one example, an agency may wish to consider a two-step competition. In the first step, the customer might identify the best federal service provider after comparing the incumbent non-SSC in-house provider to SSC's using the Circular's costing principles and a highly streamlined evaluation process. The best federal service provider would then compete with the private sector providers..."

Mr. PLATTS. Thank you, Ms. Simon.
Mr. Krouse.

STATEMENT OF JAMES KROUSE

Mr. KROUSE. Thank you, Chairman Platts. I am honored to appear before you and to provide an analytical perspective of the Federal lines of business in general and on the financial management lines of business in particular.

In the initial release, the stated goal for establishing the lines of business according to OMB was to identify opportunities to reduce the cost of Government and to improve service delivery to citizens with business performance improvement. The concept and rationale behind lines of business may prove to be a logical approach for the Government to achieve efficiencies in programs and processes, for limiting a current array of disparate agency systems, and to leverage the relative strengths of some agencies to act as centers of excellence or, as we have identified, shared service providers.

Many questions have remained outstanding since the creation of the lines of business over 2 years ago. Perhaps not surprisingly, clarifications were expected with the release of more formal guidance, such as that supporting the financial management LOB issued on May 22nd of this year.

The mechanics of the lines of business, particularly the agency migration plans, unfortunately do raise some questions and confusions. In particular, the provisions that will open competitions between Federal centers of excellence and private sector vendors for the administration of the Government business lines appear somewhat unclear. While it may be noble to promote fair and open competition between public and private entities, the expectation that a private sector vendor can be guaranteed fair and open competition or, alternately, that a vendor can manage existing contract relations across agencies that it may ultimately face as competitors may be feasible in theory but may prove different in reality.

While the Federal management lines of business guidance seeks to provide directions for Federal agencies migrating financial management systems and services to either a "public shared services center or a qualified private sector provider under the financial management lines of business initiative," some of the most significant language suggests that historical OMB circular A–76 processes for strategic sourcing will prevail. There remains some question whether the rules of A–76 can be efficiently and effectively and equitably overlaid on the new LOB migration process. Furthermore, it is curious, from an analytical perspective, why it took 2 years to determine that the standing A–76 rules for competitive sourcing would govern the FMLOB migration process.

For some time suspicion has been that vendors may find themselves filling support roles while the prime spots as LOB shared service providers go to agencies. To date, this certainly appears to be the case, since migrations have already begun prior to any competitive guidance having been released. The use of A–76 competitive sourcing rules only strengthens this theory, especially when considering that, from the period between 2003 and 2005, according to OMB, Government employees won approximately 80 percent of the work competed through public/private partnerships.

Limitations on the scope of the agency-by-agency migration process present additional questions. Agencies are only being held to migrate a minimum set of services, and agencies are not required to migrate all bureaus at the same time.

Finally, an agency may simply decide that the path of least resistance is to become a shared service provider and avoid the migration process altogether.

In conclusion, while the principles behind the creation of lines of business appear grounded in logic to reduce inefficient Government services and migrate business processes to more efficient shared service providers, be they public or private, many questions remain regarding the mechanics of guaranteeing free and open competition during the migration process.

This concludes my prepared remarks. I am at your disposal to answer any questions.

[The prepared statement of Mr. Krouse follows:]

Statement of James M. Krouse
Acting Director of Market Analysis, INPUT
Before the House Government Reform Subcommittee on Government Management, Finance, and Accountability

June 28, 2006

Thank you, Chairman Platts, Ranking Member Towns, and Members of the Subcommittee. I am honored to appear before you and to provide an analytical perspective of the Federal Lines of Business in general, and on the Financial Management Line of Business in particular.

As you may be aware, INPUT provides research and intelligence on the government market, with specific emphasis on trending and forecasting in the technology arena. Understandably, one of the contract areas we are closely following includes the new Federal Lines of Business (LoB) effort.

From the initial release in March 2004, the stated goal for establishing the Federal Lines of Business, according to OMB, was to identify opportunities to reduce the cost of government and to improve service delivery to citizens with business performance improvements. The concept and rationale behind the Lines of Business may be a logical approach for the government to achieve efficiencies in programs and processes, for limiting the current array of disparate agency systems, and to leverage the relative strengths of some agencies to act as Centers of Excellence - Shared Service Providers (SSP). These combined performance improvements would assist in developing the necessary building blocks for the establishment of a comprehensive government Enterprise Architecture that is intended to centralize and consolidate government technology for maximum efficiency.

Many questions have remained outstanding since the creation of the Lines of Business over two years ago. Perhaps not surprisingly, clarifications were expected with the release of more formal guidance such as that supporting the Financial Management LoB (FMLoB) issued on May 22, 2006.

The mechanics of the Lines of Business, particularly the agency migration plans, unfortunately, do raise some questions and confusion. In particular, the provisions that will open competitions between Federal Centers of Excellence and private sector vendors for the administration of the government business lines appear somewhat unclear. While it may be noble to promote fair and open competition between public and private entities, the expectation that a private sector vendor can be guaranteed fair and open competition, or alternatively that a vendor can manage existing contract relationships across agencies that it may face as competitors may be feasible in theory, but may prove different in reality.

According to OMB, existing investments for Development, Modernization, and Enhancement (DME) of the Financial Management Line of Business across the agencies was $785 million in FY 2006, and $908 million in FY 2007 represents the proposed budget. However, DME investment represented only approximately 4 percent of the total Federal LoB DME budget reported in each year.

While the FMLoB guidance seeks to provide direction for Federal agencies migrating financial management systems and services to either a "...public Shared Services Center (SSC) or a qualified private sector provider under the Financial Management Lines of Business initiative," some of the most significant language suggests that historical OMB circular A-76 processes for strategic sourcing will prevail. There remains some question whether the rules of A-76 can be efficiently, effectively, and equitably overlaid on the new LoB migration process. Furthermore, it is curious why it took 2 years to determine that standing A-76 rules for competitive sourcing would govern the FMLoB migration process.

For some time, suspicion has been that vendors may find themselves filling support roles while the prime spots as LoB SSPs go to agencies. To date, this certainly appears to be the case, since migrations have already begun prior to any competitive guidance having been released. The use of A-76 competitive sourcing rules only strengthens this theory, especially when considering that from the period between 2003-2005, according to OMB, government employees won approximately 80 percent of the work competed through public-private partnerships.

Limitations on the scope of the agency-by-agency migration process present additional questions. Agencies are only being held to the migration of a minimum set of services, and agencies are not required to migrate all bureaus at the same time. Finally, an agency may simply decide the path of least resistance is to become an SSP and avoid the migration process altogether.

In conclusion, while the principles behind the creation of the Lines of Business appear grounded in logic to reduce inefficient government services, and migrate business processes to more efficient shared service providers, be they public or private, many questions remain regarding the mechanics of guaranteeing free and open competition during the agency migration process.

I leave the Subcommittee with several major questions and necessary points of clarification that INPUT has surrounding the LoB agency migration process as it currently stands, including:

1) Details and plans for the funding processes for agency migrations.

Preclusions currently exist from one department supplementing the budget of another, and the migration of an agency to another agency SSP may lead to questionable intergovernmental funds transfers.

2) The necessity and enforceability of non-disclosure agreements with companies working with agencies, and the ownership of current established solutions; especially where agencies may become competitors as SSPs.

The legal rules and mechanics of a changing contracting environment have gone largely unanswered, especially where proprietary solutions may have been developed by vendors for agencies that now may become SSPs competing for the same business.

3) Qualifying the differences between the legal enforceability of a formal public-private contract, and a public-public Memorandum of Understanding.

Will the same legal protections hold across public-private and public-public environments, and will any differences create discrepancies in the competitive environment?

4) Will the government prove itself capable of successfully managing reimbursable cross-agency service centers?

Historical success rates remain suspect, and the SSP environment between agencies will present budgeting challenges for accuracy and in meeting federal reporting requirements.

5) The viability of utilizing performance-based contracting for the LoB competitions when the contracting methodology is still in its infancy.

The performance-based contract environment has gone largely un-tested to date, and may or may not fit well within the agency migration process.

6) Will current Agency Exhibit 300 Business cases provide an adequate mechanism for conducting analysis?

From an analytical perspective, Agency Exhibit 300s appear somewhat perfunctory and mechanical in nature, and do not provide much additional insight into technical requirements and budget requirements.

7) Will a lengthy ten year agency-by-agency migration plan provide the correct timeline to allow for smooth transitions or enough rope to strangle the process.

A ten year timeline may be necessary to provide adequate time for agencies to migrate systems along the LoB framework, but bureaucratic practices and an unwillingness of agencies to change may threaten the ultimate success of the process.

Thank you again for allowing me to appear before you today. I appreciate the opportunity to present this testimony before the Subcommittee, and look forward to working with Congress throughout the process. This concludes my prepared remarks. I am pleased to answer any questions that you may have at the appropriate time.

Mr. PLATTS. Thank you, Mr. Krouse.

Mr. Soloway, I think I will start with you. This goes to a lot of the questions I had with our first panel with trying to get specific answers to the exact nature of where we are and how we are going forward.

In your testimony you identify or you state essential predicate steps need to be taken to really succeed. The fact that the guidance has not been finalized, that is still a work in progress, the core financial or accounting standards still in the works, is it a fair reading of your testimony and your statements here today that we have put the cart ahead of the horse, to some degree, with where we are? Or is it something that we can move forward but there is going to be some catch-up that has to happen?

Mr. SOLOWAY. I think it is a fair statement. I think that our concern as we look at this is that the strategic underpinning is there and a lot of strategic thinking has gone into this. You hear, when you listen to Dr. Combs testify, they have really thought this through. I am not criticizing OMB. But you get to a point of implementation where a lot of the questions that you were posing this afternoon you really need to have answered before you really understand where you are headed. It is not just in the FM lines of business. There are other LOB initiatives underway.

I think clarity around what those procedures and processes are going to be is critical, and so when we think about the final standards, final regulations, the final migration guides, even the issue of the overlay of A–76, which is a relatively new one—and the reason it is new is that we have the new statutory requirement this year which changed the dynamic a little bit. Those are questions that really do need to be answered, and particularly looking at it from where I sit in the private sector, for all the private sector partners who are looking to participate, those are answers they desperately need to know because they don't know what they are proposing to or around until they have some of those answers, so the risk factors go up dramatically.

Mr. PLATTS. And specifically the private sector, in really yours and Mr. Krouse's testimony, is it fair to say that in the private sector there is a belief that private entities could be designated, deemed, or in some way pre-certified as shared service centers to compete for the work?

Mr. SOLOWAY. I think that among the folks I have talked to that would certainly be the hope. I think that OMB does not appear to have made a firm decision on that and, as I said in my testimony, the default position today is designation of Federal shared services providers. As OMB said, they are not yet at a point where they are prepared to designate a commercial provider as a shared services provider, although there are certainly commercial capabilities along those lines available. I know there are folks in the field who would certainly see themselves in that position and potentially playing that role.

There are others who are already—and I believe you raised the question in another context with the previous panel—there are others who are already providing these services to agencies that are now being designated shared services providers, but there are also those who are providing these services to agencies that are not

being designated shared services providers. It raises an interesting marketplace issue.

Are you, by virtue of this, inadvertently going to diminish the competitive marketplace for other requirements as we move forward elsewhere? Folks who are providing financial management systems and capabilities are not necessarily just financial management systems firms. I mean, they can provide a variety of capabilities. So there are a number of different impacts that I think we have to look at.

Mr. PLATTS. Mr. Krouse, did you have anything you wanted to add?

Mr. KROUSE. Well, I would concur. It is interesting that he used the word hope, because that is exactly the word I was thinking. I think it is the hope of the private sector entities that they would be designated at shared service providers. In the absence, I think the very real fear is they will be subjugated to subcontracting for the primes, which would be agencies across the board.

Mr. PLATTS. And that kind of touches on a number of issues and followup with Mr. Soloway with the entities, that there are some private entities that are currently contracting for, say, GSA, and they are deemed shared service but they are contracting for somebody else who is not a shared service. It gets to that inconsistency. What are the guidelines for being a shared service center? If the same entity is doing the work in reality for two different agencies, why aren't they both? Kind of what is going to be the process for deeming someone a shared service center, public or private?

And then the issue of subcontracting, and it relates into the A–76 issue and really my final line of questions with Dr. Combs of how A–76 will apply if it is a public entity with really work being done with a private contractor, Because it sounds like her statement of the intent is A–76 would apply, to not circumvent it, but I am not sure that is currently a correct interpretation.

Mr. SOLOWAY. I think that there are a couple of different aspects and nuances to the A–76 issue. Clearly, if the issue is agency A is looking for services and they look at designated shared services providers that are Federal agencies as well as commercial providers, there is no doubt that A–76 applies there. There is no room in the statute that Congress passed, which frankly we opposed strongly because it does so restrict agency flexibility, even in cases where these kinds of competitions don't make any sense for a variety of reasons. But leave that aside for a moment. There is no question that it is going to apply there.

I think OMB has been fairly clear of late to folks who are looking at the LOB initiative and said, we have no choice, A–76 will apply there.

Mr. PLATTS. That is a surprise, I think, to the private sector, and maybe to everybody, because prior to our March hearing A–76 was really never mentioned in any of the dialog.

Mr. SOLOWAY. I think the dynamic that we saw there, in all fairness, is that this was an initiative—and I think I mentioned this in the written statement—this is an initiative that largely emanated from the CIO e-Government community which has been doing some really creative and important work. It was not necessarily as fully coordinated with the acquisitions side of the house

as it needed to be, and this is a new statute, and I think we had a little bit of crossing in the middle. But that issue has now been settled.

I think the questions that you raised, which were interesting, was, one, if I have a shared services provider who has outsourced all or a portion of the work being done for that provider, does A–76 apply? Our view would be it absolutely does because you are potentially converting work, if there are more than 10 employees, from a Federal employee to a private provider. So we don't see how you could get around that.

If you are dealing strictly with an organic shared services provider, strictly all the work being done by organic Federal employees, the statute might not apply but the circular, in our view, should because the circular very clearly covers inter-agency support services agreements, and that was done very intentionally to prevent the creation of a perverse incentive to create business lines as an excuse not to look at other competitive alternatives.

I think that you do have a pretty strong case to make that A–76 overlay does apply. The problem is that, because of the problems with A–76, the net impact could be very negative for the initiative. I am not advocating that it apply; it is just our read of the law and the policy. So if we had our druthers we'd like to see the statute changed anyway because it so restricts agency flexibility. But right now it is a very, very big issue. As I said in the testimony, it could be an insurmountable obstacle absent some legislative relief.

Mr. PLATTS. On the private side, when you look at A–76, because I think 80 percent or so of competitions are in-house by the public employees, is that going to be a significant deterrent to private sector actually competing for this work just because the investment of funds and the odds are of not being successful?

Mr. SOLOWAY. Let me share some basic data. I don't want to say this is exact, but it is pretty darned close. First of all, the 80 percent is 80 percent of the positions, it is not 80 percent of the competitions, and so it is a much higher percentage of the actual number of competitions. If you take out the one large competition the Federal Aviation Administration conducted, a very robust one, a year ago, you are well over 90 percent.

As we have looked at all of the A–76 studies that have been done, what we have found is well over half, if not closer to 70 percent, had less than two private sector bidders. There is an old business school adage that says it takes three to make a market. If I have only got one bidder bidding against the Government, you have some competition. You'll drive some improvements and efficiencies, but you are definitely not able to claim you have optimized because you don't have enough pressure on the marketplace to create that.

So what industry has done is voted with its feet. Looking at the restrictions congressionally imposed on this case, unfortunately, on the use of best value, and although OMB did allow best value competition under the revised circular, it was removed by Congress. The Comptroller General has testified numerous times that it seems a bit inappropriate to have major source selection decisions based on low cost when you really want to look at a variety of other factors. He has been a very strong advocate of using best value strategies.

But when you are not able to use a best value strategy, which is the norm in industry and particularly in this technology world we are talking about with the lines of business, where there are so many variables besides low cost—and often low cost is important but not nearly the only factor—those kinds of restrictions, and then all of the delays, the length of time the process takes, usually 2 to 3 years even for small studies, protests, appeals, and so forth, and then ultimately potential of a congressional intervention—and, again, I am being very blunt—as a business person you step back and go, the risk factors here are way too high to participate. So industry has voted with its feet.

I fear in the LOB case that large numbers of potential top drawer providers will either walk away because they just can't tolerate that or what you'll see is some partnering between the Government and industry that doesn't involve a public/private competition which will help the cause, but, again, you won't have that kind of level of competition you are looking for, and I think that the initiative really needs.

Mr. PLATTS. I would be interested in all three of your opinions of A–76. Again, it is trying to think what could come down the pike if we move forward in the direction we are going. Say one of the current shared service centers, Government entity, is doing the work in-house. Bureau of Public Debt is in-house, as an example. So the work goes there. They decide to contract out. They are now a shared service center getting work.

If they take that work and contract out, they are going to have to do an A–76 competition, so that comes back to the premise in the statute that if they already had that contract in place, even though the front person is Bureau of Public Debt, it is still an A–76 competition clearly because the work is actually being done. Is that it?

Mr. SOLOWAY. That would be our read on it.

Mr. PLATTS. Everybody?

Ms. SIMON. I think a lot of mis-statements have been made today about A–76 and what it would involve and what it would require. While there is A–76 in the absence of this financial management lines of business initiative policy guidance and then there is this policy guidance, and the restrictions in A–76, this is the version of A–76 that includes the revisions in 2003.

Even apart from the Transportation Treasury Appropriations language that had further restrictions on A–76 competitions along the lines of requiring at least some promised savings or something to cover the transition costs and getting rid of these completely non-competitive direct conversions, the kind of thing that is most glaring in the policy guidance has to do with these so-called best value competitions and best value opportunities, I should say, for Mr. Soloway's clients.

I am just right here looking at the language in the policy guidance. The A–76 revisions in 2003 put very strict limits on the use of best value because best value is so costly. It encourages the contractors to add what would be otherwise unnecessary and very costly bells and whistles that the agency didn't ask for and doesn't necessarily need, and then allows a source selection to choose that, even if it is less responsive to the solicitation and more costly.

It is certainly not the case that the new A–76, the revisions of 2003 require only low cost and no consideration of quality. The quality standards have to be put forth in the solicitation. The best value criteria, the non-cost criteria that might be used in a decision have to be acknowledged in advance. Their relative weight has to be acknowledged in advance, and combined they can't account for more than 50 percent of the factors in the decision.

Under the policy guidance, anything goes. Cost can be completely irrelevant. It is a blank check in best value.

I know that the contractor community likes to argue and we hear a lot of rhetoric about the fact that this is the norm in the private sector, but I am an economist by training and, as far as I understand the way markets work, a business that gave no regard to cost in its procurements wouldn't be a very profitable business.

Mr. PLATTS. I would be interested, Mr. Krouse and Mr. Soloway, in your take on that language of the best value that it does, because I think that is a legitimate concern from a taxpayer standpoint if cost is not part of it.

Mr. SOLOWAY. Let's be very clear here. I know the purpose of the hearing is not to dig way down into A–76, but it is a critical issue because it relates so directly to the LOB initiative. Congress mandated the creation of something called the Commercial Activities Panel, which the Comptroller General chaired, Jacque's then-boss, myself, a number of others were on it, public sector folks, industry, unions, and what have you.

Two-thirds of the panel, a super majority of the panel, recommended to OMB that the A–76 process permit what they call cost technical tradeoffs, best value competitions, that the rules be applicable equally to both the public and the private sector, and that effectively what we do with A–76, which is a sort of unique animal in Federal procurement, is apply traditional Federal procurement standards to it.

The revisions of the circular in 2003 that came out of OMB did not go as far as the panel recommended, for a variety of reasons, some of them political, but leaving that aside the fact of the matter is that no one has suggested ever that cost should not be a significant factor. In fact, the one major A–76 competition of which I am aware where they requested a waiver from OMB—this predates the Treasury appropriations language—from that cost requirement, the 50 percent must be cost based, as Jacque just described.

OMB came right back and said, yes, but we are not giving you a blank slate. No matter how many factors you have, cost must be the single most important variable. It doesn't have to be 50 percent, because you might have nine variables. In a major, complex technology requirement I could have 9 or 10 really critical factors but cost has to be 50 percent, well then the others are 4 and 5 percent each so they don't really play.

So no one is suggesting that cost is not an essential element; what we are suggesting is in a high technology, complex environment it is not always going to be half or more of your decision and shouldn't be mandated as such.

Mr. PLATTS. But that language in that case where OMB said it still must be the most important——

Mr. SOLOWAY. Correct.

Mr. PLATTS [continuing]. Of 9 or 10, or whatever, that is not in the guidance.

Mr. PLATTS. No. That was a waiver that OMB issued in that specific case.

Mr. PLATTS. Because that would go closer in the sense that reaffirming that cost is an important factor, you know, as opposed to your position.

Ms. SIMON. Right. The two most progressive, if you will, restrictions in the new A–76 were the elimination of direct conversion authority, because it was embarrassing to the Bush administration to have promoted competitive sourcing as one of the pillars of the President's management agenda, and during the early years of that agenda's life virtually everything that went on under the banner of competitive sourcing took place as a direct conversion—in other words was not competitive. As long as they wanted to be able to continue to call it competitive sourcing they had to get rid of these direct privatizations that denied Federal employees the opportunity to compete in defense of their jobs.

The other thing, as Stan said, grew out of the Commercial Activities Panel's preference for best value. Because there was concern with fiscal prudence, restrictions were more severe than what is allowed in private/private competitions under the FAR were written into the new A–76, and that is what Stan was referring to, the fact that together all these non-cost, subjective, and very costly criteria couldn't amount to more than half of the factors in a decision in an A–76. And it was supposed to be limited to IT contracts unless you got specific permission for a deviation and had to have a rationale for going this best value route, which had never been used for a public/private competition before.

Mr. KROUSE. Can I add a comment?

Mr. PLATTS. Yes.

Mr. KROUSE. If I may, I think what I take away from the OMB testimony and the OMB plans for the financial management line of business and line of business, in general, this is a long-term strategy, a long-term strategy for a major conversion in Government. I don't discount that costs are important when you are contracting these types of initiatives, but I think if you look for the long-term return on investment, improving the efficiencies, the improvement in program efficiencies, and improvement in processes, that in some cases best value may make sense, maybe not next week but maybe next year.

Mr. PLATTS. Let me followup on that with the premise that this is a long-term and a major undertaking and something we want to get right. Doesn't the fact that to be able to compete and get this work to be a shared service center, whether that is the current ones that have been deemed by their conduct or those who may yet be, you have to meet a kind of a list of criteria that go to your ability, your quality, which does get to that low cost isn't the only issue here, you know, because to be a shared service center you have to say, hey, we have the ability to deliver in a positive way. So we are adding value beyond just cost, just by the fact that you can't compete, or ultimately you won't be able to.

In this transition period, as we heard in the first panel, obviously there are some people getting the work that aren't yet deemed

shared service centers, but that does add value beyond just cost in and of itself, doesn't it?

Mr. SOLOWAY. On some level it does. I think that is a fair point. But I think Mr. Krouse has touched on a really critical issue bringing this whole A–76 question back to the intent of the LOB initiative. One of our complaints in the private sector for years about A–76 and certainly about mandatory use of the circular and the mandatory 50 percent of cost and so forth, we can nit pick over the details, but the biggest concern is that it takes A–76 fully out of being a really strategic tool and it becomes a cookie cutter tool.

So I can't step back and look within my organization and say, what are my human capital resources? What are my skill sets? What are my chances of hiring and being able to retain the right people? How much will it take to invest to bring my work force up? How much technology investment do I need to do? And put that over here, and look over here and say the other option would be to do an outsourcing, and in so doing I have to, because we are firm believers in this, account for and protect the interest of the affected Federal employees. And there are plenty of strategies to do that that generally haven't been utilized.

That is a strategic decicion I make, any institution would make in terms of how do I source and my long-term vision. I think what Mr. Krouse said is critical. This could be a 10 or 11 or 12 year process, and A–76 looks at the immediate functional cost. How much does it cost to have that IT shop running that IT?

Well, IT is an enabler for a much broader scope of business processes, and so if I can reform those business processes I might be able to generate for the agency outside of that functional area dramatic savings, even if my costs of performing that function go up dramatically. I think that is part of the point Mr. Krouse was trying to make. A–76 makes it very, very difficult to get to that kind of strategic decisionmaking.

Mr. PLATTS. But it is not just the cost of that service; it is also, as that other entity may bring additional knowledge and capabilities that the employees who are there also, their wealth of knowledge and experience from being there for many years.

Mr. SOLOWAY. All of those factors play in.

Mr. PLATTS. Right.

Mr. SOLOWAY. But I am saying you can't step back and take that broad——

Mr. PLATTS. If you guys will indulge me for 2 minutes I have a meeting I have to say hello to here in the hallway, but rather than wrapping this up before we get to come to a good conclusion, if we could stand in recess for 2 minutes I promise I'll be right back in and we will continue.

We are recessed for 2 minutes.

[Recess.]

Mr. PLATTS. I will switch hats here back to A–76 and financial management line of business.

I think where I was going to pick up is, Mr. Soloway, with the competition or the in-house decision. I think OMB seems to, I think, contend that initially the exhibit 300 analysis in cost/benefit is supposed to maybe go after some of what you are saying what you want to happen what are my own resources and abilities and

how can I use them versus going outside and competing. Do you think that exhibit 300 approach is satisfactory in that sense? Does it really get to a significant or substantive cost/benefit analysis to I think get after what you said needs to be done?

Mr. SOLOWAY. It doesn't change the fact that, regardless of the outcome of the 300 process, you still have the A–76 issue on top of it. So, the 300 is an important process and it has a lot of value relative to IT investments and capital planning and so forth and business cases, but it doesn't get you to that fundamental issue that I was talking about, which is a generic A–76 question.

Again, the issue is a strategic question. I am not going to sit here and tell you I think, nor has PSC ever taken the position, that A–76 has no place. What we are suggesting is that agencies have to have some flexibility to manage in a smart management environment, and statutory requirements that mandate you do the A–76 every time you have more than 10 employees are problematic.

Your question to Dr. Combs about the role of A–76 relative to inter-agency agreements where you have an organic work force performing the work is an interesting one, because I think there, too, there is some concern in the private sector that if it is all going to be driven that way because that is deemed by OMB to be a way not to do A–76, which, by the way, will be a huge disincentive. Forget industry. Agencies don't like to go through the A–76 process.

So then they might be driven to that other solution if it is an organic Federal work force, which may be a good solution in many cases. I am not suggesting the Federal work force is incapable in any way, but you won't know if it is the right solution because it may be the only solution that is looked at.

I think there are a number of problems. I think what we need to focus on is, because particularly the purposes of this hearing and what you are trying to get at is less how to fix A–76, but if you can do it we'd applaud, but really how to make the lines of business initiative work better and be successful. There the issue really becomes if we start overlaying A–76 at the first level when we are designating shared services providers, and then at the second level every time there is a requirement that comes from agency A to a services provider where A–76 might apply again, and potentially a third level where a shared services provider that was once organic then decides maybe I can deliver better service to my customers by outsourcing. So you could have multiple layers of A–76 competitions involving lots of the same players.

Mr. PLATTS. But if you don't have A–76 in place, isn't the intent there to prohibit that for political reasons you don't privatize Federal work that is about either a just general belief that privatization is a good thing, beneficial or not, or political in the sense of rewarding contributors in that privatization is used as a means of giving work to those who help put whatever administration into office. A–76, part of that is that if you are going to privatize you need to make the case for the taxpayer and for the public, in general.

Mr. SOLOWAY. Absolutely.

Mr. PLATTS. So that is the initial premise of why you have it, isn't it?

Mr. SOLOWAY. Yes. It was created as a means of providing a fairness to affected Federal employees. I served in the Clinton admin-

istration. We did probably as much if not more A–76 competition then than has been done today. This has been for many years a major focus of the Defense Department as they have been trying to rationalize and transform the Department.

No one is suggesting, No. 1, that A–76 has no place. More importantly, no one is suggesting that the Federal employees involved should not be seriously and completely considered in the process. What I am suggesting is that there are going to be cases where it doesn't make sense, and in those cases there are a variety of strategies and tools one can use to ensure that the employees impacted by it are not unfairly impacted or certainly not lose their positions and so forth, because no one wants to do this on the back of Federal employees.

But that doesn't mean that from a strategic standpoint it is the right thing to do to have the competition, particularly under the rules of engagement that currently exist within A–76, as I am not certain and I don't think most people in the private sector believe that the current A–76 structure delivers the best answer for the Government, which is ultimately the end result that we seek out of our procurement system.

Mr. PLATTS. Ms. Simon.

Ms. SIMON. It is interesting to talk about flexibility in the context of this policy guidance. The second paragraph in the memo that accompanies the guidance tells the agencies that they must either migrate, they must consider pursuing becoming a shared service center. The word must is used throughout. There is very little flexibility here.

And it is also odd to keep talking about the application of A–76 in the context of this initiative because the policy guidance is all about deviations from A–76, and deviations in ways—I hadn't raised this earlier just because it is so awkward given the recent conviction of the former OFPP administrator, but the potential for corruption in the context of these best value blank checks is enormous.

When political appointees of either party, of course, are in the position of being able to exercise enormous discretion and make these kinds of sourcing decisions on the basis of subjective factors, not an objective factor, cost, but subjective factors, you open the door to politicizing these kinds of decisions, you open the door to corruption, and that is why it was so controversial to even bring a limited amount of best value into A–76. That is why it was constrained so strictly. It was only allowed to apply to certain A–76 competitions, and then it was restrained, and the Congress has restrained it even more.

This document, far from having A–76 be incidental, is really all about A–76 and all about providing a new version of A–76, a shockingly new version that takes away the kinds of constraints that keep politics out of these decisions, that keep the lid off costs, and get rid of these direct conversions that aren't competitive at all. If we want to find out whether the private sector or a public sector service provider is the better choice, the only way to do that is to have a competition based on objective factors. When you do direct conversion you are not having a competition based on objec-

tive factors, you are just handing it over on the basis of promises that will never be verified.

Mr. KROUSE. Can I add a comment? I respectfully disagree with the usage of the word must. In OMB's position, if I may be so bold, they were giving agencies a choice. They didn't say, you must do it this way, period. It is an either/or principle. You must either do it this way or this way. There is some flexibility allowed to the agencies to get to that point.

Now, given the history of bureaucracies' resistance to change within governments, I mean, the final goal—and I stress again the long-term strategy of OMB, which I think is well placed—is the ultimate role for an enterprise architecture that is going to maximize consolidation, efficiencies, and like processes across agencies. If you give them too many options you might ultimately never get to that consolidated entity known as the EA that we so likely abbreviate it. So I think allowing too much flexibility is going to work against you.

Mr. SOLOWAY. Mr. Chairman, one of the interesting twists as we have this whole conversation about A–76 and whether it applies or it doesn't is your colleagues are on the floor today debating one of the appropriations bills—I believe it is Commerce, Justice, and State. Mr. Jones and Mr. Andrews have an amendment to the bill that would prohibit any of those agencies from implementing A–76 on anything. That would be an interesting twist where we have an appropriations bill that is still in effect that says you must use A–76 for everything. If this amendment were to pass it says you can't use A–76 at Commerce, Justice, and State.

Well, those three agencies have just been taken out of the lines of business initiative. It is this kind of backward and forth that industry looks at and goes, what are the rules? How are we going to participate? How is the playing field going to be leveled? And where is the clarity?

Mr. PLATTS. I think that is one of the overriding themes today with our first panel and the questions and our discussion here. For anything to work, all the partners need to know what the rules are that you are going to play by, whether it be the public entities or the private sector. What are the rules that everyone is governed by?

One of my worries is we heard about exceptions or deviations from the rules. What are going to be the rules for allowing those deviations or those exceptions? I mean, there has to be certainty. If you are going to have that long-term success, you can't go into it with this gray area out here. That really is something we kind of touched on a little bit but not directly, the fact that we are moving forward without the standard core business processes finalized and some of the things that are in the works that really go to that standardization of the process, that we are moving forward without waiting for that. If we want that long-term success, my worry is we are getting that cart ahead of the horse more and more if we want permanent solutions here. Is that a worry?

Mr. KROUSE. I think it is a very definite worry. If I may be so bold on your behalf, what I think we are looking for is more rules on the rules. I mean, increased guidance without a doubt is, I think

anybody would agree that is before you today, paramount if it is going to ultimately be successful.

Ms. SIMON. I think another problem, however, with this—it was interesting to hear Mr. Soloway lobby you, since he can't be in two places at the same time—when Congress passes these laws that conflict with A–76 or when an agency engages in, for example, a direct conversion, even though it is illegal both with respect to the laws passed by Congress and the published policy guidance of OMB in the form of A–76, at least for the past 3 years OMB has not enforced its own circular.

These deviations, you know, we bring to their attention deviations, instances of direct conversion that have deprived Federal employees of the opportunity to compete for their jobs. I cite two of them in my written testimony and there are certainly many more such instances. We bring all the facts to the attention of OMB and we never hear from them.

Congress wonders why are we always trying to have Congress respond to these problems in the form of the passage of legislation that answers these problems. It is because we don't get any kind of response from either OMB or the agencies with regard to the application of the so-called rules. That is why we have to bring it to Congress, because we can't go to the courts and OMB doesn't respond.

Mr. PLATTS. It is interesting that in our office, whether it be in this type of scenario of a department not being responsive from a legal inquiry and therefore is pursued legislatively, or the simple example of a case work problem, and the reason we have so much case work is a constituent trying to get an answer from his department or agency doesn't so they come to us, and lo and behold they get the answer that they should have gotten in the first place, but they are able to, just by some additional public light on the issue through a congressional office we get the result that they were after in the first place. That is kind of what you are saying is happening here legislatively.

Ms. SIMON. Exactly.

Mr. SOLOWAY. I was just going to say, Mr. Krouse made an important point. I didn't want it to slide through without us focusing on it a little bit more, this flexibility issue. I think it is in my testimony also that we have had a lot of experience in the Federal Government over the last 15 or 20 years doing information technology and other broad transformational programs where we have had real problems with the requirements process, where we haven't been clear about requirements and we haven't stuck to the requirements or we have tried to do things across agencies.

And the Defense Department certainly has had plenty of experience with this where they have gone across the various military departments and tried to harmonize their needs. We are going to do this, and so Army what do you want? Navy, what do you want? Air Force, what do you want? Next thing you know you have something glommed up and you are redeveloping a whole solution set that already existed in the private sector that you could have done entirely differently.

I think OMB clearly recognizes that and they are trying to get at that. Whether they've gotten it right yet may be an issue, but they recognize that piece of it.

I think our point would be you don't have to necessarily do designated Federal shared services providers to achieve that goal. The key is to have a very clear set of performance standards and measures that everybody is required to adhere to. You could have some flexibility in that piece of it, as long as you don't deviate from what those agreed-upon standards are, as long as you have built them with all the stakeholders involved.

Mr. PLATTS. And that was in my discussion with Dr. Combs and afterwards, basically what they are saying the current entity that is bidding on a project or migration has really done. They took the standards that they believe are the requirements for a shared service center, put it into the request for proposal that you have to meet these standards to get our work, and, in essence, if they do OMB is going to say well then yes, you are a shared service. So that is, in essence, what they kind of are doing right now.

Mr. SOLOWAY. Although they are not clear yet on the role of commercial providers.

Mr. PLATTS. Right. They are not saying that, but that is how they are acting. My comment to her is that the agencies need to know one way or the other. Either you pre-screen private that are going to be able to openly compete so that they know they can compete in A–76 or whatever the competition is, if it is a smaller entity under 10, or they know that if we compete and meet these requirements then we are automatically deemed a shared service. I mean, somehow they have to have a definitive answer.

Mr. SOLOWAY. Their guidance is at this point presents a pretty high hurdle to go anywhere other than a designated shared service provider. I think that is a piece of clarity and an additional rule.

Mr. KROUSE. If I may add, I think currently our clientele, who are the private sector entities largely that are competing for this business, are dumbfounded as to how to develop a strategy even to compete in this environment. We get the question time and again, how do we even position ourselves? Our answer is invariably, we don't know. To your words, it is gray.

Mr. PLATTS. And that came through in March, and 3 months later it still comes through, whether come to fall and we get further definitive guidance, whether it will be clarified more for the private sector and for the agencies that are saying, hey, we have to either be one or migrate to one how do we do that and what are the ramifications, such that we migrate to somebody that then goes and turns out they really didn't have as good books as we thought and now they are not doing a clean audit, so under the supposed requirements, therefore they are not shared service center any more. What does that mean for us? I mean, there are some very significant questions out there that just have to be answered.

Mr. SOLOWAY. One of the challenges in technology, especially, with business as a whole always is when you commit to something over the long term do you want to always commit and absolutely stick with one player or one capability, because there is always something better being invented elsewhere and you have to always have the ability to look for alternatives as time moves forward.

It is the Sears Roebuck example. In the 1960's Sears was on top of the world, but for whatever reason they didn't keep pace with the market and with technology and so forth, so you have to guard against that. Companies look at this. They need consistency, they need certainty, and they need predictability in order to understand what to deliver for their customer in any business, and right now I think, what we are looking for with the LOB is a little bit more predictability, certainty, and clarity.

Mr. PLATTS. Well, your input, all three of you, in your written testimony for us as we continue to work with OMB and in your testimony here today is very helpful. Our hope is that, through the hearing today and with our first panel, that we will help everybody involved in this process to keep pushing down the road as far as what the specifics are to get more definitive answers, but this is an ongoing process. As we move forward with our staff and your organizations and OMB and others involved in this, we look forward to continuing partnering with you.

At the end of the day, if we are going to have this work, that we have competition that is in the best interest of the taxpayers, that is done in a fair way to Federal employees, and in the end gets a good result for the American people in all regards.

Is there anything that any of you want to add?

[No response.]

Mr. PLATTS. We will keep the record open. If there is anything that comes up or something to followup you want to submit for the record, the record will be open for 2 weeks.

We are grateful, again, for your patience with the length of the first panel. I forget who told me they were here in this room until 7:30 recently at a hearing. We are glad to get you out early, 3 hours later, early. But thanks. We will keep the record open for 2 weeks. We are grateful for everyone's participation.

This hearing stands adjourned.

[Whereupon, at 5:03 p.m., the subcommittee was adjourned.]

[The prepared statement of Hon. Edolphus Towns follows:]

Congressman Ed Towns
Committee on Government Reform
Financial Management Line of Business Initiative
June 28, 2006

Thank you, Mr. Chairman, for holding today's hearing on OMB's Financial Management Line of Business Initiative. I welcome our witnesses and look forward to their testimony.

As part of the President's Management Agenda, OMB established the Lines of Business initiative in 2004. Since then our agencies have worked at streamlining key management functions in order to improve the efficiency and accuracy of agency operations. This effort has been desperately needed for some time, as many agencies continue to demonstrate internal control weaknesses while implementing costly financial management systems.

I remained concerned, however, at recent efforts by OMB to steer agencies toward using certain Centers of Excellence for their financial management needs without adequate justifications for doing so. It remains unclear if adequate guidance is available from OMB to agencies for transitioning into such an arrangement. We all recognize the shortcomings in agency financial management efforts, but I fear that consolidating these functions will potentially make matters more complex, expensive, and burdensome.

Once again, I thank our witnesses. Mr. Chairman, this concludes my statement.

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