AUTHENTICATED
U.S. GOVERNMENT
INFORMATION
GPO

S. HRG. 111–735

TASK FORCE HEARINGS

HEARINGS

BEFORE THE

COMMITTEE ON THE BUDGET
UNITED STATES SENATE

ONE HUNDRED ELEVENTH CONGRESS

SECOND SESSION

July 12, 2010-PERFORMANCE "STAT": MEASURING PRIORITIES, PROGRESS AND RESULTS

July 15, 2010-RESPONISBLE CONTRACTING: MODERNIZING THE BUSINESS OF GOVERNMENT

Printed for the use of the Committee on the Budget

TASK FORCE HEARINGS

S. HRG. 111–735

TASK FORCE HEARINGS

HEARINGS

BEFORE THE

COMMITTEE ON THE BUDGET
UNITED STATES SENATE

ONE HUNDRED ELEVENTH CONGRESS

SECOND SESSION

July 12, 2010-PERFORMANCE "STAT": MEASURING PRIORITIES, PROGRESS AND RESULTS

July 15, 2010-RESPONISBLE CONTRACTING: MODERNIZING THE BUSINESS OF GOVERNMENT

Printed for the use of the Committee on the Budget

U.S. GOVERNMENT PRINTING OFFICE

58–155pdf WASHINGTON : 2010

For sale by the Superintendent of Documents, U.S. Government Printing Office
Internet: bookstore.gpo.gov Phone: toll free (866) 512–1800; DC area (202) 512–1800
Fax: (202) 512–2104 Mail: Stop IDCC, Washington, DC 20402–0001

COMMITTEE ON THE BUDGET

KENT CONRAD, NORTH DAKOTA, *CHAIRMAN*

PATTY MURRAY, WASHINGTON
RON WYDEN, OREGON
RUSSELL D. FEINGOLD, WISCONSIN
BILL NELSON, FLORIDA
DEBBIE STABENOW, MICHIGAN
BENJAMIN L. CARDIN, MARYLAND
BERNARD SANDERS, VERMONT
SHELDON WHITEHOUSE, RHODE ISLAND
MARK R. WARNER, VIRGINIA
JEFF MERKLEY, OREGON
MARK BEGICH, ALASKA

JUDD GREGG, NEW HAMPSHIRE
CHARLES E. GRASSLEY, IOWA
MICHAEL ENZI, WYOMING
JEFF SESSIONS, ALABAMA
JIM BUNNING, KENTUCKY
MIKE CRAPO, IDAHO
JOHN ENSIGN, NEVEDA
JOHN CORNYN, TEXAS
LINDSEY O. GRAHAM, SOUTH CAROLINA
LAMAR ALEXANDER, TENNESSEE

MARY ANN NAYLOR, *Majority Staff Director*
CHERYL JANAS REIDY, *Minority Staff Director*

CONTENTS

HEARINGS

Page

July 12, 2010—Performance "Stat": Measuring Priorities, Progress and Results 1
July 15, 2010—Responsible Contracting: Modernizing the Business of Government 77

STATEMENTS BY COMMITTEE MEMBERS

Senator Cardin 6
Senator Murray 83
Senator Warner 1, 77

WITNESSES

Congressman Sarbanes 9
Honorable Shay D. Assad, Acting Assistant Secretary of Defense for Acquistion, Office of the Under Secretary of Defense for Acquistion, Technology, and Logistics, US Department of Defense 102, 104
James Jay Carafano, Ph.D, Director, Douglas and Sarah Allison Center for Foreign Policy Studies, The Heritage Foundationr 133, 136
Daniel I. Gordon, Administration for Federal Procurement Policy, Office Management and Budget 84, 87
Honorable Isiah "Ike" Leggett, County Executive, Montegomery County, Maryland 33, 37
Honorable Martin J. O'Malley, Governor, State of Maryland 10, 17
Allison Stanger, Ph.D, Russell Leng 1960 Professor of International Politics and Economics, Middlebury College 123, 126
Christopher Thomaskutty, Deputy Mayor, Public Safety and Operations, Baltimore, Maryland 62, 66

QUESTIONS SUBMITTED FOR THE RECORD

Questions and Answers 75, 155

PERFORMANCE "STAT": MEASURING PRIORITIES, PROGRESS, AND RESULTS

MONDAY, JULY 12, 2010

U.S. SENATE,
COMMITTEE ON THE BUDGET AND THE TASK FORCE ON GOVERNMENT PERFORMANCE, ANNAPOLIS, MD

The Committee met, pursuant to notice, at 2:07 p.m., in the Governor's Reception Room, Maryland State House, 100 State Circle, Annapolis, Maryland, Hon. Mark Warner, Chairman of the Task Force, presiding.

Present: Senators Warner and Cardin.

Also present: Representative Sarbanes.

Staff present: John Righter, Ben Licht, Ronald Storhaug, Amy Edwards, and Gregory McNeil.

OPENING STATEMENT OF SENATOR WARNER

Senator WARNER. The hearing will come to order. I want to first welcome everyone and thank you for being here. In particular, thanks to Governor O'Malley for hosting us here in the Maryland State House in Annapolis. Our task force greatly appreciates the cooperation and assistance provided by you and your staff.

I want to thank my colleagues Senator Cardin and Congressman Sarbanes for accompanying me to this hearing. Of course, it was perhaps a little shorter trip for both of them than for me—although maybe not. Coming from Alexandria, it is not that far.

I want to particularly thank Senator Cardin. He is an important member of both the Senate Budget Committee and the Government Performance Task Force, and I have benefited greatly from his guidance and support.

This is an official hearing of the Government Performance Task Force of the U.S. Senate Budget Committee. The hearing is being webcast, and an official record of it will be provided to our colleagues in the Senate. The record will include the full written statements provided by each of the witnesses, and we are going to have two panels today.

Let me make my statement, then I will call on Senator Cardin and Congressman Sarbanes for comments, and then we will get to the Governor.

I would like to begin by welcoming everyone to the Government Performance Task Force Hearing, "Performance 'Stat': Measuring Priorities, Progress, and Results."

Today we will explore how the Stat performance management model uses data to directly improve outcomes and how it has been used at all levels of Government in the State of Maryland. Today also marks the tenth anniversary of the Stat model in Maryland, and I know Governor O'Malley started it in Baltimore as CitiStat.

As I mentioned, I am honored to be joined by both Senator Cardin and Congressman Sarbanes. When I first came to the U.S. Senate, I was asked to chair this task force. The task force works to examine the Federal Government performance policies. Now, this is normally a fairly wonky category, but as we are in periods of enormous budget challenges, trying to get this part right in terms of Government performance measurements and procedures is going to become, I think, a wave of the future. And, again, we are with one of the leaders here with Governor O'Malley.

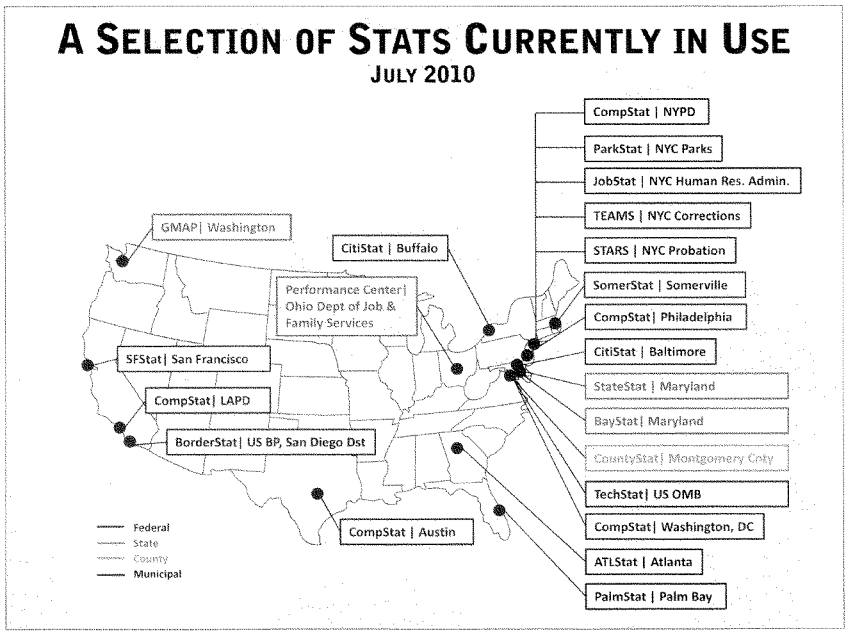
TASK FORCE ON GOVERNMENT PERFORMANCE

- Improve the information base for federal decision-making, particularly for major initiatives (Recovery Act, health care reform)
- Refocus goals, data, and reporting on information that matters to Congress, agencies and taxpayers – eliminate the rest of it
- Adopt a cross-cutting approach, particularly in areas of procurement, IT and personnel
- Eliminate duplicative and ineffective programs

This task force works to improve the information base for Federal decisionmaking, helps us refocus goals. We focus a lot on data and reporting information that matters to Congress, and we are looking at how we can perhaps use some of these tools to develop cross-cutting policy goals across various agencies and departments. Our goal is to create a more efficient Government and identify savings for the American taxpayers.

Now, this is a particular area of interest for me. As some of you in the audience know, I am a former Governor of Virginia. This was an area that I focused on during my tenure there. We developed some of the similar cross-cutting policy goals and measures to support them, similar to what Governor O'Malley has done. As a matter of fact, we even changed our budget processes so we could see those results, and I was proud that during my tenure Virginia was named the best managed State in the country. Of course, I will acknowledge that was before Governor O'Malley was in office.

Today the Stat model is sweeping across the country. If we could go ahead to the next chart, this initiative started in Maryland. If you look all across the country at how many other locations, you can see the model is used in D.C., San Francisco, St. Louis, Atlanta, Washington State, among others. A total of 11 cities have adopted CitiStat.



The Federal Government is also implementing the Stat model; however, we have a lot of work to do in D.C., and we need to do what Governor O'Malley has already done in Maryland: create governmentwide goals and incent our Federal agencies to work more closely together to achieve those goals.

The Governor's administration has worked to define 15 strategic and visionary goals to improve the quality of life in Maryland. The Governor's delivery unit was created to work with agencies to align State and Federal resources around those 15 goals. Now, as somebody who wrestled with this issue at the State level, how you align Federal funding flows to actually meet your State goals, I am anxious to hear if you cracked that code. I am anxious to hear, again, from the Governor on his successes and challenges.

The Stat model, as we have up here on this chart, is relatively simple. Government must set clear goals. You have to hold agencies accountable. You have to make sure that once you set those goals and you tell the agencies you are going to hold them accountable, you actually have regular progress meetings. Time and again I found that even as Governor, if you set a directive, unless you are consciously relentless on following up the progress of reaching those goals, there are some in the work force that might just say, well, this guy is going to be gone at some point, and even more so in Virginia where it was a 4-year term. But I think that regular progress meetings are very important. Strong analytical support and then aggressive followup.

I would add that the Obama administration has taken the Stat model as well and is implementing it at the Federal level with TechStat, launched by the Federal CIO, Vivek Kundra. TechStat provides a forum for examining at-risk and failing IT projects. An IT dashboard website was established to help provide data to inform TechStat meetings. Plans are underway to convene quarterly meetings between the OMB and agencies to discuss progress in achieving high-priority performance goals and to establish a Federal Government web portal that focuses on performance. This area around IT projects and failure sometimes of those projects, I think most of us have read about. I have personally been involved as the local Senator on the failure of Arlington Cemetery to keep appropriate records of our fallen heroes, and if there was ever a case of an example of an ill-performed and ill-monitored IT project, it is what has been going on at Arlington Cemetery. We are in the process of trying to get that fixed.

While overall we are starting to see signs that our economy is growing again, millions of Americans are still facing hardships and turning to State and local governments at a time when governments are cutting back on services. Again, it is critical for governments at every level to identify savings to improve the services they offer.

While most Stat initiatives have been well received as efforts to institutionalize good management practices, some concerns have been raised about agency capacity and workload and the limitations of the data that is collected. However, critics cannot deny that the Stat model has enhanced transparency between high-level officials and the organizations' operating units. One of the things I hope the Governor will at least comment on is, in moving toward this Stat model, whether part of encouraging the work force is also to look at ways you would eliminate some of the past data collection efforts that might not be useful data.

I believe the model is working, and I believe that we can at the Federal level learn a lot about what is going on, not only at the State level here, but in our second panel when we get to what is going on at the county and city level as well.

So, with that, I will turn to my colleague Senator Cardin and then Congressman Sarbanes for comments, and then we will get to the panel.

OPENING STATEMENT OF SENATOR CARDIN

Senator CARDIN. Well, first, Governor O'Malley, thank you for your hospitality in allowing us to use this historic State House for our Committee hearing. I cannot think of a more appropriate place, so thank you very much for your hospitality.

Senator Warner, I want to thank you and congratulate you for your leadership.

This task force was the recommendation of Senator Warner. Senator Warner brings a wealth of experience in Government management to his position as the Senator from Virginia, and he is looked upon by his colleagues in the U.S. Senate as a person who can lead us in the right direction in trying to get a handle on our most important responsibility, and that is Government oversight, accountability, performance standards, spending the taxpayers' money in a correct way, not only in the allocation of priorities but in the manner in which those dollars are spent. So I thank Senator Warner for his leadership.

It is nice to have Congressman Sarbanes with us. Congressman Sarbanes is my Congressman, and I think he is doing a great job in the U.S. Congress. It is always nice to be with him.

To Ike Leggett, our county executive from Montgomery County, who has one of the toughest jobs in America, the size of his county, the complexity, and demands of his constituency are second to none, and he does an incredible job in managing resources with very, very high expectations from the people who live in Montgomery County. County Executive Leggett is meeting those expectations. So it is nice to have all of our colleagues here.

Our State is home to more than 50 Federal agencies, including the Census Bureau in Prince George's County; the Food and Drug Administration, the National Institutes of Health in Montgomery

County; the National Security Agency in Anne Arundel County; and the Centers for Medicare and Medicaid Services and the Social Security Administration in Baltimore County. In all, more than 132,000 Federal employees, many of whom, work in Washington, D.C., reside in the State of Maryland.

The Task Force on Government Performance represents an opportunity for us to evaluate how effectively Government is functioning and to examine the mission assigned to our Federal employees and whether they are given the necessary tools and resources to fulfill it. Whether by increasing agencies' coordination, improving management, or streamlining hiring or other personnel practices, our efforts in Congress in conjunction with those of the Obama administration can improve the outlook on both of these fronts.

I am honored to serve on the Budget Committee. One of the most important responsibilities of the Congress is to pass a budget to establish the priorities of our Government. But it is more than just establishing our priorities. The Budget Committee is also responsible for the budget process, to make sure that we have efficiency and accountability in the manner in which we determine the budget for the Nation. And that is why this task force is so important. These are most challenging times with unprecedented deficits and, to be a little gentle about this, skepticism among our constituents as to how well Government is doing its work. It is even more important than ever for the work of this task force to restore the type of confidence necessary for us to be able to govern. So I think all the work that we are doing is very, very important.

I just want to point out that our witnesses today can be extremely helpful. As mayor of Baltimore and then Governor, Martin O'Malley has been nationally recognized for developing tools to quantitatively measure performance. Two of his initiatives, CitiStat and StateStat, use data to increase accountability, transparency, and cooperation between agencies. These initiatives have been studied by international organizations and local governments across the country, and they have been recognized by the Harvard Kennedy School of Government. In addition, Lieutenant Governor Brown has developed BRACStat to evaluate the BRAC-related progress in our State.

Now, Senator Warner, let me tell you, I have seen Governor O'Malley use the Stat process, and I must tell you, I haveten there a little bit early and I've seen the administrative heads come into the meeting a little worried and concerned, because they know that either Mayor O'Malley or Governor O'Malley has really studied the material and expects to see performance improvement. He does not just have one meeting and then 2 years later have another meeting. He has regular meetings with his department heads, using the information with expectations as to how he can improve performance, and having the administrators sign off on what Stats should be improved at the next meeting. And then when they show up at the next meeting, the Governor will quiz them as to whether they have accomplished that increase. And I must tell you, it has been extremely effective. I think Governor O'Malley is one of the most effective Governors not only in the history of our State but I think

in our Nation in using hese performance evaluations to make sure taxpayer money is being properly spent.

We can learn a lot at the Federal level from what has been done in Maryland and what has been done in Montgomery County, Maryland. I understand that the State budget is $32 billion and the Federal budget is $3.5 trillion. But we can learn from how things are done at the State level. The Montgomery County budget is—I have your budget here, Ike—$4.6 billion. Now, that is a lot of money by anybody's calculation. Again, we are dealing with multi-trillion-dollar Federal budgets. But if we do not break it down to smaller elements, we will never really get the type of efficiency and accountability needed.

So I really do think we can take the best practices from Montgomery County, the best practices from Baltimore City, the best practices from the State of Maryland, and we can do much better at the Federal level, and that is why I was so pleased that this hearing was scheduled here in Annapolis.

Let me just give a little advance warning to the three witnesses. There are three areas that I will be asking specific questions about.

We will not have a Government that performs at its highest potential without a work force that is given the opportunity to perform at that level as well. Interestingly, employee performance management dates back to 1883 when the Civil Service Act established a merit system to handle promotions. This is a longstanding reform effort that continues today. I will be interested in hearing how our witnesses have modified your personnel practices, including retention strategies, training, and merit increases as a result of the information you gather from your performance evaluation programs. In other words, how are we putting information into practice to best incentivize our workers to do the work that we want them to?

Second, as the world's largest buyer of goods and services, with purchases of more than $425 billion each year, the Federal Government has an unparalleled opportunity to promote efficiency and entrepreneurship through awarding contracts to American small businesses. We have a Federal set-aside program; 23 percent of the Government's procurements are targeted at small firms, and individual agencies have goals set in coordination with SBA for contracts with veteran-, women-, and minority-owned firms.

Unfortunately, our record of meeting these goals is spotty. Last year, only one agency—GSA—met its goals in all areas, and two agencies—OPM and USAID—met none of their goals. So as a member of the Small Business Committee, I believe these set-asides are critically important for economic growth in our community, for creating jobs, and for encouraging the type of innovation that comes from small businesses.

How can these performance evaluations can be used to help us meet the goals for small business contracting; what obstacles you have encountered in meeting those goals; and what strategies are you developing to improve Government performance in this area?

And the third area I would like to talk to you about is the coordination between the legislative and executive branches. Senator Warner talks about this frequently. If we are going to be successful, we have to be on the same page. You can do a lot of work in

identifying issues, at the Executive level, but if we do not enact the policies or support you with our actions, then the executive actions will be overruled by the efforts made by the legislative branch. How can we get the legislative and executive branches on the same script to make Government work more accountably? Also, I would be interested in your observations as to how your findings have been used by the General Assembly or by the County Council in implementing the type of policy changes that reflect the good work that you have done with your staff programs.

With that, Mr. Chairman, I look forward to our witnesses and look forward to the exchange we will have after their testimony.

Senator WARNER. Thank you, Senator Cardin. Thank you for your leadership on this issue. And setting out, I know, Governor, we are going to have a few questions for you afterwards.

Congressman Sarbanes?

OPENING STATEMENT OF CONGRESSMAN SARBANES

Mr. SARBANES. Thank you very much, Senator Warner. I am going to keep my remarks brief because I want to hear from the Governor and from the other witnesses. But I appreciate the opportunity to participate in the hearing today. I think all the witnesses are going to give us some good information about how the Federal Government can model some of our practices after what you have done at the State level and the county level to improve efficiency. I have been very involved on the House side with procurement reform, which is designed to do this, and I will have some questions along those lines when we get to that part of the hearing.

I do want to salute the Governor, though, because he has been a leader on this from day one. And I will tell you the impact it had in Baltimore City, because when CitiStat was started, I was still in the private sector, and the effect it had on the private sector's perspective on the public sector was tremendous. In other words, when the private sector saw the kinds of efficiencies and the management improvements that came from CitiStat, it made the private sector more willing to step up in the partnership with the city. And I think that is one of the things that we can gain from this. If there is a perception that Government is managing its affairs in an efficient way, that is going to promote more collaboration between the private sector and the Government sector.

Then the last thing I just wanted to mention is I do not think anyone understands better than this Governor how you have to never forget what the stats are about. It is easy to become mesmerized by the Stat model, but at the end of the day it is about using it to improve the quality of lives, in this case of Marylanders, and help them get through their day and do the right thing for Maryland families. And the Governor has always understood that this is just a tool to that end.

So we are really looking forward to your testimony today, Governor, and I yield back.

Senator WARNER. Thank you, Congressman Sarbanes.

You have heard this line from me before, but as the former cofounder of Nextel, it does not offend me at all if cell phones go off during hearings like this.

[Laughter.]

Senator WARNER. One quick last comment before I introduce the Governor, and that is just picking up on what both Senator Cardin and Congressman Sarbanes have said. I want to hear your testimony, but I want to also commend you because you have to be relentless on this stuff. You know, everybody talks about saving money. Everybody talks about bringing efficiency. But this is hard work, and to try to keep whether it is your legislators, your work force, the press interested, people's eyes glaze over when you start talking about some of these performance metrics. But since this is now 10 years that you have been at it, I salute you for your efforts.

Our first panelist will be Governor Martin O'Malley. He has a long history of public service. He served as Assistant State's Attorney for Baltimore City, a member of the Baltimore City Council, and eventually mayor of Baltimore City. Governor O'Malley has been a real innovator in the area of performance measurement and management in Maryland, building and improving upon the Stat model that he started during his tenure as mayor. His administration has been focused on developing goals for the State of Maryland to achieve real results. The Governor has also received national recognition for his and Maryland's implementation of the American Recovery and Reinvestment Act funds.

Governor, we are again pleased that you were willing to host us here. We are anxious to hear your testimony, and the floor is now yours.

STATEMENT OF THE HONORABLE MARTIN J. O'MALLEY, GOVERNOR, STATE OF MARYLAND

Governor O'Malley. Mr. Chairman, thank you very much. We are flattered by your visit to Baltimore and for bringing the Committee here, and I also want to thank Senator Cardin for his very kind words and also Congressman Sarbanes, and also for their leadership. I have a great delegation. You do not mind if I brag about them a little bit. I do not think there is another Governor in America that has a delegation as strong as our delegation is in Maryland, and, again, we really appreciate your leadership on these issues. And I personally appreciate, Senator Warner, when you were Governor Warner, that you took the time to spend with me and gave me some great advice as I was taking over the responsibility and the trust of running our State government. And I welcome you to the oldest State capital in America in continuous legislative use, and I am also looking forward to hearing Ike Leggett's testimony, who has really picked up the Stat model, run with it at the county level in a very large and complex county, and he is one of the best county executives in the country and is taking my home county to another level.

In times when governments are finding an increased necessity to do more with less, measuring performance is more important than ever, and the topic of this Task Force on Government Performance could not be more important than it is right now. I believe that our Government should actually work to protect our quality of life, improve our quality of live, and improve the conditions that allow us to create jobs, save jobs, and that allow small businesses to create and save jobs. And having a functioning, livable city or State, mak-

ing timely investments in effective ways in the talents of our people and the health of our people is all a part of that.

The things that get measured are the things that get done. We have heard that said time and again. But it does require that expectation of progress, and it does require a relentless system that forces human beings into the same room to actually coordinate, cooperate, communicate, and find ways to make things better even though there might be a lot less dollars to do them this quarter than there were the last quarter.

It is hard to believe that it has been 10 years since we began that first CitiStat meeting in the city of Baltimore, and Congressman Sarbanes reminded me of the perspective of business people. That room was visited so often during my 7 years that I served the people as mayor there, and people coming from government, Chairman Warner, would come into that room, and they would say, "I cannot believe you guys are doing this." Then people from business would come into that room, and they would say, "Thank God you guys are finally doing this."

Today, if you plug the term "CitiStat" or "CompStat" into Google, you will see them popping up all across the country, in big cities and small. It is a testament to any good idea when people want to adopt it, which is what we did at the inception of CitiStat, actually adapting and bringing home the tenets which helped New York City's Police Department achieve such dramatic reductions in crime under the leadership of Commissioner Bratton and also Deputy Commissioner Maple.

The Stat model which we have brought with us to State government merges emerging technologies that we just did not have in widespread use 10, 15 years ago, like GIS, geographic information-based systems, with certain timeless human principles, mainly setting goals openly and accountably measuring progress, and on that one, Jack Maple would say everyone, when you say that second one, measure progress openly and accountably so that everybody has the information, you will always get pushback. People say, well, you mean some people get the information. No. All people get the information, and the most important people that need to be able to see that information is the public, which we can now do because of the Internet, and broadly sharing information rather than hoarding it, finding the willingness to change course when necessary to move our graphs in the right direction before a headline or a bad story tells you that it is not going in the right direction.

Governments tends to do, have traditionally done a decent job of measuring inputs: how much we are budgeting for a specific priority. But the Stat model is really governance by outputs—measuring how effectively and efficiently we are delivering results, taking action to get better results.

I enjoy laying out these two tenets of city government and human nature. They are timeless, actually. These were the old tenets of city government, and it was true across the country, and it was true in our State government. If the Governor really wants to know, we can find out, but we will have to pull all our people off their other jobs and it will take weeks.

Tenet number 2, we will get to it as soon as we can, but it will take a few months longer because our budget was cut last year.

Tenet number 3, my favorite, that is the way we have always done it, or we are already doing that, or we tried that and it did not work. And how many of us have heard all of those things.

Or the fourth one that Senator Warner alluded to, I hope the legislature forgets about this before next year's budget hearing. This cannot be episodic. It has to be a system.

When faced with the adversity of turning around the public safety situation in the city of Baltimore, these were the new tenets, the Stat tenets that we used there, that we use here. Timely, accurate intelligence or information shared by all, and all means all, including the public, not just top managers, including workers, not just top managers; rapid deployment of resources; effective tactics and strategies; and relentless followup and assessment.

When we faced the adversity of turning our city around from violence and addiction, schools that had been failing for a long time where not even one grade was majority proficient in reading or math, tons of vacant houses in neighborhoods with a lot of vacant hearts, and we began measuring and geo-mapping every conceivable service problem and opportunity. And the great thing about the map is a map does not know whether a neighborhood is black or white or rich or poor, Democratic or Republican. The map tells us where our opportunities are and, therefore, where we need to deploy our limited resources to take advantage of those opportunities for improving our quality of life.

This is an example of our pothole map. We have a map for that. We were accused in the early days by a former mayor of Baltimore of not having any vision, so we came out with the 48-hour pothole guarantee, and we were able to hit it with a 98-percent success rate, and part of that was because we already knew we were hitting it in 53 hours. And so people rise to those higher expectations.

Another example, sadly, we call it the kidneys of death. This shows the concentration of homicides and shootings in the city of Baltimore in 1999 and then 2000, 2001, 2002, 2003. You get the point. Baltimore over the last 10 years has achieved the biggest reduction of Part 1 crimes—that is, violent and property crimes—of any of the major cities in America. We are third in violent crime reduction, only behind Los Angeles and New York, thanks to courageous police officers and thanks to a much better system of timely, accurate information, relentless follow-up, tactics, strategies, and making the graphs move in the right direction.

Let me run you fast-forward through some of the examples of this as we have been applying it to State government, where oftentimes, as the Senator knows, and actually both Senators know from both having worked at the highest ranks of State government, a lot of times the movement from municipal services or county services to State government becomes more complex, less immediate to the eye, and can sometimes defy measurement. But we still subscribe to Jack Maple's belief that everything can be measured.

So through the State Stat process, senior staff and I meet with key agency leaders not once a year or once a quarter but every single month to track our progress, to share information, to determine where things are working, and where we need to do better. And our delivery unit works with agencies every day to help them deliver better results around big goals that we have openly set for our

States—15 major goals, dozens of sub-goals. And there are some who warn against setting big goals: It is political precarious. What happens if you do not hit your goal? Everybody will say, Aha, you only got three-quarters of the way there. I find that people are pretty smart, and they would much rather have a government that is setting goals and sometimes falling short than a government that is not setting any goals and is instead slipping backward. We have exceeded some goals, and some we have not hit, but always we move forward in an open and transparent way.

Over the past 4 years, we have been able, together with law enforcement, to drive down violent crime in Maryland to its lowest level since 1975, including the steepest 3-year reduction in homicides, I think, over these last 3 years, driven homicides to their lowest rate since 1975. Our violence prevention initiative, we now track the most violent offenders who statistics and probabilities tell us have the highest propensity to commit further acts of violence if they are not tightly monitored, and so that is what we now do.

When we took office, we found that our predecessors had allowed a backlog of 24,000 unanalyzed DNA samples to collect dust, had neglected to collect an additional 15,000 that were legally mandated, samples that were to have been taken from people that have been convicted. We used our State Stat process to guide our efforts to eliminate both of these backlogs, and since that time, we have made 245 arrests of some pretty bad actors that would not have been made had we not knocked out that backlog of DNA samples, uploaded them so that law enforcement could clear those cases.

We have also created a public safety dashboard where we are integrating—boy, this is a nightmare graph, isn't it? Our public safety dashboard has led to the integration of data that we had always had, had always collected, but had never been accessible to a law enforcement officer who is working a case with one click of a button. We have now put together data from our prison system, parole, probation, firearm registries, our fingerprint systems, mug shots, DNA, motor vehicle records, taxation records, and many other sources, and all a law enforcement officer needs is a user name and password to have real access to all of that data in realtime. We are now receiving 25,000 to 40,000 queries a day from 100 different agencies all around the State. It is almost like Google for crime solving where we have been able to put together this data. NASA actually came to see how some smart people forced to meet relentlessly without any additional money came out with clever ways within existing budgets to piece this together.

The Department of Public Safety and Correctional Services, we have been able to reduce overtime by 20 percent. It did not happen overnight. It happened by measuring it every week, every day, every 2 weeks, and when you look over your shoulder, you save $10 million in overtime by constantly doing the little things that together get you the big results over time.

You might have heard some of the ads in the telecommunications industry. There is a map for that. You could summarize our strategy as that we are geo-mapping everything. One person explained it to me this way: We always hear about the pyramids of human organizations, in this case different departments, and those pyramids, you could spend a lifetime trying to connect through IT solu-

tions up and down that pyramid with the complexity of individuals doing complex jobs up and down that pyramid. But if the base of all of those pyramids has to land on a common map with GIS, with coordinates, people start organizing their information in such a way that those efforts become integrated and collated together.

We have created for the first time in our State a number of GIS maps. We have created a base iMap. We have created GreenPrint and AgPrint through which we now have done an ecological ranking of every parcel of land in the State of Maryland so that when we preserve land or use precious dollars for the preservation of open space, we are able to give the public an objective criteria ranking this. You can pull it up in your own county and see in a dashboard type way how much of our GreenPrint have we preserved, how much remains to be preserved, in order for the bay to have a fighting chance at functioning.

We have done the same thing with our agriculture lands to better see where those lands are so hopefully at the county levels and municipal levels we can better protect contiguous farm economies that still, thank goodness, exist in our State and that we need, that our ecosystem needs to breathe, and that all of us need in order to buy local and sustain ourselves in better ways for the environment.

For the first time in our State, we are also mapping now our capital budget so citizens can click on and see where the dollars are being invested in their neighborhood. We are using BayStat to guide our efforts to restore the Chesapeake Bay. This is one slide from that map which shows the sources of nitrogen, phosphorous—no, in this case it is actually just the nitrogen and the sectors that contribute to that. Whether it is wastewater treatment plants, farms, stormwater run-off, septic systems, or the forests, we can click on to any of those ten tributaries and show you how it differs from one area to another. And we also have about 26 solutions that we track on a tributary-by-tributary basis. This one is commodity cover crops in order to keep the nitrogen from rolling off over the course of the winter.

The Federal Government has now adopted a BayStat initiative for their own drive to help us clean up the Chesapeake Bay and get in all six of the watershed States to agree to two things: One of them was the 2-year milestones, critically important. Things that get watched are the things that get done, if you measure them and you have deadline. And so now instead of a 20-year deadline, we have 2-year milestones so we will know whether we are hitting it, whether we are not hitting it. And also the Federal Government is creating ChesapeakeStat, which is a GIS-based system, so that all of these six States can also coordinate and cooperate.

This is from our 2-year plan on—our 2-year milestone. The green line is where we are trying to move. The red line is the human activity across all of those various actions from cover crops to upgrading stormwater rules and regs, upgrading wastewater treatment plants, installing more modern septic systems, getting communities off of septics and on to sewer. And so we have set 2-year milestones, and we are committed not only to holding ourselves accountable but really the value of this is not—the value of this is that the public—that we are able to hold one another accountable

as neighbors for what it is that are common platform that we call our State government, or in this case our county, State, and Federal Government is doing, what we are doing together to improve our quality of life.

Beth, let us click through the Recovery and Reinvestment Act. President Obama and Congress very courageously and rightly passed the Recovery and Reinvestment Act. Had we not done that, we would all be sitting in the middle, in the depths of the second Great Depression instead of debating whether we were moving quickly enough into recovery. We took the President's challenge on the Recovery and Reinvestment Act very seriously. He challenged all of the Governors to make sure that we measure performance at a level of openness and transparency the likes of which we had never seen before. Fortunately, we already had the iMap in place, so we were able to just plug in the dollars that came to the State. We used StateStat and our first in the Nation iMap to target those Recovery and Reinvestment Act dollars, to rapidly deploy the resources, to ensure that we were hitting our goals for Minority Business Enterprise when we award these contracts, and to guard against the possibility of waste, fraud, and abuse. And we believe that the best elixir against waste, fraud, and abuse is openness and transparency.

Information shared by just the legislature? No. Information shared by all. Just by the legislature and the managers and the county executives? No. Shared by all. The press that serves the public, the public themselves that is served by all of us.

Beth Blauer, our StateStat director, is demonstrating our recovery website. It has been rated the No. 1 site in America. The head of President Obama's Recovery Act and Transportation and Accountability Board has cited our mapping initiatives as the basis for those that are now being implemented by the Federal Government.

Beth, what do you want to tell us here? We are clicking on to any of those icons that can tell you in transportation, in Montgomery County. This is a resurfacing project. It is on I–495, Potomac River Bridge to 270, construction costs—hold on just a second. My old eyes. What is that, 7.48?

Ms. BLAUER. 7.49.

Governor O'Malley. 7.49. Estimated jobs is——

Ms. BLAUER. It is 98.

Governor O'Malley. 98.

Ms. BLAUER. It was advertised.

Governor O'Malley. Advertised on February 17, 2009. There is the bid date. There is the—what is the NTP?

Ms. BLAUER. Notice to Proceed.

Governor O'Malley. Notice to Proceed date. And there is the MBE goal, 18.9 percent on this particular contract.

We have used this on our MBE program. You know, we have long had, thanks to Parren Mitchell's leadership, the highest MBE goals of any State in the Nation, but for the first time, we actually believe we are going to hit that 25-percent goal this year. It did not happen in the first year, it did not happen in the second year. But every year we got closer.

What are you showing me here, Beth?

Ms. BLAUER. This is the MBE attainment for just ARRA——

Governor O'Malley. I am sorry. I did not see that you had a microphone. You might pull that over for—that is why I was repeating as you were whispering in my ear.

Ms. BLAUER. Each quarter we also put out the MBE performance for all of the ARRA contracts separately on their map so you could see where we are toward our goal for just ARRA spending.

Governor O'Malley. The nice thing about this is you can go into—any person in any county can go on this at home and say those Recovery and Reinvestment Act dollars, where are those? What are those projects? Let me click on it.

It is also a way that we are able to make sure that those dollars are being invested in a way that is fair to all the jurisdictions, that does not leave our rural Maryland or inner Beltway in the Washington area or the city of Baltimore.

As I close, I just want to whip through a few more examples of some of my favorite sites, which are graphs that are moving in the right direction. Mr. Chairman, we have graphs that move in the wrong direction. We have chosen not to share them with the Committee today.

[Laughter.]

Governor O'Malley. Reducing the number of children placed in—are we OK, Beth?

Ms. BLAUER. Yes, we are good.

Governor O'Malley. Reducing the number of children who are placed in group homes. Instead, we drive up adoptions, drive up other things so the children—because place matters.

Cracking down on Medicaid fraud, moving in the right direction.

Inmates participating in employment programs so they have some sort of job skill and hope when they come out instead of a higher likelihood of recidivism, moving in the right direction.

Energy performance contracts, something we never did in the State until recently, moving in the right direction.

Reducing fatalities on our highways, moving in the right direction, and if you save just one life, it is as if you have saved the world.

Expanding health care coverage to more of our fellow citizens rather than fewer, moving in the right direction.

Robert Kennedy once said that there is no basic inconsistency between ideals and realistic possibilities, no separation between the deepest desires of the heart and of mind and the rational application of human effort to human problems. And that is what this system is all about, is the rational application of human effort to human problems. And that is what performance-based government is about, and, again, thank you so very, very much for coming to Maryland and bringing your Committee here.

[The prepared statement of Governor O'Malley follows:]

STATE OF MARYLAND

OFFICE OF THE GOVERNOR

MARTIN O'MALLEY

GOVERNOR

STATE HOUSE
100 STATE CIRCLE
ANNAPOLIS, MARYLAND 21401-1925
(410) 974-3901
(TOLL FREE) 1-800-811-8336

TTY USERS CALL VIA MD RELAY

U.S. Senate Budget Committee Field Hearing
PerformanceStat: Measuring Priorities Progress and Results
Written Testimony of Governor Martin O'Malley

Introduction

Mr. Chairman, welcome to the great state of Maryland. It's an honor to host you here, and to have the chance to testify along with one of America's most effective County Executives, my friend Ike Leggett, and Deputy Mayor Chris Thomaskutty who is doing such an outstanding job in Baltimore continuing the legacy of CitiStat.

In times when governments are finding it more and more critical to do more with less, today's topic of performance measurement is, I believe, more important than ever. It is hard to believe that it has been ten years since we first began CitiStat in the city of Baltimore and it is my distinct honor and privilege to speak with you today about my experiences with performance measurement at both the local and state levels of government. It is my sincere belief that our approach to tracking and measuring progress can be applied universally—not just in the realm of state and local governance, but to the federal government, or for that matter, to any large organization.

Today, if you plug it into a Google search, you will see the word CitiStat popping up all across the country, in big cities and small cities. It is a testament to any good idea when people want to adopt and use it – which is what we did at the inception; borrowing and adapting the tenets of ComStat which helped the New York Police Department (NYPD) achieve dramatic reductions in crime in New York City. In fact, our guru in Baltimore was a man named Jack Maple. Mr. Maple was the brains behind ComStat, which revolutionized crime fighting. The NYPD used computer pin-mapping to drive crime down – putting the crimes on the map, deploying the cops to the dots, and demanding relentless follow-up. Working with Mr. Maple and evaluating ComStat helped us realize that if you can use data collection and mapping technology to improve law enforcement, you can also use it to improve the other things that government does – whether it is garbage collection, or housing inspections, or removal of dead trees, or repairing traffic lights or streetlights.

The Stat model, which we have brought with us to state government, merges emerging technology like GIS (Geographic Information Systems) or mapping, with certain timeless human principles, mainly: setting goals; openly and accountably measuring the performance of our public institutions and efforts; broadly sharing information (rather than hoarding it); and finding the willingness to change course when necessary to move our graphs in the right direction. Governments tend to do a decent job at measuring inputs – how much we're budgeting for a specific priority. The Stat model is governance by outputs – measuring how effectively and efficiently we are delivering results, and taking action to get better results.

CitiStat

In 1999, when I became mayor of Baltimore City – a 16,000 person corporation with $2 billion annual budget – there was no one who could tell us some of the most basic information about city services. For example, city managers did not know how many vehicles were in our public works fleet or how quickly our emergency services were responding to 911 calls. It was clear that the city was used to managing by feel, not by fact. They were laboring under old city government mantras, focusing solely on input; the view of some seemed to be "that's the way we've always done it, I hope the legislature forgets about this before next year's budget hearing" and so forth.

We faced many challenges in Baltimore when I was elected Mayor 11 years ago -- the city was America's most violent and drug addicted city, with failing schools, vacant neighborhoods – and worse yet, vacant hearts. We began measuring and geo-mapping every conceivable service, problem, and opportunity. Why, because a map doesn't care whether a neighborhood is black or white, rich or poor – but it does tell us where our problems and opportunities lie, so we can deploy our resources accordingly.

We shifted the focus of city agencies to outputs, by introducing four ComStat tenets, now central to CitiStat, and StateStat: timely accurate information shared by all; rapid deployment of resources; effective tactics and strategies; and relentless follow-up and assessment.

Today, two administrations later, CitiStat remains in place in the city of Baltimore. The CitiStat system has been fully institutionalized, at first because of executive commitment, but over the long term because we were successful. Over the seven years in which our administration ran CitiStat, the City experienced an overall violent crime reduction of nearly 40%. After a decade of seemingly irreversible population loss during the 1990's, the turn of the century saw gradual slowing of that loss – and then actual growth by the end of our administration in 2007. Better overall financial management of our City's resources resulted in a quadrupling of the City's Rainy Day Fund and positioned the City for its first bond rating upgrade in decades. Furthermore, it is conservatively estimated that the CitiStat program produced over $350 million in positive financial impacts for the City of Baltimore – representing well over a 100-to-1 return on investment, given the program's operating costs. In short, we turned a city where many neighborhoods were considered ungovernable and made them function again. With very little money, we had to think differently and we had to apply our creative energies to the problems we faced.

StateStat

In many ways, our backs were also up against the wall when we took the reins of state government. We inherited a $1.7 billion structural deficit and had to operate under the backdrop of a national economic downturn. We also found that our state government, not unlike the City government, was not very geared to performance measurement and service delivery. Therefore, we have now fully adopted the CitiStat model on the state level. Now performance is being tracked and progress monitored on a level never experienced in Maryland's state government. Through StateStat, my senior staff and I meet with key agency leaders not once a year, not once a quarter, but every single month to track our progress, share information, and determine where things are working and where we need to do better. During the past four fiscal years, StateStat has facilitated a savings of an estimated $276M in total funds ($242M General Funds) through position abolishment; closure of 21 facilities; and the consolidation and centralization of State functions, such as State print shops, and correctional pre-release programs.

Governor's Delivery Unit

After a year of solid progress we recognized that the state needed more coordinated assistance in mobilizing shared resources across agencies, so in 2009 we created the Governor's Delivery Unit (GDU). The GDU—modeled after Tony Blair's Prime Minister's Delivery Unit (PMDU) created in the United Kingdom in 1997—is responsible for ensuring that a series of reforms in health, education, transportation and criminal justice take place by aligning resources and policy at every level of State government. After having the opportunity to hear Sir Michael Barber speak about his experience leading the UK's PMDU, we set out to create a similar unit in Maryland, to complement our work in StateStat.

The GDU works with the state agencies strategically driving 15 core goals designed to be aggressive, yet achievable, benchmarks in the continuing effort to improve the quality of life for Maryland citizens. The goals are divided into four broad areas: Skills, Security Integration, Sustainability and Health. The GDU further cuts each objective into sub-strategies and designs, with the interested State agencies, an action plan detailing what steps are necessary to meet the goal. The GDU uses the StateStat process to hold agencies accountable to their action plans and measures their progress to realizing reforms. There are some who warn against setting big goals, because you don't always reach them. But we have found that you can only achieve a goal if you set it – and set it openly.

Example of StateStat Impact: Public Safety

Perhaps the best way to demonstrate our success is to look at a sample of our public safety achievements over the past four years. Together with law enforcement, we have been able to drive down violent crime in Maryland to the lowest rate in our state since 1975. StateStat continues to guide our efforts to dramatically reduce homicides and juvenile homicides – also driving homicides down to the lowest rate in Maryland since 1975. These accomplishments can be credited to the hard work of our public safety agencies and StateStat. Here are some examples of our efforts.

- **Closing the House of Corrections:** We have taken an aggressive approach to public safety by reforming our long-troubled public safety agencies. The very first StateStat meeting resulted in a quick closure of the House of Correction in Jessup, Maryland – at the time our most troubled and violent correctional facility. This action not only eliminated our most violent facility, but it is also saving taxpayers approximately $3 million per year in overhead and overtime costs.

- **Creating the Violence Prevention Initiative (VPI):** The VPI tracks the most violent offenders who – statistics tell us – have the highest propensity to commit future acts of violence. We found, upon taking office, that some of our worst criminal offenders weren't in prison, but instead were walking the streets under the supervision of our State Division of Parole and Probation. In 2006 and 2007, nearly one in three people arrested in the City of Baltimore were under the state's supervision—including 37% of those arrested for murder. The StateStat team reviewed the homicide arrestee profiles and found that the average age was very young and that most had at least ten previous arrests. The risk assessment tool being used by our Parole and Probation agents to assign the level of supervision to these offenders did not adequately account for either of these factors. Therefore, we have modified our risk assessment tool to allow us to identify these individuals and assign them specialized agents who hold them accountable for absolute compliance with the terms of probation. Agents are required to request violation of probation warrants within one day of the violation, and we track their performance of this duty at StateStat. Today there are more than 2,000 offenders statewide subject to this high level of supervision.

- **Elimination of a Dangerous DNA Backlog:** When we took office we found that our predecessors had allowed a backlog of 24,000 unanalyzed DNA samples to collect dust, and they had neglected to collect an additional 15,000 legally mandated samples. We used StateStat to guide our efforts to eliminate both of these backlogs, and we have since been able to use DNA to make 245 arrests in the past four years.

- **Enhanced Information Sharing Between State Agencies:** One of the most pervasive problems we faced as a State four years ago was our inability to exchange information between State agencies. Many offenders were being supervised in the juvenile system and the adult system with no coordination at all. StateStat convened several joint sessions between the agencies that led to legislative and programmatic reforms. Today, information is shared in real time between the agencies, case management happens in concert, and resources are co-located to help support ongoing violence reduction goals.

- **Enhanced Information Sharing Across Our Borders:** StateStat has allowed us to identify several areas where lack of communication with our neighboring jurisdictions has impeded our ability to make progress. For example, Maryland's Division of Parole and Probation now gets a list of offenders arrested in Washington, D.C. each morning and automatically identifies any parolees or probationers on that list. Our partners in the District of Columbia now do the same with Maryland's list. Since this information sharing effort began in November 2007, we have been able to

hold approximately 200 supervisees per month accountable for their illegal behavior across border lines.

- **Enhanced Information Sharing with Our Partners in Law Enforcement:** Through our Public Safety Dashboard, we are integrating data from our prison system, parole and probation, firearm registries, fingerprints systems, mug shots, DNA, motor vehicle records, taxation records, and other sources. Now, all an officer or official needs is a username and password, and they have access to data in real time. Timely accurate information is shared by more than 100 agencies, and the Dashboard receives between 25,000 to 40,000 queries each day.

- **Safer, More Effective Correctional Institutions:** At Maryland's Department of Public Safety & Correctional Services, we have been able reduce overtime by 20 percent, saving taxpayers $10 million. Contraband (which includes cell phones, drugs, and weapons) seizures were up 124 percent between fiscal years 2007-2009 and serious assaults on staff were down 50 percent.

StateStat: Use of Geographic Information Systems (GIS)

You may have seen Verizon's ad which says, "there's a map for that." You could summarize our strategy as such – we are geo-mapping everything. From the early days of ComStat, through CitiStat and certainly at StateStat, we have continued to use the map as our central tool for driving, delivering, and demonstrating our work. StateStat employs maps at most every meeting – using geographical references throughout our analysis. In addition to using maps in meetings, we publish our analysis so the public can see our progress and hold us accountable to the reforms we promise. Here are a few examples of public maps supported by StateStat:

- **GreenPrint/AgPrint:** These are applications where we have mapped every parcel and plot of land in our State – and assigned them ecological scores to help us determine how to most effectively and efficiently target dollars for conservation and cleanup – as we seek to protect the green lungs, green liver, green kidneys that our State's ecosystem needs to breath. http://www.greenprint.maryland.gov/ and http://www.agprint.maryland.gov/

- **Capital Budget Map:** For the first time in our State, StateStat is mapping our Capital Budget, so citizens can see how their government is investing their dollars. http://www.statestat.maryland.gov/budgetmap.asp

- **Recovery Tracking:** StateStat has used the map to show how every dollar of the American Recovery and Reinvestment Act is being spent by our State. Our number one-ranked Recovery tracking website has garnered nationwide attention and has been replicated in scores of other States. http://www.statestat.maryland.gov/recovery.asp

- **Energy Maryland Map:** Highlights Maryland's leading role and commitment to energy conservation initiatives. http://mesgis.com/dgsenergymap/

- **Stream Health Map:** Provides a resource on the health of Maryland's streams and factors that impact that health, and directs users to ways to become actively involved in protecting and restoring Maryland's streams. http://www.streamhealth.maryland.gov/

BayStat

We're using BayStat to guide our efforts to restore the Chesapeake Bay.
Together with you, Mr. Chairman, we've set 2-year milestones and committed to holding ourselves accountable for reaching them. The federal government has adopted a BayStat initiative of its own to drive environmental health in the entire 6-state watershed of the Chesapeake Bay. We are making use of GIS technology and pulling together all of the key stakeholders to better target our collective efforts. For example, recognizing cover crops as the most cost-effective and efficient way for farmers to prevent soil erosion and absorb excess nutrients before they can run into the Chesapeake Bay and its tributaries, we are now targeting our limited resources for cover crops to farms that have the largest runoff impacts on the Bay. Also, for the first time, we are targeting our land acquisition efforts to protect the open space that is most critical to the future health of the Bay and its tributaries. Here are just a few more examples of how BayStat has impacted change:

- **Saving the Blue Crab:** Implemented new management measures through regulation to restore and sustain blue crab resource and fisheries. These measures were coordinated with Virginia and the Potomac River Fisheries Commission. After two years, these measures have resulted in a significant increase in the abundance of blue crabs. This year's estimate of total blue crab abundance is the highest since 1997.

- **25% Increase in Sea Grass Abundance in 2009:** Underwater seagrass abundance in Maryland and Virginia's coastal bays increased by 25 percent in 2009. The increase, from 10,916 acres in 2008 to 13,628 acres in 2009, shows that the bays continue to recover from a dramatic loss in 2005. Seagrasses are a great barometer of the health of the coastal bays.

- **Achieved Record Level of Oyster Plantings**: The University of Maryland Center for Environmental Science (UMCES) Horn Point Laboratory and the non-profit Oyster Recovery Partnership (ORP) produced nearly 750 million oyster spat for Chesapeake Bay restoration in 2009, the most ever grown in one year at the laboratory's Eastern Shore facility. Record production levels and an expanded partnership with the Maryland Department of Natural Resources (DNR) and BayStat have fueled the growth of the State's oyster restoration programs, resulting in the revitalization of nearly 350 acres of oyster reefs, planted on 26 sites across the Bay and its rivers. The 2009 growing season eclipsed the previous record of nearly 600 million oyster spat set in 2008. In addition, Marylanders Grow Oysters has grown from 1 tributary in 2008, to 12 tributaries in 2009 and will expand to 19 tributaries in 2010. More than 1,000 individuals are participating in this program. A total of 5,200 cages are currently deployed and another 2,400 plan to be added in 2010.

- **Planting Trees:** Since the fall of 2008, the State has facilitated – through various programs including its Forest Brigade and Marylanders Plant Trees Initiative– the planting of more than 671,000 trees in Maryland.

- **Reducing Nutrient Pollution:** The Bay Trust fund has been used to implement urban/suburban non-point source projects and agricultural best management practices resulting in an estimated reduction of 366,746 pounds of nitrogen, 35,199 pounds of phosphorus, and 4,538 lbs of sediment. The Bay Trust Fund has been used to implement 238,839 acres of cover crops and support 8 Maryland counties and Baltimore City in their efforts to clean-up local rivers and streams.

- **Increased Resource Conservation Programs on MD Farms**: From 2007-2009, Maryland farmers matched $24.4M in state grants with approximately $4M of their own money to install over 6,000 capital and special projects on their farms – annually preventing 6.4 million pounds of nitrogen, 432,000 pounds of phosphorus and 36,000 tons of soil – and daily preventing 5,084 tons of manure from entering waterways.

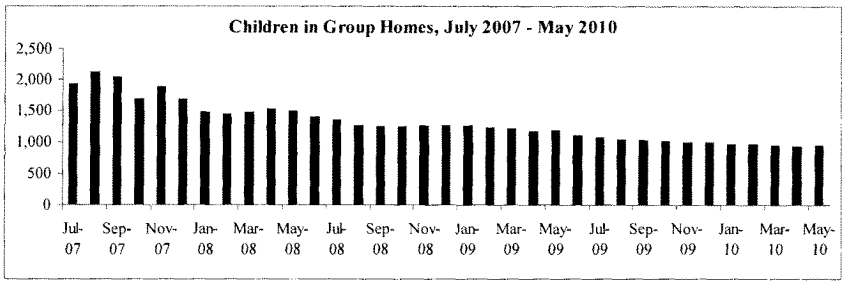
Implementing the Recovery Act

When we received our initial federal Recovery and Reinvestment Act funding, we already had a statewide tracking system in place – StateStat. Thus, it made sense to place in the capable hands of StateStat the dual responsibility of overseeing our state's use of federal Recovery resources and reporting our Recovery efforts to the federal government. StateStat immediately employed our first-in-the-nation iMap to strategically target our Recovery and Reinvestment Act investments, to rapidly deploy these resources, to ensure we were hitting our goals for Minority Business Enterprise, and to guard against the possibility of waste, fraud, or abuse. We did this with unprecedented openness and transparency – enabled by the internet and visible to every citizen.

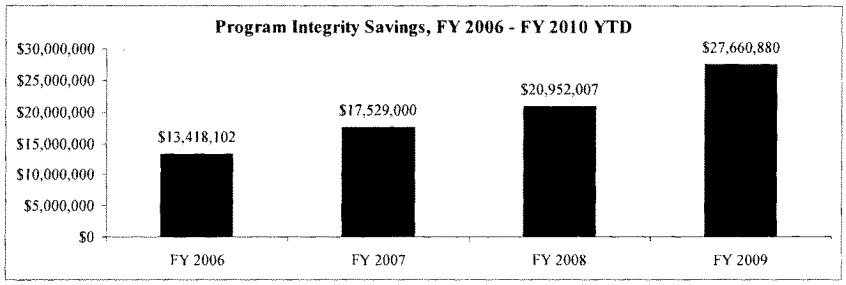
In addition to creating critical transparency tools, StateStat convenes the cabinet and the university system regularly to oversee their implementation of the federal Recovery Act and to provide support to their oversight and reporting of the federal funds. Next month, StateStat will host a regional training for state and local employees from Maryland and our neighboring jurisdictions which will focus on oversight of Recovery Act programs. We will be joined by our federal partners from the Recovery Implementation office, the Recovery Accountability and Transparency Board, the U.S. Government Accountability Office, and the Office of Management and Budget.

As I close, I want to end with a few more examples of graphs moving in the right direction. We have examples of maps going in the wrong direction, but we seem to be running low on time.

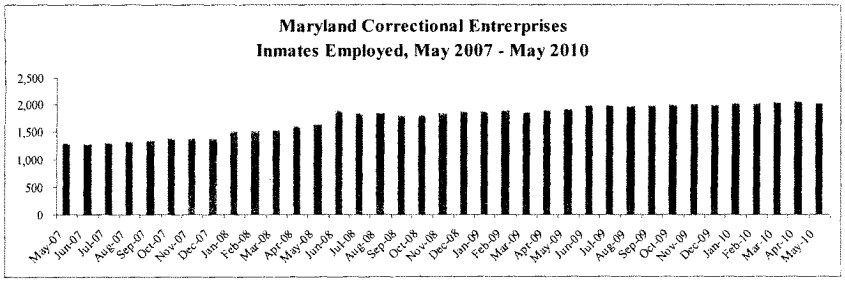
Reducing the number of children placed in group homes,… moving in the right direction;



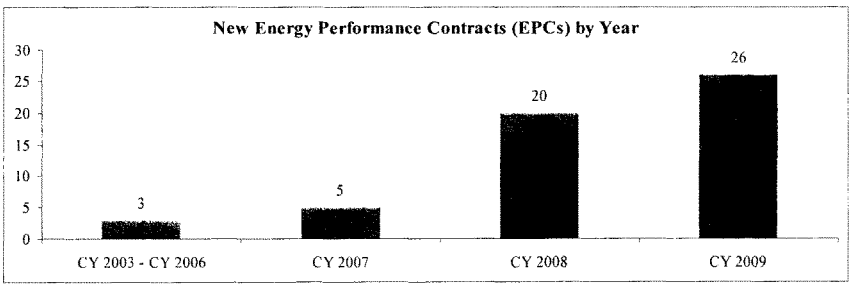
Cracking down on Medicaid fraud,… moving in the right direction;



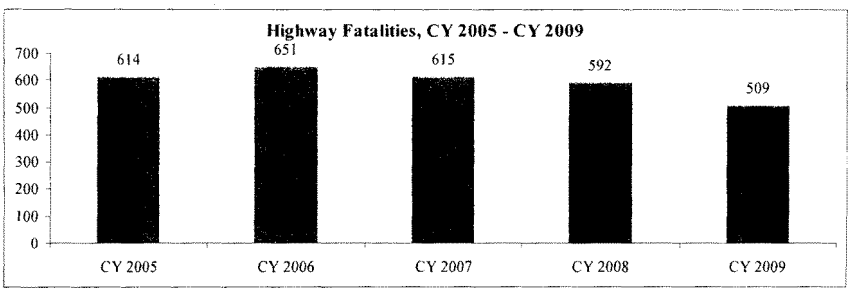
Inmates participating in employment programs,… moving in the right direction;



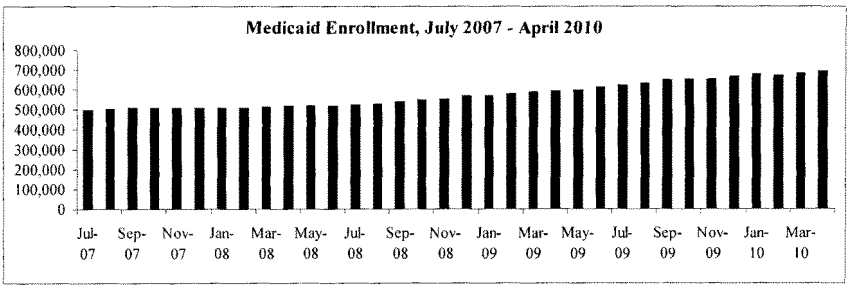
Energy performance contracts,… moving in the right direction;



Reducing fatalities on our highways,... moving in the right direction;



Expanding health care coverage to more of our fellow citizens, rather than fewer,... moving in the right direction.



Senator WARNER. Thank you, Governor O'Malley. Thank you for your presentation. In respect of your time, we will try to make sure each of us takes 5 or 6 minutes in our question period, and particular kudos on not only the whole presentation but the data you have on the Recovery and Reinvestment Act. It is so critical because I think—I can only speak for my State—a lot of folks did not understand what that act involved, did not understand it was the third largest tax cut in American history, did not understand the dollars that went to the State or other programs, and what you have done with ARRA funds is to be commended. Also on MBE, that was an area that we were woefully behind in Virginia in just not having data, and being able to do that buy project, I give you great congratulations.

Governor, you tried this model out at the city level where you could get your arms around it. You grew it to the State level. We are thinking now about how do we take it to the Federal level. I guess I have a two-part question as my first question.

One, advice or counsel to us as we try to think about how we implement this or implement portions of this at the Federal level. Should it be done on a holistic basis? Because you set 15 policy goals broadly as your basic function to start the whole process. Or recognizing the enormity of the Federal Government, would you recommend taking it in chunks as opposed to Federal Government-wide? And could you also talk for a moment about, as you get these goals and as you lay out these details, clearly they do not all fit into an exact silo of a particular department, so you have to have

these goals embraced by, I would imagine, agency leadership beyond a particular agency. So how did you get at that cross-cutting ability to get all of your various silos to work together on these common goals?

Governor O'Malley. I would say the two biggest—the foundational decisions we made as CitiStat started ramping up was that we were all going to use a common GIS map, and we were all going to use a common template for reporting information.

Now, we did not care what you labeled these columns, but those were the two standards that we really insisted upon. And it took a little while because some departments would come and say, "Oh, but we really like our software and the way we have done our map."

"Well, we are sure you do, but we are going to use"—I think it was the Department of Public Works that picked the best GIS system. That can only come about, I think, with strong executive insistence. If you leave it to people to do it on their own, I think you are in for trouble. It is like trying to run a railroad on 25 different gauges of track. You have to have one gauge of track. You have to have one map. You have to have one common template that then can be shared among all the departments, and something that is as user-friendly, as off-the-shelf as possible. People would come from other cities and be shocked at how cost-neutral we were able to ramp up the CitiStat process. Well, that is because we used off-the-shelf software. The GIS map at the time was a new thing, but that is pretty ubiquitous now.

Ms. BLAUER. Our application, if another State wanted to come in and replicate what we have done with RecoveryStat, all of the application is free. You can just go onto a resource page and download it. So it is a very minimal cost, and most States already have pretty well developed GIS programs, and all they need to do is just basically download the application.

Governor O'Malley. Now, having said that, we did ramp up one department at a time. I mean, there are only so many hours in a 14-day cycle, and so we did ramp up those meetings adding a new department every few weeks for that first year. And so we added the departments one at a time, but it was only after we let them know, You are coming, here is your turn in the queue, you might want to think about what the primary colors of measurement are.

One of the things that we learned—I think it was—someone on the panel talked about how you can become mesmerized with the—John was saying you become mesmerized with all the things you can measure now that you could not measure before. You have really got to hone in on the main goals, especially in order to get cross-departmental collaboration. At the municipal level, our mission statement was a cleaner, healthier city, better place for kids, a place where people want to invest and grow their businesses. Those were our big goals, and every department knew they had to contribute to those in some ways.

At the departmental level, in solid waste, one of the things we did was to—we had a competition before Christmas, not on A to Z performance measurement, but the primary colors, if you will, of solid waste becoming better: the tonnage they collect, fewer citizen complaints, less absenteeism and, therefore, less overtime. And

based on those four things, I think the Abell Foundation gave us some cash incentives for the crews that could finish first, second, third. The crew that went from last place to first place, that actually happened. One crew that was in last place stayed in last place, I believe made more overtime by keeping their absenteeism high and their unexcused absences than if they had gone after the prize.

But the thing that we have done at the State level was to create a unit that we borrowed from Tony Blair called the Delivery Unit. In our State government, we used to have—there was really no robust policy office. We never had one. No Governor ever had one. But out of legislative frustration, the legislature would see that we were not coordinating in ways that would allow us to grow in a smarter way between transportation, housing, planning, and other departments, so they created by legislative initiative, usually—although this one, I think, came from Governor Glendenning—Office of Smart Growth. We would see that we were not coordinating like we should across social services, education, health in order to protect children, youth, and families, so we created an Office of Children, Youth, and Families. So we consolidated those offices.

Another one, Governor's Office of Crime Control and Prevention. Well, why do we need that office? Because we are not cooperating in order to control crime and prevent crime across rec. departments and police and the like.

So we have consolidated all of those now into a delivery unit in State government that works in conjunction with the performance measurement around 15 big goals and links together what is a much more attenuated chain of delivering results at the State level than we had, say, in filling that pothole, which took about three steps. You know, a person calls, the crew goes.

Senator WARNER. Let me ask one more, recognizing I want to get my colleagues time in, too. We actually did have Michael Barber come in and talk to us about the Delivery Unit model from the U.K., which was very helpful. But one of the things, just as Senator Cardin and I have delved into this, we see at the Federal level, every new administration reinvents the wheel on what performance management and performance metrics ought to be. Go back. Clinton had one, Bush had one, President Obama has got one now. And one of the things we are hoping, working with President Obama's administration, is with a legislative partner we can institutionalize this.

Talk to me a little bit about how—you have talked for a moment about how you get the public involved, but how do you keep the press involved as using this as a way to measure your performance? How do you get your legislators to buy into that these are the right measurement tools and that they could all argue if you agree that the charts ought to be going this way, you can argue about how you get there, but if you at least agree on what the common framework is, you are halfway through the battle. I mean, have you found ways to try to bring your legislature involved in this? Have you found ways to keep the press and the public actively engaged?

Governor O'Malley. The city council, we were able to get them on board by giving them all portals so that they could access—we created a 3–1–1 system on the front end for city services as well. So

that is how we got the city council on board when they were a little bit concerned that we might be cutting them out of the constituent service business. The openness and the transparency allows everybody to use it.

The legislature here has embraced it. It has been very supportive of it, appreciative that they can come to the meetings if they like and see whether we are moving in the right direction or not. I hope over time it informs better legislative policy if we continue to keep it going and open and transparent.

The media has been a tougher sell because some of this stuff, if you only look at it incrementally, can be like watching the paint dry and not the stuff that in an overworked press corps makes the headlines. We are trying to drive more and more people to the website, and it has been a bit of a frustration—I should not say frustration. We have yet to really communicate to the public just how much more open, transparent, and accessible their State government has been made. The Recovery and Reinvestment opportunity was a good shot at that, doing some of the town halls around it.

Beth, did you want to chime in on something?

Ms. BLAUER. I think also we have for the first time all of the data and summaries of what happens in the meetings is available on the website as well. So we certainly—States that have been asked to come and meet with legislators during the session as they are articulating their ideas before the session, we were brought in. And this session was really probably the first time where we really spent a lot of time sharing the information and explaining how to access the information that is available on our website.

Governor O'Malley. We had been putting it on the website in such a dense way that nobody could sort through it. So now we haveten a little better at boiling it down and giving people more sort of the executive dashboard summaries like I receive when I go into a meeting and sit there. This is how they look. It is in English. You have the charts and the graphs. Hopefully more and more people—we find our labor leaders will look at this site a lot more than anybody else does. And some of the things we are doing on stewardship with the bay is driving a lot of traffic to the BayStat website and a little bit to this website as well: Marylanders plant trees, Marylanders grow oysters, and children and nature, and those sorts of thing.

Senator WARNER. We appreciate it. I personally appreciate it. I hope you will stick to it, and with that, Senator Cardin?

Senator CARDIN. Well, thank you, Governor O'Malley. I am always impressed by, and enjoy watching, your the presentations. I have looked at it many times, and it is very impressive, and it really does help the public to understand what you are trying to get done. It gives them more confidence that you are trying to use resources in a most effective way.

I want to followup on Senator Warner's point about how the legislature and executive can be on the same page on this. You have given many examples in which legislators have been part of the process. They have had a chance to see the statistical information. They have had a chance to challenge whether you are using the correct barometers, and you have been receptive to their comments.

But let me just challenge you as a former House of Delegates speaker and as a former State about legislator how we judge the independence of the legislative branch of Government. Probably there is no more clear place in the Maryland budget process than in the capital budget. And you have indicated you are putting more information up on the capital budget right now.

I am curious as to how your evaluation process would be used. If your evaluation process shows that you are getting a better return for the public dollar in one area of Maryland versus another, but yet your political challenge is from the legislature, particularly on the capital budget, which can alter the Governor's budget, how do you resolve that? What have you learned about how to get legislators to overcome their local bias or their political bias to work together to use the public resources as efficiently as possible to get the best results for the citizens of Maryland?

Governor O'Malley. You are clicking on the live map?

Ms. BLAUER. Yes.

Governor O'Malley. I have found whether it was tough decisions like closing firehouses in the city of Baltimore or the tough decisions like the capital allocations in the budget, if everyone can see where the dollars have landed and where the investments have gone, and if you have done it to the best of your ability, in a way that is fair and equitable, and also promotes the statewide one Maryland policy goal, that takes a lot of the pushback that you would otherwise—that is otherwise part of the legislative process. Let me say that another way.

In our State—and I will not name any counties, but you know that there is always a reason why ever major county or rural areas believe that they are not treated as fairly by the Governor, whoever the Governor is, because—and then you fill in the blank: Because we are so loyal and Democratic, you take us for granted. Because we are poorer than other jurisdictions, you take us for granted. Because we have more wealth than other jurisdictions, you take us for granted.

But when you actually put it out on the map and everybody can see that they are not getting shortchanged and that their neighbor is doing better than they are on the merits of things, that I have found to be the single most helpful—one of the single most helpful tools in getting through these tough budgetary times and the cuts is the fairness that the map so brings home. The willingness to have yourself held open and accountable and audited by that map, by showing where the dollars are landing.

I saw a great demonstration of this. Jack Dangermond, who is the head of a company called ESRI—it is the company that does all of our GIS thing, great company. He was showing Ed Rendell, Governor Rendell, who is a big-time advocate for transportation funding and making sure the dollars get to the right places, and he had a map of a State that showed where the most structurally deficient bridges are. He did an overlay on that map to show where the greatest numbers of people travel over those structurally deficient bridges. And then he overlaid on top of that where the Federal dollars for structurally deficient bridges go. And when he clicked that third application, the dollars were all over the map instead of landing on the targets, to which Governor Rendell rightly

said, "None of the money is landing on the targets." To which Jack Dangermond responded, "No, but they are all landing on the map."

[Laughter.]

Governor O'Malley. And so our challenge is the rational application of human effort to human problems, and in that openness and transparency to get it to land—you know, since they are landing on the map, we have just got to coordinate it. And I think the only hope—every legislator feels a tremendous burden to make sure they bring home everybody's fair share of their tax dollar, and I think the map and showing people that we are all in this together and having objective criteria—I mean, for all of the dollars that we have protected for open space, I am not sure we have ever had someone, once we grade it and do it openly, make a solid case that we are not deploying those dollars properly or fairly. And where the GreenPrint is, that is another one. People were afraid, Senator, that if we put the GreenPrint there, people would see where the GreenPrint is, and maybe they might get in the way or obstruct efforts to fulfill that policy goal. But we are taking the chance that our best hope of this republic having better and stronger days is better and more information in the hands and the minds of citizens.

Senator CARDIN. Well, it would be very useful to do this type of exercise at the national level. I chair the Water and Wildlife Subcommittee on the Environment and Public Works Committee, and we are trying to develop a water bill that reflects the Nation's needs. The politics of this is extremely difficult. It will be interesting to see this type of analysis used at the national level.

One last question dealing with your comment about labor leaders looking at these pages rather carefully. I want to hear how the State workforce looks at this and what lessons you have learned. They have legitimate concerns that resources should be made available so they can get their jobs done. And they have a legitimate concern as to whether there is the right motivation as to how we operate the Government for the work they are doing.

What have you learned in working this system as it relates to the confidence of our work force?

Governor O'Malley. These have been really tough years for public employees. We have had to do furloughs for 3 years in a row. We had to do some consolidations that resulted in layoffs. We have tried our very best to place people in other places wherever possible. But as far as the system itself, it has been my experience that the public employees, like all human beings want to know that when they work hard it is recognized by somebody making the decisions that is leading their organization or their piece of the organization. And so I would like to believe from my interactions, especially around the environmental things and the bay and the like, that there is a certain esprit de corps that is developing even in these tough times from that shared sense of commitment and that openness and that ability to see that, hey, when we are doing things and working hard, somebody at the top recognizes that we are going in the right direction.

A lot of times when the press would initially report on this, they would make it seem like it was a firing squad and that the public employees were coming in and offered a blindfold and a cigarette.

But that was not the day-to-day experience. The day-to-day experience was men and women would come in and the high performers, when they were recognized, the rest of the organization would recognize that.

The great Jack Maple described it to me this way. He said 90 percent of us fall in the middle of the bell curve, and in a big organization it can either lean this way to the leaders or it can lean that way to the slackers. And if the top of the organization recognizes and celebrates the achievers and the leaders and lets everybody know, that organization will tilt toward the leaders. And in that is nation-leading progress.

Senator CARDIN. Thank you.

Thank you, Mr. Chairman.

Senator WARNER. Thank you.

Congressman Sarbanes?

Mr. SARBANES. Well, I was going to ask you a question along those lines, but I will just echo what you said, and that is, I think when you go to change culture, particularly to introduce more performance-based measure, it is critical that there be a feeling on the part of the work force that you are supportive of them, that they are not under attack. And that is a challenge we have had at the Federal level, because sometimes when the initiatives come along, they cause the work force to circle the wagons, and then you cannot make progress in terms of changing that performance culture. So you have to create the accountability, as you have indicated, but also make it clear that there is really strong support for people all through the ranks. And then you get the success that I think you have been able to demonstrate in Baltimore and also at the State level.

I have one question. One of the things we are wrestling with at the Federal level is the proper balance between what sort of the inherently governmental jobs are that are done by Federal employees and then what gets outsourced to third parties, to outside contractors. And for a while there in the last administration, my sense and the sense of many was that there was an ideological push toward outsourcing that put things out of whack. I would imagine that the Stat process has allowed you to drill down in a way that you can understand what this proper balance between sort of the employee of the Government is and those resources you need to pull in from outside to deliver a good product to the State. And I thought maybe you could address that.

Governor O'Malley. Sure. This process helps you manage your contracts a lot better because, I mean, they also have to perform in their part of this. We have not done a lot of privatization because of the Stat process. What we have done, though, is imbued the State organization, public employees, the bureaucracy of our State government, with a much higher level of managed competition than there was before. Mayor Goldsmith of Indianapolis 10 years ago did a lot with bidding services out for contracts, seeing who could bid better and do it more efficiently. We have not had any success in doing a lot of that. We had one incident some 10 years ago that I will not bore you with where we actually did go totally private on—I think it was building security in the city of

Baltimore, and part of that was a loggerhead, and in retrospect I think some of us wish we might have done things differently there.

But we did measure the trash collection crews against each other. We measure soil conservation districts against each other now when it comes to signing up farmers for cover crops. We measure parole and probation in terms of the supervision that they provide to our more violent offenders and also the speed with which they get their warrants processed so that we get those offenders off the street more quickly.

So if I am answering the call of your question, we have not—we have used this to imbue the entire bureaucracy with a better—with that tool of managed competition, recognizing the leaders, making sure the leaders are seen as leaders by their colleagues. We have not done a lot on the privatization. This has helped us to reduce some redundant contracts where we realized, hey, we had somebody in this department who is providing one technical service, and guess what? Another department was retaining the same company to do the same technical service. Why don't we put them together in one contract? Or, worse, a different company to do the same service. So it has helped us to save some money by consolidating contracts.

Mr. SARBANES. Thank you.

Senator WARNER. Well, Governor, thank you very much. You have been very generous with your time, and congratulations on this 10-year experiment. I think I go back to that second slide we had when we were up to see the way that this Stat effort has spread across the whole country. Kudos to you and your team. And, again, a final comment, as somebody who has been grappling with some of these issues, particularly more in my old job than this current position, I commend you as well for sticking to it, because getting the public, the press, other shareholders and legislators engaged, involved you got to have the metrics and the measurement tools first, and you have clearly set a way. So congratulations.

Governor O'Malley. You know, I think the White House—the Federal Government—not to belabor this, but I think that relentlessness has been something that has been lacking in the way that we have—that the national Government has, to the extent they have approached us in the past, I mean, I cannot go to every meeting, especially now with the campaign in full swing. But, by golly, somebody very close to me is running this whole operation as the chief operating officer all the time. And I think we need a person like that.

Senator WARNER. Well, if you look at the last three administrations, usually with big fanfare in their first year in office, they announce a reinventing government or Bush had a different one, Obama has got a chief performance officer and others. But it has got to have that relentless——

Governor O'Malley. Right.

Senator WARNER. Because it is not coming easy. But thank you again for your good work and thank you for appearing before us today.

Governor O'Malley. Thank you.

Senator WARNER. We will now call up the second panel.

Our first panel focused on lessons we at the Federal level could learn from State government. This second panel is going to focus on local government. We are very honored to have two distinguished panelists: Ike Leggett, who is the county executive from Montgomery County, and Deputy Mayor Christopher Thomaskutty, the Deputy Mayor for Public Safety and Operations in Baltimore. I will introduce both of our panelists, and then we will hear testimony from both.

Ike Leggett has served as the Montgomery County executive since being elected in November 2006. He has also served four times as an at-large member and as the council president three times and as its vice president three times. He served as a professor of law at Howard University Law School from 1975 to 2006. He ran the day-to-day operations of the law school as its assistant dean from 1979 to 1986. Mr. Leggett served as a captain in the United States Army. His tour of duty in the Vietnam War earned him the Bronze Star Medal, the Vietnam Service and the Vietnam Campaign medals.

Christopher Thomaskutty serves as Deputy Mayor for Public Safety and Operations for Mayor Stephanie Rawlings-Blake, overseeing departments that include public safety—fire and police—and health, public works, general services, CitiStat, and other operating agencies.

You have a much longer list than I initially thought here.

Christopher began his career in Baltimore City government as a CitiStat analyst in 2003—so you were there at the birthplace—under former mayor Martin O'Malley. In 2007, he was selected to serve as the Director of CitiStat and later promoted to the position of deputy mayor. Christopher received a B.A. in Political Science from Birmingham-Southern College in Birmingham, Alabama. While at BSC, he was named a Truman Scholar by the Harry S. Truman Scholarship Foundation. He has a master's in Public Policy and Urban Planning from the John F. Kennedy School of Government at Harvard.

We will start with Executive Leggett, if you would go ahead, please, sir.

STATEMENT OF THE HONORABLE ISIAH "IKE" LEGGETT, COUNTY EXECUTIVE, MONTGOMERY COUNTY, MARYLAND

Mr. LEGGETT. Thank you, and thank you, Senator Cardin, Senator Warner, and Congressman Sarbanes, for undertaking an effort that I think sometimes is not fully understood by the public, but it is so, so important to the efficiency and effectiveness of governments today.

Let me say that I came at this through the efforts of the then-Mayor O'Malley in Baltimore, and as county executive I fully adopted it as one of the principles of leadership in my county. But when I first heard of it many, many years ago, I was not impressed when I first heard it because I thought it sounded like something that managers would get together, hold hands, and sing "Kumbaya," and come out and maybe adopt some principles and ultimately get something done. And it was a skeptical public who, in fact, heard and saw many of the things that we are talking about today and were not very, very impressed. It was not until, I think,

people started to see the connectivity between budgets and outcomes in a way that impacted their lives that it started to take on a different meaning.

The main objective for us in Montgomery County, CountyStat, is to improve the efficiency and responsiveness of government by using up-to-date data as an ongoing focus for day-to-day management and long-term policymaking. For us, I believe that our government can and must do a better job in its use of finite public resources to help achieve and sustain Montgomery County residents' priorities and objectives and deliver meaningful results.

The objectives for us are outlined in what I put together with a task force immediately upon my election, which is to provide a responsive and accountable county government, affordable housing in an inclusive community, an effective and efficient transportation network, children prepared to live and learn, healthy and sustainable communities, safe streets and secure neighborhoods, a strong and vibrant economy, and vital living for all of our residents.

I mention this because one of the things I think we fail to recognize is that unless CountyStat or the Stat programs are tied to some meaningful objective which the public fully embraces and understands, then we will not have the kinds of results that I think we want. Unless it is also part of a comprehensive program, we still would not meet the objective.

Most recently, we followed the example of the Governor and others, and we introduced in Montgomery County something called MC311, a comprehensive integrated program that is online and call online for people to call with any requests for services and programs in one central comprehensive data base unit which we can track. In addition to that, we use other tools consistent with the CountyStat program. So we have consistency, we have a comprehensive approach, and it is not something in isolation, and it is tied to our objectives.

Now, here are a couple of lessons learned that I think- -some of which you have heard this afternoon, but I want to emphasize again. To be successful and lessons learned, you need to ensure commitment and support for performance management at the highest level. At the highest level. Unless the executive, chief administrative officer, Governor, whoever, is not personally involved, then you will not have the results that you see. You need to partner with the community, develop buy-in from directors and managers, because it is not easily always understood. You heard earlier buy-in through the legislative branch that was talked about, establish a collaborative relationship, focus on what matters, because despite the technology, despite all the efforts, we simply cannot do everything we want to do.

You need to have a dedicated staff who performs and assists the departments, take a long-term, comprehensive view of this. You are not going to have the results overnight.

Develop capacity within department offices to measure and manage performance and institutionalize this new approach.

The process is valued. The people understand the process, it is open, it is transparent, and there is some consistency in the followup.

And, of course, we separate it; the CountyStat process is not the budget process. It is a tool to help us in our budget process. So those are separate operations.

Now, in terms of things that we have seen and that we have had some success with, I just want to go through and track just a couple things for us. First of all, we look at overtime. Look at this chart. You will see that we have had some success. The success for us, when you look at it cumulatively now, would probably be over $7 million. That is a considerable amount of money.

It also helps us to explain and track the performance. For example, if you look at that yellow line there, that yellow line represents the Department of Transportation's overtime. And all of a sudden you will see a number, that line going sky high there. That line represents the most recent efforts related to snow, snow removal. So now we get to a question of the tracking devices that we have had, looking at overtime, savings that we have had traditionally by the use of the tracking system that we have in place, quarterly reports, constant management of this, and the county executive or any executive in a position will have to make a decision at some point. Do I utilize an excessive amount of overtime in order to respond to the challenges of the snow? Or do I stay and continue on this path?

Well, by having this system in place, it allows us a tool for which a person can simply click on and see and track, and having this explanation allows us to in some way explain to citizens that we did not meet our objective at this point in time because we had a challenge before us; i.e., to move the snow, to respond to your concerns of safety in the community, or respond to the efficiency problems of reduction in overtime. Very good for explaining it.

We have similar results that you look at in terms of the savings that we have had. We had additional challenges in a number of charts here that you may see from the overtime itself going through department by department, quarter by quarter, and staying on top of our managers and walking through this, getting explanations as to why the performance is one way or the other.

We have also had another initiative called our Pedestrian Safety Initiative. Huge numbers of collisions, and we have tried to target the entire county. The dots that you see represent incidents of collisions, annually about 450 or so collisions. Probably 17 to 18 deaths per year. We targeted four high-incident areas, and interestingly enough, the efforts that we are making now on education, enforcement, and engineering, one of the things that was revealed to me, despite the fact that I have been looking at this for years in county government, one area that had been completely under the radar for many years has been the fact that a quarter of the collisions occur in parking lots, shopping centers. Our efforts for the most part were on the streets, intersections. So we had to refocus our efforts to, in effect, look at what we were doing as it relates to the parking lots, especially related to the elderly.

Paper. Huge amounts of paper. You can see the chart as it indicates where we were headed. We have been able to monitor that. It is inconsistent with our environmental goals. It is cost-challenging for us, and we have been able to save, I think, somewhere

in the neighborhood of $1.4 million just in following and tracking paper.

Overall in the county in the last 2–1/2 years, we have held 114 meetings on CountyStat, and we have looked at possibly 80 different subject areas. I have with me our chief administrative officer who is the person that oversees this on a day-to-day basis, and his staff, but it is a considerable amount of time that we spend following this.

There are quite a few other things that I would like to talk to, but I know that time is limited, but I want to end where I started, No. 1, to thank you for coming here today, to thank and congratulate our Governor for his leadership in this role, and to let you know from a local perspective that this is something that works. In times of tough budgets, it is something that is needed. The transparency, the efficiency with which this operates, and the savings that we have had over the last few years justifies, in my opinion, the need for this at the Federal level.

There are a number of things that I would like to address, and we provided information for you that I think you need to look at, that I think may be helpful from a Federal perspective. But in order to preserve time, I am going to turn it over to the deputy mayor to——

[The prepared statement of Mr. Leggett follows:]

Testimony to Senate Budget Committee

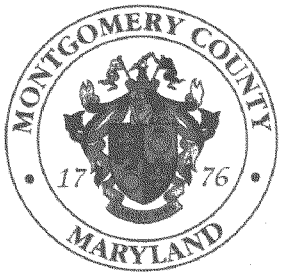
&

Task Force on Government Performance

Performance "Stat": Measuring Priorities, Progress and Results

Montgomery County, Maryland

"Results Based Accountability System"



County Executive Isiah Leggett

Montgomery County, Maryland

Monday, July 12, 2010

CountyStat

Table of Content

Introduction ii
Development of the Montgomery County Results-Based Accountability System 1
CountyStat 1
Accomplishments and Results Achieved 3
Improved Accountability 3
Clearer Linkages between County Goals and Departmental Decisions 4
Stronger Collaboration to Address Cross Agency and Cross Departmental Challenges 5
A Comprehensive Data-Gathering Approach Focused on Results 10
Transparency 12
Lessons Learned 13
Applications to the Federal Government in Collaboration with State and Local Governments 15
Using Performance Stat to Make Decisions 15
Using Quality Data to Evaluate Performance at All Levels of Government 16
Setting Common, Goals to Promote Effective Intergovernmental Collaboration 17
Making Performance Measurement/Stat Process a Condition of Federal Grant Funding 19
Linking Stat Measures to Federal/State Legal Requirements 20
Office of the County Executive: Contacts 22

CountyStat

Introduction

The Montgomery County government has long been recognized as one of the most progressive and effective in the nation. Since County Executive Isiah Leggett took office, his goal has been to make it even better. In a diverse County of nearly one million people, building an open, inviting, responsive, and accountable government for all is a challenge his administration embraces.

This administration is committed to building a more responsive and transparent government through new patterns of collaboration, partnership, use of data in all aspects of the decision making process, and, most importantly, through the establishment of an accountability system that focuses on the interests of the Montgomery County taxpayer, both residents and businesses.

Under Mr. Leggett, Montgomery County Government has focused on its customers' needs – identifying service gaps and areas of needed improvement, establishing priorities and goals, tracking progress, and responding promptly to customers' service requests. The County Executive has implemented the CountyStat program, a tool that provides accountability at all levels of government and measures the rate of investment, return on that investment and supports budget, management and funding decisions. CountyStat has added value by enforcing the County Executive's philosophy of "results-based accountability" and empowering the departments to make "data-driven" decisions.

As Winston Churchill said: "*However Beautiful the Strategy, You Should Occasionally Look at the Results*". We are solely focused on delivering results for our established priorities.

Development of the Montgomery County Results-Based Accountability System

- During the campaign, Mr. Leggett consistently heard from residents about the need for government to be more responsive, transparent, and accountable.
- Following the election, prior to assuming responsibilities as County Executive, Mr. Leggett began by bringing together a group of 150 residents, representing diverse interests and cultures, to identify the qualities of life in Montgomery County that matter most. http://www.montgomerycountymd.gov/content/home/pdf/transition_report.pdf. Through this inclusive process, the large and diverse transition team of business and community leaders developed eight priority objectives that would address challenges facing the County and what are now called "Montgomery County Results."

  - A Responsive and Accountable County Government
  - Affordable Housing in an Inclusive Community
  - An Effective and Efficient Transportation Network
  - Children Prepared to Live and Learn
  - Healthy and Sustainable Communities
  - Safe Streets and Secure Neighborhoods
  - A Strong and Vibrant Economy
  - Vital Living for All of Our Residents

- Achieving measurable and desirable outcomes in these eight Montgomery County Results are the foundation upon which the County Results-Based Accountability System and the CountyStat initiative are built.
- It was determined that a comprehensive approach to performance management would be the best way to make measurable progress on County goals and priorities. CountyStat in conjunction with other tools and data systems, including results-based budgeting, MC311 and ERP, is establishing a solid foundation for effectively and efficiently managing the performance of County government.

CountyStat

- CountyStat was created in January 2008 to address one of Montgomery County taxpayers' priority objectives: "A Responsive and Accountable County Government."
- CountyStat manages the County's results-based accountability system which links the priorities of County residents to departmental goals and programmatic performance and, ultimately, to budget decisions and resource allocations.

CountyStat

- CountyStat relies on the strategic use of data and analytics to monitor and improve the performance, effectiveness, and efficiency of County services. This effort creates greater accountability; provides better transparency into County challenges and successes; and ultimately helps to drive the implementation of a culture of "managing for results" in Montgomery County.

- CountyStat conducts its operations under four principles:
  - Require Data Driven Performance
  - Promote Strategic Governance
  - Increase Government Transparency
  - Foster a Culture of Accountability

- Through CountyStat, regular weekly meetings are held to examine County programs and activities resulting in continual improvement in both the efficiency and effectiveness of government services. During these meetings, the County Executive and Chief Administrative Officer meet with department directors to review real-time data to analyze past performance, follow-up on previous commitments to improve performance, and examine the impact of performance strategies.

- CountyStat builds on the "Stat" model of performance management inspired by other efforts, like CompStat in New York, and CitiStat and StateStat, started by Governor O'Malley.

- CountyStat focuses on customer results, performance, and long-term strategies that emphasize increasing effectiveness and efficiency. This program is changing the culture of accountability in this government by creating, for all Executive Branch departments, a set of outcome-based and mission-focused performance measures. These measures set the framework for regular discussions of policy and operational challenges that lead to the development of strategies that address those challenges and improve performance.

- To date, there have been 114 CountyStat meetings over 2.5 years on a variety of performance-related subjects.

- The CountyStat initiative is an ongoing, dynamic process that requires continuous improvement and needed cultural workplace changes; development of reliable, useful, and relevant performance data; and refinements in processes, systems, and techniques.

- CountyStat is a major component of the County's results-based accountability system. Through CountyStat, all decisions, actions, and policies must be driven by the extensive use of data, qualitative and quantitative analysis, and outcome-focused performance management.

Accomplishments and Results Achieved

No management tool is worth the time it takes to implement if it does not bring you results and closer to your goals. Here is what we have accomplished by implementing CountyStat:

Improved Accountability

- Prior to this administration, performance in Montgomery County government was tracked through an initiative called Montgomery Measures Up! It included a large list of output-focused performance measures for each department of varying degrees of importance, quality, and validity. It was not used to manage performance in any systematic way.

- Montgomery County has since progressed to a much more targeted system that focuses solely on delivering results to the customer – the residents and businesses of Montgomery County.

- All Department Directors are required to develop and maintain up-to-date departmental performance plans. Through these performance plans, department directors are held accountable for all of the work they oversee. Performance plans include a set of results-focused headline performance measures reflecting their areas of responsibility for "Montgomery County Results" and key strategies to improve and optimize performance. These efforts have changed the culture of Montgomery County government to the point that frontline employees now know how their daily efforts directly contribute to overall departmental performance.
  http://www.montgomerycountymd.gov/mcgtmpl.asp?url=/content/exec/stat/performance.asp

- Departments are using performance and results to make operational and budget decisions.
  - As an example, the Department of Recreation experienced significant budget reductions this year. The Department used their headline measures, which include survey results and participation rates, to make reductions to preserve the programs with the most impact and best results. Through their efforts, the Department was able to maintain good performance despite a difficult budget year.

  - In addition to helping the department to develop their headline measures and analyze their data, CountyStat has assisted the Department through its strategic identification of a potentially alarming trend: a significant reduction in program participation for children between the ages of 4 and 10. This is a fast growing demographic in our County, yet participation has steadily declined. Since the trend was identified, the department has begun work to turn it around. In addition to improving the services offered to this important demographic, it has also helped to generate much needed additional revenue to the Department.
    http://www.montgomerycountymd.gov/content/exec/stat/pdfs/6_25_10_dor_ppt.pdf

CountyStat

Clearer Linkages between County Goals and Departmental Decisions

- Montgomery County has created a results-based accountability system that directly links County priority objectives, performance, and decision making. It is designed to connect County priorities to overarching quality-of-life indicators, which are tied to each of departments' performance measures, reflecting their core activities, and can be evaluated in more depth through program-level measures.

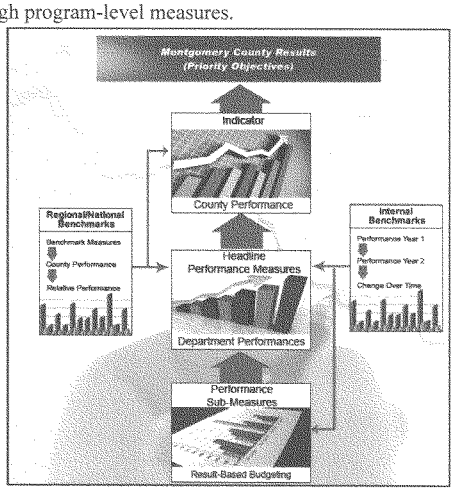


Figure 1: Results-Based Accountability System

This system, managed by CountyStat, closely monitors the progress of each County department. It provides a framework for connecting County priorities with budget decisions while using performance data as the basis for those decisions. The breadth and scope of this system make this a unique tool, which is invaluable for improving the decision-making process. http://www.montgomerycountymd.gov/results

- The County's Results-Based Accountability System has the following components:

  - **Indicators:** Sets of data that represent a high-level barometer of County performance and reflect the quality-of-life in Montgomery County. Developed to align with Montgomery County Results (priority objectives), indicators are influenced by multiple departments and often subject to external factors beyond the control of County government. Indicators are benchmarked against both regional and national peers.
    http://www.montgomerycountymd.gov/mcgtmpl.asp?url=/content/exec/stat/indicators8.asp

- **Headline Performance Measures:** Outcome-based measures that monitor results achieved by County departments. Departments, measured through their headline performance measures, have likewise aligned their activities and efforts to support each of the community's priority objectives. Departments tailor budget requests to align with County priority objectives, maintain or improve performance goals, comply with legal mandates, and other relevant guidance.

Link to departments' performance plans
http://www.montgomerycountymd.gov/mcgtmpl.asp?url=/content/exec/stat/performance.asp

Link to Montgomery County Performance Dashboard
http://www2.montgomerycountymd.gov/countystat

- **Performance Sub-Measures:** Measures that link budget items to departmental Headline Performance Measures and monitor results achieved at programmatic level. Ultimately this is how Results Based Budgeting will become reality in Montgomery County.

http://www.montgomerycountymd.gov/mcgtmpl.asp?url=/content/exec/stat/submeasures.asp

- **Results-Based Budgeting:** All budget decisions have been focused on making progress in the eight "Montgomery County Results" areas and all budget training, manuals, processes, systems, and publications have been revised to reflect this focus on results-based accountability.

- This creates a culture of data-driven, results-based decision making where department directors have the tools to systematically tackle the County's budget challenges thereby increasing departments' productivity.

Stronger Collaboration to Address Cross Agency and Cross Departmental Challenges

- Through Montgomery County Government's focus on performance management, great progress has been made in changing the government's culture to one that focuses on working collaboratively to solve problems and address challenges. Departments and agencies outside the executive branch have began to work together to determine which strategies work best to address shared challenges. By sharing data, working together in the planning process and sharing and training one another in areas where one department or agency has developed "best practices." Montgomery County's performance management initiative has resulted in significantly stronger collaboration and succeeded in breaking down departmental silos that existed previously. Two prime examples are the County's Pedestrian Safety Initiative and overtime monitoring, detailed below.

  - **Pedestrian Safety**: Pedestrian safety has been a key initiative of this administration. The initiative has been taken to the next level through developing a more strategic

approach to results, accountability, and transparency. The Pedestrian Safety Initiative has two objectives:

1. Reduce pedestrian-related crashes, injuries, fatalities, and their associated social and economic costs, and
2. Ensure that all areas of the County provide safe and convenient travel options for pedestrians. (Link to the latest Pedestrian Safety Meeting) http://www.montgomerycountymd.gov/content/exec/stat/pdfs/03_19_2010_ppt.pdf

- Impact of results based accountability on the Pedestrian Safety Initiative Staff and resources are being strategically deployed to focus on these two goals. Using data on pedestrian-vehicle collisions, four High Incidence Areas were established. Departments' work, including education, enforcement, and engineering activities, is now focused on those areas and takes into account the specifics needs of those communities.

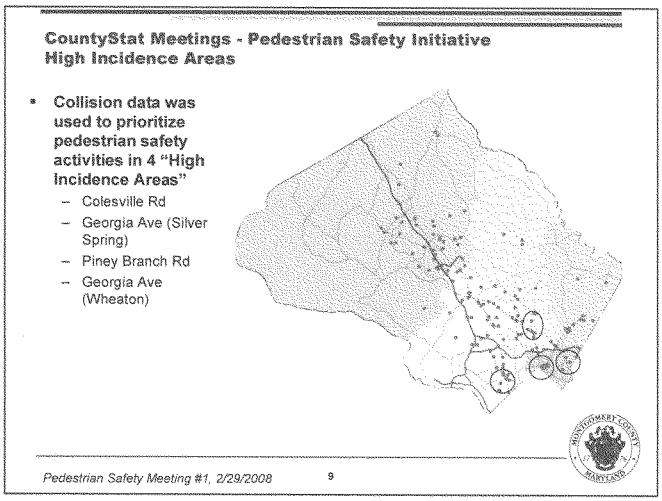


Figure 2: Using data to target pedestrian safety "hot spots"

- Collaborative efforts like Safe Routes to Schools, a program delivered by the Police and Transportation departments, and Montgomery County Public Schools, have been emphasized. CountyStat used detailed GIS mapping and data analytics to demonstrate this program's impact and, because of this effort and the fact that the program has been shown as an effective way to prevent pedestrian collisions, additional resources have been extended to

the program. In addition, managers of this effort have used the data to reprioritize its work in order to achieve the maximum impact for County residents.
http://www.montgomerycountymd.gov/content/exec/stat/pdfs/10_21_08_PPT.pdf

- Parking lots were determined to be a pedestrian safety hot spot; 22% of the pedestrian-related collisions in Montgomery County occur in parking lots. That figure adds up to 324 parking lot collisions involving pedestrians over the past three and one-half years. In response to this pressing concern, the County Executive launched a comprehensive public education campaign to improve pedestrian safety in parking lots.
http://www.montgomerycountymd.gov/dottmpl.asp?url=/Content/dot/dir/pedsafety/resource.asp

- Initially, the Pedestrian Safety Initiative called for two additional inspectors at a cost of $174,000 per year. CountyStat determined that the addition of these inspectors would have little impact on pedestrian collisions. Therefore, the additional inspectors were not added to the current staff complement and resources were diverted to other, more effective, programs.

- And the most important result of all – Pedestrian **fatalities are down in 2009 (14) compared to 2008 (17), and the lowest in 4 years.** Overall pedestrian collisions were also down over 2008 when comparing the first 9 months of the year.

Number of Pedestrian Collisions

	2004	2005	2006	2007	2008	2009
January	21	36	31	32	48	31
February	30	28	28	33	30	37
March	36	37	28	34	37	30
April	32	26	25	35	34	28
May	39	27	36	34	47	46
June	33	41	33	29	24	40
July	33	24	29	20	37	35
August	24	28	37	26	36	29
September	31	39	39	38	35	28
Jan to Sept Total	279	286	286	281	328	304
October	46	48	42	37	31	
November	52	48	49	60	38	
December	43	52	52	34	47	
Total	420	434	429	412	444	

Pedestrian Safety #6 5 3/19/2010 CountyStat

Figure 3: Pedestrian collisions in Montgomery County since 2005 (Note: At the time of this meeting, collision data was current as of September, 2009.)

CountyStat

- **Overtime Use:** By managing results through CountyStat, data was used to make targeted budget savings in personnel costs without impacting the safety of County residents.
  - Impact of results based accountability on the use of overtime through monitoring overtime and regularly meeting with high overtime using departments, including the Police and Fire and Rescue Departments, Department of Correction and Rehabilitation, and Department of Transportation, overtime hours and expenditures have been reduced by **149,492 overtime hours**, which translates to **$6,150,711.**

These reductions were made through the creative and collaborative efforts of County departments while maintaining a high level of service to the community. (Link to the latest CountyStat Overtime meeting) http://www.montgomerycountymd.gov/content/exec/stat/pdfs/4_30_2010_ppt.pdf)

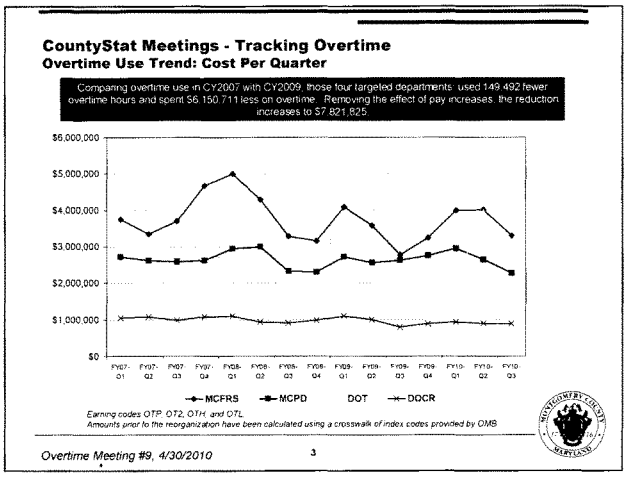


Figure 4: Tracking overtime in key departments

In addition, overtime use is monitored for all of County departments and offices on a continual basis by sending out a quarterly tracking report to directors and managers. http://www.montgomerycountymd.gov/mcgtmpl.asp?url=/content/exec/stat/reports.asp

CountyStat

Tracking Overtime Across All Departments
Overtime Hours in FY10-Q3

Department/ Office (# Authorized Positions)		FY10-Q3	FY10-Q3		FY09-Q3		Overtime Hours Per Approved Position
		Current quarter	Previous quarter	% change from previous quarter	Same quarter, one year ago	% change from one year ago	
MCFRS	(1306)	66,767	79,920	16.5%	55,355	20.6%	51.1
MCPD	(1834)	44,494	52,563	15.3%	51,322	13.3%	24.3
DOT	(1298)	134,676	112,627	19.6%	59,399	126.7%	103.8
DOCR	(550)	18,292	18,729	2.3%	17,842	2.5%	33.3
DGS	(457)	19,204	11,644	64.5%	14,227	35.0%	42.0
HHS	(1721)	5,131	4,861	5.8%	2,551	101.2%	3.0
DLC	(318)	4,043	6,533	38.1%	2,606	55.2%	12.7
DPS	(227)	824	956	13.8%	1,241	33.6%	3.6
RSC	(67)	1,346	379	255.1%	827	62.8%	20.1
REC	(139)	451	288	56.5%	612	26.3%	3.2
DEP	(153)	983	940	4.6%	851	15.5%	6.4
DTS	(176)	491	284	72.9%	364	34.9%	2.8
FIN	(129)	93	281		63		0.7
Total		297,241	290,281	2.4%	207,639	43.2%	

Shown are executive departments and offices that had at least 300 hours or $10,000 in overtime costs in a quarter.
Red: > 20% increase; Yellow: 0 – 20% increase; Green: 0% increase or any decrease

Overtime Meeting #9, 4/30/2010 6

Figure 5: Tracking County-wide overtime use (quarterly data tracking)

- In addition to these major County initiatives, a host of other cost saving and service/efficiency improvements have been made since the start of the CountyStat initiative two and one half years ago:

  ADR – direct savings in overtime use due to reduced administrative leave during the Alternative Dispute Resolution process
  http://www.montgomerycountymd.gov/content/exec/stat/pdfs/3_14_08_PPT.pdf

  Paper reduction – reduced use of printing and mailing. We had a goal of reducing paper use roughly 15% in a year, thereby saving the County roughly $1 million dollars. In the time since this initial goal was set, the County has saved more than **$1.5 million dollars** and reduced environmental impact of approximately 66 million sheets of paper.
  http://www.montgomerycountymd.gov/mcgtmpl.asp?url=/content/exec/stat/reports.asp/

  Risk management – savings through targeting safety and worker's compensation programs
  http://www.montgomerycountymd.gov/content/exec/stat/pdfs/04_20_2010_ppt.pdf

  Optimized library delivery routing to decrease number of drivers and decrease fuel consumption.

Evaluated the effectiveness of the WeCar car-sharing pilot program, leading to the suspension of the pilot
http://www.montgomerycountymd.gov/content/EXEC/stat/pdfs/12_04_09_ppt.pdf

Streamlined budgeting efforts of the Positive Youth Initiative by creating a system of cross-agency resource collaboration
http://www.montgomerycountymd.gov/content/EXEC/stat/pdfs/8_28_09_ppt.pdf)

Created new system for tracking disability retirement that will lead to less instances of fraud and greater accountability
http://www.montgomerycountymd.gov/content/EXEC/stat/pdfs/09_01_09_ppt.pdf

Elimination of unused/minimally used mobile communication devices (phones, aircards, Blackberries, etc.) and optimization of plans to better match needs.
http://www.montgomerycountymd.gov/content/EXEC/stat/pdfs/1-19-10_ppt.pdf

Improve communication between the County (Dept. of Finance) and State Department of Taxation and Assessment to ensure all known rental properties are properly coded and principal residence credits are accurately distributed.
http://www.montgomerycountymd.gov/content/EXEC/stat/pdfs/1-19-10_ppt.pdf

A Comprehensive Data-Gathering Approach Focused on Results

Montgomery County is committed to collecting and comprehensively evaluating data from a variety of sources in order to continuously measure and improve performance. This comprehensive approach to results-based accountability is key to County government's ability to deliver results that are solely focused on our customers – Montgomery County residents and businesses.

1. **Town Hall Meetings and Budget Forums** – The County has provided a forum for free and candid dialogue and input from residents to guide County service and resource priorities. This included 20 budget forums held to specifically gather feedback on the budget as well as 45 town hall meetings, online chats, and call-in TV shows where residents could ask questions and provide input to the County on a variety of topics.

2. **Resident Survey** – This survey has been conducted bi-annually to seek input and feedback from County residents on what is working well and what is not and to communicate their priorities for community planning and resources. The survey results are being monitored through departments' performance plans.
http://www.montgomerycountymd.gov/content/pio/pdfs/2009_resident_survey_report.pdf

3. **MC311 (Constituent Relationship Management System)** – The County has developed and implemented a centralized 311 call center and constituent relationship management system (CRM). MC311 is a single, one-stop phone number for information, complaints, and requests, and a user-friendly website will provide customers with a County government that listens well, performs more efficiently and effectively, and is held accountable by systematically tracking data that will inform decisions about changes in service delivery and investment of County resources. Also, it will save money – there are already more than $10 million in projected savings between the current year and next year. As part of the County's results-based approach, data from this system will be used to monitor and improve government performance by setting standards for service delivery and timeliness. http://www3.montgomerycountymd.gov/311/

4. **ERP (Enterprise Resources Planning System)** – The County is modernizing its core business systems to improve efficiency, effectiveness, and responsiveness. ERP will provide a significant upgrade to the County's financial, procurement, human resources, and budgeting systems; will streamline business processes; and will produce enhanced reports for data-driven decision making – all key to improving customer results.

5. **Internal Customer Survey** – On a yearly basis, County managers are surveyed on the services provided by departments with significant internal customers (i.e. Technology Services, Management and Budget, Human Resources, General Services, etc.) Its purpose is to evaluate the quality of those services, pinpoint opportunities to improve, and collaboratively develop strategies to do so. http://www.montgomerycountymd.gov/content/EXEC/stat/pdfs/01_22_10_ppt.pdf

6. **Government-Wide Quarterly Data Tracking and Reporting** – Transparency is the cornerstone of the County's Results-Based Accountability System. Key data is regularly shared and distributed on operational issues of government-wide concern. This encourages departments to track themselves over time, compare themselves to other departments, and collaboratively work to improve. These reports include overtime use, risk management, paper reduction, and other important data points. http://www.montgomerycountymd.gov/mcgtmpl.asp?url=/content/exec/stat/reports.asp)

7. **American Recovery and Reinvestment Act (ARRA) Stimulus Fund Tracking** – In line with federal and state leadership, Montgomery County has made accountability on this issue a priority. The County tracks detailed data on ARRA spending, including its intended outcomes of job retention and creation, through its Recovery and Reinvestment Tracking System as they relate to eight Montgomery County Results. http://www.montgomerycountymd.gov/recovery

CountyStat

Transparency

- The County is committed to monitoring and improving performance in full view of the public.

- All CountyStat meetings are advertised in advance and are open to the public. Information gathered, analyzed, and disseminated by CountyStat is frequently used by the media and the public.

- Detailed information on all of the County's performance efforts is available via the web.
  - CountyStat initiative (Link - http://www.montgomerycountymd.gov/countystat) This site highlights CountyStat's work and presents the detailed analysis conducted for departments and cross-agency initiatives. All presentations, memos, and reports are collected here.

  - All departments' performance measures are publicly available and regularly updated in an online dashboard. This online reporting system provides greater transparency into County performance and increases public accountability by tracking and reporting departments' progress on each of their headline measures. (Link - http://www2.montgomerycountymd.gov/countystat/)

Performance Search

Department: HEALTH & HUMAN SERVICES

Result Area: Please Select

Measure Type: Headline Measure

Search

Glossary of Terms

Results Area: The Eight Priority Objectives developed by a group of 150 community representatives during the 2006 County Executive Leggett Transition.

Headline Measure: Outcome-based measures that monitor results achieved by County departments.

Supporting Measure: Measures that link programmatic achievements to departmental Headline Performance Measures.

* If you are having trouble viewing the measure details, please enable your pop-up blocker.

If you have any questions or comments relating to the Montgomery County Government Performance Dashboard, please contact CountyStat at countystat.montgomery@montgomerycountymd.gov

CountyStat

Dept	Measure Text	Detail	Current Value	Previous Value	Fiscal Year	Performance
HHS	Percent of HHS client cases that demonstrate beneficial impact from received services	Detail	95.0%	93.0%	FY10	
HHS	Weighted composite of HHS client cases that demonstrate beneficial impact from received services: Improved health and wellness (1-100 scale)	Detail	61.0%	65.2%	FY09	
HHS	Weighted composite score of HHS client cases that demonstrate beneficial impact from received services: Greater independence (1-100 scale)	Detail	80.0%	80.9%	FY09	
HHS	Weighted composite score of HHS client cases that demonstrate beneficial impact from received services: Risk mitigation (1-100 scale)	Detail	78.1%	89.8%	FY09	
HHS	New cases of Chlamydia per 100,000 population in Montgomery County: All ages	Detail	205.3	177.8	FY09	

Figure 6: Montgomery County Performance Dashboard

- All components of the Results-Based Accountability System are likewise available. This site provides an overview of the County's results-based accountability system and shows the results achieved. http://www.montgomerycountymd.gov/results

- To help Montgomery County residents track how our nation's stimulus funds are being used to improve the economy and make progress on Montgomery County Results, a website was developed to monitor and report the use and impact of funding received under the American Recovery and Reinvestment Act (ARRA). http://www.montgomerycountymd.gov/recovery

Lessons Learned

1. **Ensure commitment and support for performance management at the highest level:** Ultimately, performance management, and Stat in particular, is a leadership tool for creating effective management strategies. These tools are of limited utility without a serious commitment from government leaders to use performance data to make decisions and promote this strategy throughout the organization. For that reason County-Stat was established within the Office of the County Executive.

2. **Partner with the community:** Seeking input from a diverse group of community representatives to develop "priorities" will ensure that the focus is kept on "community priorities" therefore improving their quality of life.

3. **Develop buy-in from directors and managers:** The Stat process is a good way to monitor progress by top leaders at different governmental levels, but it can and should also be a good management tool for those operating programs at the ground level. To accomplish this, the strategy must be communicated and understood by those leaders.

Departmental leadership, in turn, will communicate those strategies and priorities down to line employees, without whom results cannot be achieved. Some of your leaders may get on board more quickly than others. It's up to the chief executive, to make it clear that the use of this tool is a positive step that will help the department and the County as a whole.

4. **Develop buy-in from legislative branch:** It is equally important to have the support of legislators, who have final authority on budget decisions impacting government operations. Working collaboratively with this group to use data, and support the data-driven decision-making model put in place by the Executive Branch, is vital.

5. **Establish collaborative relationships:** Departments who came to understand the value of the Stat process and data-driven decision-making typically had the most improved outcomes. This is linked to the collaborative relationships established between departments and CountyStat. By creating partnerships and a positive and open working environment between performance management staff and department staff, speedier progress can be made.

6. **Focus on what matters:** Rather than try to measure everything the County does, leaders instead should opt to focus intently on a small set of outcome focused measures. Those measures reflect the most important aspects of County operations, and encourage departments to focus strategies and resources on those core components. This should be an ongoing and continuous process that reflects inevitable change in government resources, priorities and resident need.

7. **Have dedicated staff manage performance and assist departments:** Departments often do not have the staff capacity or expertise to do the complex analysis, benchmarking, and surveying required to evaluate performance. Additionally, having staff separate from departments provides an impartial set of eyes that allows for clearer assessment and follow-up.

8. **Take a long term, comprehensive view:** Any single tool cannot be used in isolation to improve results. Montgomery County determined that a comprehensive approach to performance management is important to firmly establishing results-based accountability within the government. CountyStat, combined with MC311, ERP, and other performance and data-focus tools, work together to deliver results to County residents.

9. **Develop capacity within departments/offices to measure and manage performance:** As I noted previously, departments don't necessarily have the capacity to manage performance at the level required. CountyStat worked with departments to increase their internal ability to continually monitor and assess operational performance, in order to construct more self-sufficient and outcome-focused departments. With the proper

training, tools, awareness, and enforcement mechanisms, departments become more self-sufficient in managing their data and are able to more effectively identify strategies for improvement.

- *CountyStat Rotational Fellowship Program* – This is an example of a capacity building opportunity was developed to address the needs of County departments. Selected Montgomery County government employees can spend half of their work time, over a ten week period, in the CountyStat office. This Rotational Fellowship helps participants improve their data gathering/analysis skills and understand the value of data-driven and results-focused thinking and decision making.

10. **Process is valuable:** The process in putting together Department's measures is as valuable as the measures themselves. It forces self reflection and the prioritization of core programming elements. This has been especially valuable during these difficult fiscal times. The reduction of all programs is difficult, but quantitative data that demonstrates impact and usage makes this process smoother and ensures that scarce resources are devoted to the most beneficial programs.

11. **Consistent follow-up:** To make progress and ensure results, relentless follow up with departments on their performance goals and commitments is required. Initially, there may be an attitude that performance management will fade away, so it is necessary to continue to push departments to measure and manage their performance until it becomes part of the culture.

12. **Separate the Stat process from the budget process – *have a distinct performance monitoring process*:** : having the Stat program within the Office of the County Executive and a dedicated staff solely focused on performance, ensures that it is given priority and attention at all levels. For a variety of reasons, it is important to keep the Stat process distinct from the budget process. The Stat process should focus on operational performance impartially, without the added role of budgeting. Clearly, the results from County Stat will often ultimately feed into the budget formulation process, informing a manager's budget recommendations and decisions. But budget decisions are not driving the County Stat process.

Applications to the Federal Government in Collaboration with State and Local Government

Using Performance Stat to Make Decisions

- Using a performance management tool like CountyStat can be used to track the results of agencies with field offices and branches across the country.

- Key agency leaders and staff can be brought in to discuss agency-wide performance issues with the goal of reviewing outcomes, comparing progress, and sharing strategies.

- Similarly, large agencies that have many different offices, bureaus, etc., with disparate programs and goals would have similar needs for a Stat-type program.

  - While these offices and bureaus may conduct very different activities and programs, ultimately they are all working toward a common mission (i.e. Dept. of Education – strengthen the Federal commitment to assuring access to equal educational opportunity for every individual; Dept. of Agriculture – provide leadership on food, agriculture, natural resources, and related issues based on sound public policy, the best available science, and efficient management, etc.).

  - A Stat-type program would review agency outcomes, how individual unit outcomes roll-up to deliver those results, and highlight where improvement is required.

- Cross agency issues could also be evaluated in this manner, requiring that different agency leaders are brought in to discuss performance issues of concern.

  - The foreclosure crisis is an example of a cross-cutting issue that requires the work of multiple Federal agencies that, while all working on different aspects of this issue, are ultimately all working toward the same result: a lower foreclosure rate across the country.

Using Quality Data to Evaluate Performance of common programs at All Levels of Government

- Rich, well-defined data sources can be used by all levels of government for performance management: the federal government, state government, and local jurisdictions. Having rich, well-defined data that is collected by all jurisdictions allows the levels of government to work together on common performance goals and improves the efficiency of the performance management system itself even for performance management needs that are unique to the jurisdiction.

  - Traffic collision data is a rich data source, but it is not as well-defined as crime data and therefore allows for fewer connections between the levels of government. Montgomery County uses traffic collision data frequently in its management of pedestrian safety. This data has been used to evaluate programmatic success (i.e. Safe Routes to Schools), to target opportunities to improve (i.e. increasing public

awareness about parking lot safety), and make resource decisions (i.e. targeting 4 high incident areas).

- Presently, there is a disconnect from the state to federal level, where common traffic collision data is not tracked. Stronger data coordination across levels of government would promote benchmarking and best practice sharing among local jurisdictions across the country on this issue.

- Federal authorities could use this data similarly to connect high level resource decisions with on the ground results.

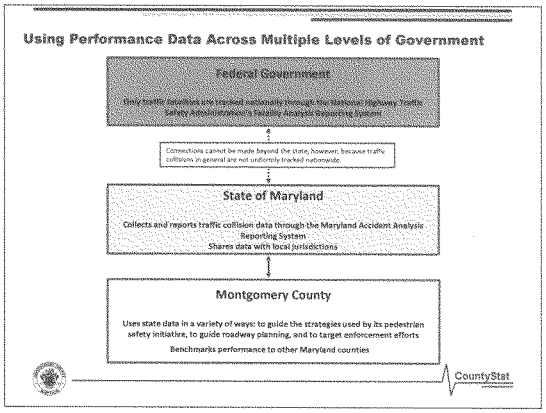


Figure 7: Using Quality Data to Evaluate Performance at All Levels of Government

Setting Common, Meaningful Goals to Promote Effective Intergovernmental Collaboration

- Setting mutually agreed upon goals would promote more effective collaboration among the three levels of government in order to achieve results in areas of common concern. For most issues, each level of government has its own way of measuring progress and a desire to dictate how the level below should perform and measure progress. However, top down goal setting and progress reporting is not the best way to achieve the objective.

  - Programs funded through ARRA are an overarching example of how effective collaboration at all three levels of government – federal, state and local – could produce a meaningful data-driven goal setting and performance measurement system. Please refer to Montgomery County's ARRA Performance Tracking: http://www.montgomerycountymd.gov/recovery

- Opportunities for Collaboration in Health Reform Legislation: Montgomery County is a fully integrated health and human services department that has links with multiple state departments delivering services to at risk and vulnerable populations and has policy and funding relationships with multiple administrations within Federal HHS and with HUD, Department of Labor and the Department of Education to name a few.

  For the past three years we have been working on issues of integration and interoperability and have engaged with several federal agencies including the Administration for Children and Families, Substance Abuse and Mental Health Services Administration, Health Resources and Services Administration, Center for Medicare and Medicaid Services, the Office of the National Coordinator for Health Information Technology, several National Trade Organizations, our State Partner Agencies, National Foundations and our Congressional Delegation to build support for an integrated health and human services practice and infrastructure framework. The clients, patients and end users are receiving services at the level of local government. Federal policies and funding decisions have the most impact at the local level though the Federal mandates are passed through the State Departments with whom we have strong partnerships. The social determinants or factors that impact health and well being outcomes, safety of children and adults and will help bridge the educational achievement gap require a comprehensive and integrated eligibility and service delivery public-private system of care. To build and strengthen this system policy, practice and infrastructure need to be addressed. Specifically the issues related to:

  1. Alignment of confidentiality practices between HIPAA and 42 CFR need to be addressed
  2. Create the Ability to Blend and Braid Funds while preserving high accountability standards
  3. Address Evidence Based Practice improvements to better identify return on investment
  4. Improve the technology framework to support integration
  5. Strengthen integrated service delivery through place based initiatives
  6. Policy and practice supports a public-private integrated and interoperable framework

  There are several federal opportunities where the work of local government clearly provides a demonstration or laboratory site. Some of these current and upcoming place based opportunities are as follows:

  1. Health Reform implementation
  2. TANF Reauthorization
  3. Medicaid Waivers

4. Home and Community-based Services
5. Universal Pre-K
6. Employment Strategies
7. Housing First and 10 year plans to end chronic Homelessness
8. New American Strategies
9. Equity in Service Delivery
10. Role of Technology in Supporting Integrated Practice through HIT and the importance of integrated and express lane eligibility

Montgomery County, MD has long been perceived as a leader in the field. We integrated over 4 departments 15 years ago and have been working to deepen our integrated practice over this time. The current opportunities presented by the various federal initiatives and groundbreaking health reform legislation presents the perfect storm to deepen our work, improve outcomes for our clients and increase efficiencies within the service delivery system. For additional information, please contact Uma S. Ahluwalia, Director, Department of Health and Humans Services in Montgomery County at 240 777-1266 or via email at Uma.Ahluwalia@montgomerycountymd.gov.

- Ideally, a Stat process, working in sync and based on jointly agreed goals, can prove beneficial to all who are monitoring and managing this and other programs. Such a joint effort would also reduce a significant burden placed on both local and state governments in having to devise and report separate metrics to the federal government that are not necessarily meaningful from the local perspective.

Making Performance Measurement/Stat Process a Condition of Federal Grant Funding

- Performance management at the local level for targeted federal priorities would enable the federal government to distribute grant awards to the most appropriate recipients. It would also facilitate efficient performance reporting of on-the-ground results.

  - Public safety is a priority at all levels of government, and the federal Staffing for Adequate Fire and Emergency Response (SAFER) grant program demonstrates how a Federal program can be implemented to provide a measurable benefit at the local level. CountyStat has been the mechanism through which data was identified, analyzed, and communicated, providing an important tool to ensure future grant funding.

  - This grant opportunity provides staffing and offsets initial salary costs enabling the County to hire firefighter paramedics for its four person ALS staffing initiative. CountyStat served as the tool to measure the investment through data analysis related

to critical ALS response times and return on the staffing investment. CountyStat connects each of these pieces and measures the progress and success of this initiative.

- Implementation of the SAFER program has had a positive local impact in staffing, firefighter and occupant safety, and advanced life support (ALS) response times.

- For example, Montgomery County Fire and Rescue(MCFRS) has demonstrated a 20% decrease in ALS response time in areas of the County due to the four person ALS staffing initiative and the SAFER grant program.

- The SAFER grant program has made a huge difference in the lives of County residents and the County's first responders.

Linking Stat Measures to Federal/State Legal Requirements and Using Stat to Measure Achievement Beyond County Government Actions/Efforts

- Some County government programs involve meeting State and Federal legal requirements or standards. Stat and performance measurement provide the mechanism to communicate measurable results to the public and other government entities and put the focus on key goals and priorities.

  - For example, in the County's Department of Environmental Protection (DEP), the Federal Clean Water Act water quality criteria apply to the County's rivers and lakes. A state-issued NPDES Municipal Separate Storm Sewer system (MS4) permit governs the quantity and quality of the stormwater runoff coming from our urban and suburban areas. Pollutant-loading restrictions on nutrients and sediment to restore the Chesapeake Bay is a complicated effort requiring inter-jurisdictional and interstate collaboration that is now driven by federal actions and the direct involvement of the EPA.

  - CountyStat links the performance of DEP to the achievement of such external legal requirements and standards. For example, one of DEP's measures is *Pollutant Load Reductions Needed to Meet Water Quality Standards*. Such metrics tie directly into the state's measurements at the larger basin level and help the state to determine the Watershed Implementation Plans between watersheds within the state. Monitoring at the local level helps the state to finesse its own data set, shift reduction allocations around to the waterbodies that are the biggest contributors of pollution, and helps to achieve the overall goal of a cleaner Bay.

  - By meeting legal requirements the County also meets external environmental indicators that residents can readily identify with and are concerned about: are our

waters fishable and swimmable? The environmental program measure *Index of Biological Integrity (IBI) Scores in County Watersheds* evaluates whether our water bodies are supporting a well-functioning, healthy, and complex ecosystem.

- Such performance measures speak to conditions that the best efforts and input of government agencies, acting alone, cannot possibly meet. Stormwater runoff is influenced by leaking cars which leave auto fluids on our streets, pet waste, trash and litter, and lawn chemicals that people use in their yards.

- No regulation in the world can catch every small, individual action that generates the pollution that could wind up in our waters. Treating all that before it flows into our streams and rivers is the ultimate goal, but it is sometimes prohibitively costly or logistically impossible.

- Having such performance indicators in place emphasizes that the mission, budget, and effort of our agencies' programs are directed toward the goal of providing our citizens a clean, healthy, and sustainable environment.

- Local and state governments have often served as laboratories for progressive policies and practices which frequently laid the groundwork for change in other localities and states and, ultimately, on the federal level. Montgomery County has developed a compendium of best practices it uses at the local level that may be helpful as an approach is developed to make government more effective and efficient. For a copy of the *Montgomery County Best Practices*, please contact Fariba Kassiri, Assistant Chief Administrative Officer at 240 777-2512 or via email at Fariba.Kassiri@Montgomerycountymd.gov.

- In a period of two and half years, Montgomery County has progressed tremendously toward its goal of fostering a culture of accountability in County government. However, collaboration with our other partners at Federal and State levels can help us to take this effort to the next level.

Montgomery County, Maryland

Office of the County Executive: Contacts

The Honorable Isiah Leggett
County Executive
Ike.Leggett@montgomerycountymd.gov
240-777-2550
Assistant: Cindy Sullivan

Timothy L. Firestine
Chief Administrative Officer
Timothy.Firestine@montgomerycountymd.gov
240-777-2519

Fariba Kassiri
Assistant Chief Administrative Officer
Fariba.Kassiri@montgomerycountymd.gov
240-777-2500

Christopher Cihlar, Ph.D.
CountyStat Manager
Chris.Cihlar@montgomerycountymd.gov
240-777-2627

Ian Boyd
CountyStat Analyst
Ian.Boyd@montgomerycountymd.gov

Victoria Buckland
CountyStat Analyst
Victoria.Buckland@montgomerycountymd.gov

Barbara Cleary, Ph.D.
CountyStat Analyst
Barbara.Cleary@montgomerycountymd.gov

Melissa King
CountyStat Analyst
Melissa.King@montgomerycountymd.gov

Senator WARNER. Thank you, Executive Leggett.

Deputy Mayor Thomaskutty?

STATEMENT OF CHRISTOPHER THOMASKUTTY, DEPUTY MAYOR, PUBLIC SAFETY AND OPERATIONS, BALTIMORE, MARYLAND

Mr. THOMASKUTTY. Thank you, Senator, and Senator Cardin and Congressman Sarbanes. It is definitely an honor to be here, and it is an important hearing, and we appreciate your interest in what we have been doing. I am here for my mayor, Mayor Rawlings-Blake. She is out of town today. You mentioned earlier that I would not be here but for the fact that Mayor O'Malley hired me in 2003 to work for him in CitiStat.

Governor O'Malley. He was a great hire.

[Laughter.]

Mr. THOMASKUTTY. There are many others who he has helped groom and bring along to focus on performance. I think those of us who live in Maryland are very fortunate that we have an executive, a Governor, who understands governance and performance the way that he does, and it has translated throughout the counties and maintained in Baltimore City.

You have heard a lot of very good examples, I think, of specific improvements that we have seen at the State level, and especially in Montgomery County. What I would like to focus my few minutes on are some of the hidden benefits and some of the aspects of our strategy that I think are beneficial, and there may be tangible links to the Federal Government.

First off, as you have heard, this is the 10-year anniversary. There is a longevity to our strategy that has lasted. I think that is because there is a very good fit between what is needed in our city and what this strategy brings. CitiStat has also helped, I think, three different mayors through their transition. What probably started out as a question, would CitiStat last without that executive leadership from Mayor O'Malley, has now turned into an answer that it is a tool for an incoming executive. It flattens that learning curve because you have an exceptional opportunity to learn very quickly the strengths, the weaknesses of your operations and of your et.

I think Mayor Rawlings-Blake was hit with a pretty nasty snowstorm within days of her taking office. Within weeks, by reading a lot of these executive memorandums, by looking at a lot of the analysis, by attending CitiStat meetings, she was able to learn her agencies and learn her managers quickly and well. She was able to turn the ship toward the direction that she wanted to see the city move in much quicker than I think other executives who have not taken advantage of this type of strategy.

One of the other things I just want to talk about in terms of the speed with which an executive can put their stamp on an operation. We are 10 feet from each other now. Imagine if you got to be 10 feet from each of your managers on a bi-weekly basis. Communication improves, what your expectations is better, and you quickly see, as the Governor mentioned, who your stars are. And I think one of the things that we have been able to do is develop a cadre of leaders in the city over the last 10 years who are man-

aging based on performance, and that is incredibly important for a large organization to get that mentality and the culture of leadership ingrained. It started with Mayor O'Malley, and it has continued under the last two mayors.

It has also enabled us, I think—an unexpected benefit is a lot of our CitiStat staff—and we are joined by Spencer Nichols, one of my staff members today. We have been able to groom and place leaders throughout our government, chiefs of staff, department heads, division chiefs, all who have been brought up in this mentality of what gets measured gets done.

A few of the other things I wanted to point out. Over 10 years we have evolved. Every successful management strategy must adapt to its people, to its time, and to its resources. What once was a process that focused on an individual agency or an individual department, we have now evolved to where we are focusing on policy issues. As Senator Warner mentioned, very few public problems can be isolated to a particular department.

For example, CleanStat, our city requires a tremendous amount of effort and collaboration to try to keep it clean. Our Bureau of Solid Waste cannot do that by themselves. It involves our Recreation Department, our Transportation Department, our housing code enforcement officials. We have been using CleanStat as a method of unifying six or seven different operating groups under a common theme and under common principles with common objectives.

With the past year, we have revised our collection process. We have increased—as I think both Senator Cardin and Congressman Sarbanes have seen, our recycling collections are up 53 percent in a single year. That is unprecedented change for a city like Baltimore. We have seen an 80-percent increase in sanitation enforcement citations because we were able to move resources to where we needed them. And we are finally obtaining convictions in court for illegal dumping. That is done by the housing department. We used to only talk about it with the trash department. Everybody has got to be on the same page to have good, effective results.

The next example may be one we want to think about the most, and that is GunStat. This is where we have a session and a meeting on a monthly basis based on a common shared goal across city, county, State, and Federal levels of government. And I have to say, without, I think, the Governor's participation from the State agencies and those that are involved in the State of Maryland, it would not be as successful. But we have the police department, the county police, State police, all the State agencies that are involved in supervision, our local State's authority and our U.S. Attorney, all focused on targeted enforcement and increasing sentences for those who are carrying illegal guns. You know, I will be frank. At the beginning part of the struggle is getting folks who do not report to the same person. You know, this is not about the same boss. It is about the same goal. And once everybody understood that here is what we all share in common in terms of what the outcome should be, you begin to develop the trust around data sharing. I am not a law enforcement official. There was some initial concern that why should I get access to certain data, you should, but we got to the point where we had certain agreements about what would be

shared and what would not, and now we are all looking at the same amount of data, and it has been incredibly effective at the city level.

Just to give you an example—and I am purposely showing you a map that we did not create. Probably one of the Governor's staffers created this map. This is showing in the city of Baltimore. You know, we mentioned this earlier. You can collect all the data you want, but if you do not have a system in place to take action on that data, you are wasting your time. This shows where we have mandatory releasees under the age of 25 who have been out of jail for less than 6 months of two or more federally significant convictions. We know based on a year-plus, almost 2 years of solid data collection on felony gun crimes that that is the population of people we need to be touching. The Governor has people in place in his VPI unit who are in regular contact with them from the State level. And we at the city level have patrol officers on their post who are aware of these particular individuals who have served their time, but we want to make sure they know that we know where they are, that we love them and we want them to see us. So they see a coordination between the city and the State that has never been there before, and as the Governor mentioned, we are seeing the results in our homicide reductions.

Another evolution of our strategy I think has to do with the way we are beginning to make links with our budgeting process and with our operations. Outcome budgeting is the process we brought to the city this past year, and a long story short, you normally build your budgets, you start from the baseline of where you were the previous year as opposed to the objectives you want to accomplish. The intent of outcome budgeting is to say what are your priorities, what do you really want to accomplish, and then you start putting your dollars at what you think is important. And through a pretty intensive process, you are able to determine what your priorities are. And so you have heard this many times. We have tried to start taking the scalpel approach instead of the sword. Instead of across-the-board cuts, we are able to see what is the incremental impact of an increase here or a decrease there, and that has been able to help us have in very difficult austere budget times a lot more confidence in what we are funding and what we are not funding and explaining that to our citizens better.

Here is just a sample of what an outcome budgeting template would look like for us. I just grabbed a water example from our Water Bureau. We unapologetically in CitiStat have always been heavily focused on outputs. So this attention to purchasing outcomes, to funding the outcomes that you want is different, and it is not always simple to measure an outcome, at least at the city level. But we are becoming more and more comfortable with taking a step back on a quarterly basis, looking at these broad city-wide outcome measures, and bringing the same level of attention through our Stat meetings that we typically do through more of your everyday operational inputs and outputs. They are much easier to measure.

Finally, just some quick thoughts on the application. I think both the Governor and the county executive have spoken to some of this. I am not a management professor, and I do not know the Federal

Government all that well. But the four tenets that we use are effective. I think they are effective if you are running a coffee shop or if you are running a $2 or $4 billion operation.

The first thing I would say is learn the lesson that we learned from the Governor, and that is just get started, pick an operation, pick an agency, pick a section, pick a sector, and just get started. I think there are clear applications, as I have seen your BorderStat and others in the Federal Government that are doing direct service delivery, especially those where there are clear lines of authority and accountability. The application there I think is much simpler and much more straightforward.

But for those Federal functions and agencies that are perhaps less involved in direct service delivery, that may be pass-throughs of Federal funds or more focused on compliance, I think there is something to this collaborative model that we have started along the lines of GunStat with multiple levels of government. Again, not focused on the same executive, but focused on the same goals. And as long as you can agree to a common shared outcome, you can find smart people to help you figure out the way of measuring it, sharing information, and then you have to figure out the way to keep the ball moving forward in terms of that executive interaction. There may be multiple executives at the table, but I think that is possible.

There is a dynamic that I think the Governor is probably in the best position to speak to, the geographic size. In the city we have the benefit of crossing the street to find many of our managers. At the State level, and especially at the Federal level, just the lack of proximity to some of those who you are managing is something that has to be thought through. There is definitely an appeal and an advantage in managing people you can talk to and see face to face. There is a limit to what you can do via videoconferencing and other things. I think there is a way of applying the strategy to specific divisions within the departments, within agencies, that folks can think through. I think there is definitely promise. I think the four tenets are solid, and I very much appreciate the opportunity to tell you a little bit more about the city and to think through some of the ways this could help the Federal Government.

[The prepared statement of Mr. Thomaskutty follows:]

STEPHANIE RAWLINGS-BLAKE
Mayor
250 City Hall, 100 North Holliday Street
Baltimore, Maryland 21202

July 9, 2010

U.S. Senate Budget Committee Field Hearing
PerformanceStat: Measuring Priorities Progress and Results
Written Testimony of Christopher Thomaskutty, Deputy Mayor of Baltimore City

I. Introduction

Mr. Chairman and honorable members of the committee, thank you for the honor of representing Mayor Stephanie Rawlings-Blake and Baltimore City at this incredibly important hearing. I consider myself fortunate to have a Governor who actually understands management and governance at both the local and state level. In 2003, then Mayor Martin O'Malley hired me as a CitiStat Analyst, and I have watched his visionary idea of CitiStat form a solid foundation for three different mayoral administrations.

You have heard expert testimony and specific examples from Governor O'Malley and County Executive Leggett on the transformative power of PerformanceStat in Maryland and in Montgomery County. I will spend my time with you on some less visible, but equally important, features of our CitiStat strategy. In particular, I want to focus on the following:

- CitiStat's role in ensuring smooth transitions of power,
- the evolution and maturation of the CitiStat strategy,
- the application of PerformanceStat to the federal government.

II. Role of CitiStat in Mayoral Transitions--Flattening the Learning Curve

CitiStat has thrived for ten years under different leadership styles because the strategy is a perfect fit for Baltimore City government. An unanticipated benefit of CitiStat is that it has eased the transition for the last two mayors. Mayor Rawlings-Blake needed only weeks to immerse herself in the policy issues and operations of her major agencies. Our Chief Executive receives detailed analytical memos on each agency that help her quickly

Phone: 410.396.3835 fax: 410.576.9425 e-mail: mayor@baltimorecity.gov

STEPHANIE RAWLINGS-BLAKE
Mayor
250 City Hall, 100 North Holliday Street
Baltimore, Maryland 21202

identify the strengths and weaknesses of her departments as well as the frustrations associated with our rule obsessed bureaucracy. During CitiStat meetings, the Mayor has the ability to directly instill her beliefs, priorities, and expectations to department heads and middle managers without a filter. Whether thru direct conversation or via one-page follow-up memos, City managers and staff leave each meeting with a clear sense of the Mayor's priorities and expectations. This ability to "turn the ship" quickly has proved invaluable to Mayor Rawlings-Blake as we have continued a historic homicide reduction, managed thru a $121 million budget deficit, and passed sweeping ethics reform and pension reform legislation during her first few months in office.

III. Evolution and Maturation of CitiStat

The four tenets of CitiStat—accurate and timely information shared by all, rapid deployment of resources, effective tactics and strategies, and relentless follow-up and assessment—should always serve as the cornerstone of our strategy. However, every successful management strategy evolves and adapts to its environment. The evolution of CitiStat is most clearly seen in (1) our adaptation of a collaborative meeting model focused on specific policy areas, and (2) the incorporation of Outcome-Based Budgeting into our management strategy.

- **Multi-Agency Meetings Based on Shared Goals, not Direct Authority.** Most of our traditional meetings are focused on the operations of a single agency or department (and that's the way it should be for other cities initiating a CitiStat strategy). CitiStat promotes accountability, and we have never been shy about expecting a lot from our department heads. However, few complex public problems can be confined to a single agency within a large bureaucracy. And in Baltimore, our most difficult policy issues, require better coordination among local, state, and federal governments as well as our private and non-profit partners. Within the City government, we host Clean Stat, which is a collection of agencies focused on metrics and strategies to keep Baltimore clean. A recent conversion to a new collection model has allowed Baltimore City to save over $7 million a year while increasing our recycling tonnage by 53 percent—thus, achieving government's Holy Grail by simultaneously cutting costs while improving citizen services. We expect to collect our 50,000,000th pound of recycling under our "One Plus One" collection plan later this month.

Phone: 410.396.3835 fax: 410.576.9425 e-mail: mayor@baltimorecity.gov

STEPHANIE RAWLINGS-BLAKE
Mayor
250 City Hall, 100 North Holliday Street
Baltimore, Maryland 21202

Gun Stat is perhaps the best example of this collaborative approach to CitiStat. Through GunStat, local, state and federal law enforcement and prosecution agencies come together once a month to share information about felony gun cases and defendants. Before each meeting, agencies submit reports that include a wide range of data about each of the pending cases and provide information about current performance. The purpose of GunStat is to ensure that felony gun cases and defendants are prioritized by all law enforcement, prosecution and community supervision agencies and that all agencies involved are taking necessary steps to bring solid cases to trial.

GunStat tracks all felony gun cases excluding homicides. We collect specific information on each defendant and track each case through its final disposition. Data collected by GunStat includes: the gun offense, amount of bail set, whether the defendant is detained or released on bail, prior arrest and conviction history, parole and probation status, case disposition and sentencing. In addition, GunStat tracks the location of gun seized and is used to help prioritize cases for our Gun Trace Task Force.

GunStat provides real time information about felony gun cases as they progress through the criminal justice system. Through GunStat, law enforcement, prosecution and community supervision agencies are more accountable and the City is able to provide real time information about bail and sentencing determinations in these cases.

- **Formalizing the Link between Performance Management and Budgeting.** CitiStat has always paid attention to the bottom line. Hundreds of millions of dollars have been saved as a result of better fiscal management, eliminating waste, reducing overtime, etc. However, until this past year, we had never fully integrated our budgeting process into our performance management infrastructure. Though informed greatly by lessons learned during a year's worth of CitiStat meetings, we always created the next year's budget by starting with the previous year's spending levels. Once programs were funded, it often took a crisis or exceptionally poor performance to remove those funds from the budget. Our new budgeting process, Outcome Based Budgeting, aligns resources with results. It is a natural extension of CitiStat because it focuses the allocation of scarce resources on services and programs that provide the most impact per dollar spent (i.e., value). In an era of austerity, Outcome Budgeting provides a clearer way to see the true impact of budget reductions on performance and service delivery. As opposed to relying on across the board cuts, we have built an infrastructure that enables us to fund the Mayor's

Phone: 410.396.3835 fax: 410.576.9425 e-mail: mayor@baltimorecity.gov

STEPHANIE RAWLINGS-BLAKE
Mayor
250 City Hall, 100 North Holliday Street
Baltimore, Maryland 21202

priorities and justify the de-funding of low priority or low performing programs. This transition has not been painless, and it is true that traditional CitiStat metrics trend toward output measures, not outcome measures. Nonetheless, we have discovered that one can maintain a laser like focus on daily operational metrics and still set aside time to step back and review outcome measures that may only mature on a monthly, quarterly, or annual basis.

III. Potential Application for Federal Government and Beyond

The four tenets of CitiStat have been proven to work in cities, counties and states across our country. While I am neither a management professor nor a federal government expert, I do know how to use data to make government run better, faster and cheaper. I am convinced that the CitiStat strategy can be adapted to improve service delivery, policy development, and accountability within the federal government sector. People in this room and Stat converts throughout this country are willing to help figure it out. The opportunity is perhaps most easily applied to any program, division, or department that is involved in citizen service delivery. However, our collaborative model and links to outcome budgeting suggest that even federal agencies that are not direct service providers can utilize our intensive Stat meeting model.

Phone: 410.396.3835 fax: 410.576.9425 e-mail: mayor@baltimorecity.gov

Senator WARNER. Thank you both for excellent testimony from both of you, and I am just going to ask two questions, and either one of you can respond to both or either one.

One, it just seems to me that as I look at—from the Governor's presentation and the county's and the city's presentation, a lot of this is pre-framed by what questions are asked. And I would be curious from both of you who is making the determination of what Stat is being measured or what outcome is being measured. Do you solicit collaboration from the work force in the county executive's position in terms of the council? How do we make sure we are asking the right questions, No. 1, in terms of what we are going to measure?

And then No. 2, it seems that most of the efforts here have been on relatively objective criteria which you can measure against. So, for example, as we—and this may actually—I am just going to get into your area about the budgeting piece. If we were to measure, on a CitiStat, CountyStat, or StateStat, a child's readiness for school, that readiness for school pushes us more into the policy area, and it might be health care, it might be pre-school, it might be parental supervision. You know, have you consciously in CountyStat and CitiStat tried to stay on the cleaner, more objective questions? Who gets the input? And at some point could this be drawn or is it being drawn now into actually the broader policy areas?

Mr. LEGGETT. Thank you, Senator, for your question. I think it somewhat evolves, because I think the first task is to demonstrate to people in a very clear, straightforward way what are the meaningful results. Our demonstration, for example, of the overtime used grabs the attention of a lot of people.

Senator WARNER. Right.

Mr. LEGGETT. They could see it, they could feel it, they know about it, it is there. We will—and I see that we will evolve to more subjective areas that you cannot measure quite as well. But the first thing that we have done would be to establish the value of the program itself. But until you have that buy-in, I think it would be very difficult to go to the "soft" objective areas and demonstrate the efficiencies of the program rather than to do it the other way around.

Senator WARNER. And when you started even on the —in the ability to demonstrate the effectiveness of the program, did you sit with your leadership team and try to sort through which questions, did you have your staff—how do you even decide which is your——

Mr. LEGGETT. It is all of the above, but more importantly, I think, from the people involved directly, the managers, the employees, and for us even the public itself. So our process is open. The results are online. You can see every report that we have conducted. If you want to participate, if you want at least to come in and watch what is going on, the public is invited to do so.

So we have input of the question from individual components of the work force, especially the managers, and also from average citizens.

Mr. THOMASKUTTY. And I will speak to your comment about trying to put the strategy around something like childhood readiness. That is exactly where we are going, because I think you start with

what is your immediate operational needs, and then you take that step back as to what is your city or your county or your government need. So childhood readiness, what are the factors that impact that? The mayor wants us to start ChildStat for this very reason, and we know that a kid is not going to be ready for school unless a few things happen. One, they have to be loved by their city. Two, you have to take care of them immediately upon their birth outcome. So are we taking care of the mom during the prenatal stages? When the baby is born, are they getting a home visit from a trained nurse? How are we doing the immunizations throughout their early term? Then it is being healthy and safe in their home, and there are tests, right? Honestly, you give us a lot of money for Head Start, both private Head Start and public Head Start, and there are certain providers that we have not yet started to measure, but we know we get better results from some than we do from others.

So that is what I already know and what we already know. What we do not know is how to turn the needle, how to make the investments that you are providing us, give us better outcomes than what we are currently getting. But it can be measured, and there can be a way of applying the strategy around that particular policy issue to where those at the table, nonprofits, foundations, private citizens, State agencies, city agencies, are sitting there around common objectives, and instead of every time saying, well, you need to do this differently, it may be you are developing the policy that is going to help someone else make that decision. But it is possible. It is just you have to adjust what you have seen applied successfully, I think, so far to your typical municipal operations and county operations.

Senator WARNER. It would seem to me—and I will turn this over to Senator Cardin—that if you can rank order child readiness for school and the goal is 90 percent of our kids are going to be ready for school by kindergarten and then you have to rank order that versus the other goals you have, but you can then argue as policymakers between how much prenatal versus early childhood health versus brain development activities. But until you can get that goal set—and then you have the inputs and some tools to measure, and I think this is where this—and you guys are at the lead of this, or hopefully this journey will take you all and then hopefully at some point the Federal Government behind it, because it is—you know, the notion of unlimited dollars or even dollars circa 2006, 2007, fiscal year 2008, fiscal year—I just do not think we are going to see them again anytime soon.

With that, Senator Cardin.

Senator CARDIN. Well, thank you very much, Senator Warner.

You both have said there has got to be buy-in at the highest level for it to effectively work. Can you define what you mean by that? What is required from the county executive to make this work? What is required from the mayor of Baltimore? Are you talking about your personal time? Are you talking about delegating it to another person? Give me an idea of what is required for this to work at the county level.

Mr. LEGGETT. Well, buy-in means that I fully embrace it and adopt it as a policy consideration, or me as county executive that

I show and demonstrate that level of commitment by participation, by involvement. You can delegate some of it, and the person who probably does the day-to-day operation is the chief administrative officer. For those outside of county government, it is the city manager. But I would not delegate beyond that point that it must be at that level, because the chief administrative officer is the head of the county government in terms of its day-to-day operation. All the department heads report to the chief administrative officer.

If you go much below that, I think that you lose a commitment. Again, you are making a transition. Many people, believe it or not, in government believe that they are doing an excellent job with what they have, and they have been doing it for the last 25 or 30 years and do not see a need to change. They see a narrow focus. And so you have to educate and transition them. So unless you have the people at the very top making that personal commitment, then it would be a very, very difficult challenge, as well from the legislative branch. You know as well as I do that unless there is that commitment from the top of the executive branch, the legislators are not going to be so tempted to go and make these changes on their own.

Senator CARDIN. In Baltimore City, what does it mean to have buy-in at the highest level?

Mr. THOMASKUTTY. It is the way we are going to do business. It is understood. And so the mayor has spent a lot of her personal time, especially early on, but she will not have to moving forward. It is understood that I am speaking on her behalf, and it is as if she is always in the room. So this is just the way we are going to manage, it is the way we are going to keep score. I think after 10 years it has been ingrained in the culture in the city.

Mr. LEGGETT. Let me just add something. We have only been in it about 2–1/2 years. I would hope that at some future point it is not so dependent upon the individual executive, that it becomes a way of doing business, and that it is a standard operating procedure for all county executives and for all agencies of government. I hope we get to that point, and we are moving in that direction. I am not sure we are quite there yet. So it requires a direct, personal involvement. But the way we would make certain that this is successful long term, that it is not dependent on an individual, but it is a way of doing business. And I think that is the direction we are moving.

Senator CARDIN. My second question is: In a time of declining budgets, is there concern that the Stat program is being used to justify budget cuts and, therefore, agency heads are more suspicious about cooperating with the program?

Mr. LEGGETT. Let me take our situation. In the last 3–1/2 years, we have closed budget gaps of about $2.5 billion. We have reduced the overall work force by 10 percent, 1,100 positions. We have had furloughs. We have had eliminations of COLAs and a variety of other things. Certainly there were challenges as a result of that. We faced some difficulties. But the way I approached this was to personally engage myself both in the CountyStat process as well as the rec. department. This is why I stated earlier you cannot look at this in isolation. There are other tools that you have to employ with this in order to make it as successful as possible, the 311 sys-

tem. But I engaged in the last year 33, 34 separate meetings with individual employees to walk through the potential challenge that we had, to talk about what CountyStat had found. And I think that we have developed a level of credibility of CountyStat that it is not looked upon as a political tool but as sort of a neutral, fact-finding, data analysis, clear, succinct, that goes above—it is over and above the political consideration. That is where the policy comes in where you then have to make the decision between is it early childhood development, something else, do you priority A versus B. But the data is clear. It is consistent. It is neutral. It speaks for itself. And the people that you have—and this is why it is so important to have competent people operate in the system and over and above the political considerations.

Senator CARDIN. In Baltimore City, does the mayor say, "Where can I get another $10 million of cuts?"

Mr. THOMASKUTTY. The finance director might. I would say it is a tool. I think through CitiStat and through our budgeting process, we definitely were able to cut smarter than I think we otherwise would have been. But your good managers view that podium as a two-way street. They advocate just as much as they take questions. And so you will find through this particular budget we spent money on things that we probably otherwise would not. We never could find a way to fund a $140,000 program in our fire department that would put less expensive vehicles out to go to some of our most frequent callers of 911. Because we could show the value of that particular service through this new budgeting model, we had the confidence and the proof in the data to say it makes a heck of a lot of sense to send an SUV than a fire truck to someone who calls the city 180 times a year for 911 service.

Senator CARDIN. Well, thank you both very much.

I will just make one final observation, and that is, you can tell there is a buy-in at the highest level when you meet with the Governor and he wants to take your laptop and show you a new website that he has on statistics. You do not want to challenge him on his technology.

Senator WARNER. And when the Governor stays for the second session, too, which is really a commitment.

[Laughter.]

Senator CARDIN. Thank you.

Senator WARNER. Let me just add a couple of quick closing comments. Again, my thanks to the Governor, to the county executive, and the deputy mayor.

Two things, just observations at the Federal level. I think at the city and the county level, as a mayor or county executive, this is your job to run the city or the county. I think it gets harder at the State level, but you still have that chief operating officer role as the Governor or someone in the Governor's office. There really is not that equivalent at the Federal level, and I think that has been one of the challenges. President Obama has appointed somebody who I think is extraordinarily talented, Jeff Zients, to be chief performance officer. But whether this position will be maintained, whether it will have enough juice I think the jury is still out. I am hopeful.

But, conceptually—and, candidly, there is very little buy-in, I think, to our efforts at the legislative level. There is governmental

oversight, but there is not a governmental efficiency metrics performance group. And you got to have a legislative, I believe, at least at the Federal level, partner as well so you do not have this constantly reinventing the wheel every 4 to 8 years. Again, I commend the Governor for having the stick-to-it-iveness with CitiStat that now it has been implemented at the State level and others like Montgomery County are implementing it.

The other thing I think we have one challenge at the Federal level—I am a new Member of Congress, although I think I have been guilty of this as well—that to our Federal work force we are always additive on reporting requirements, and we never subtract. So I think our Federal work force at times feels overwhelmed with whatever—whoever is coming in has got a new set of reporting requirements, we never get rid of any of the old ones, and the volumes of data—I think about the PART initiative under President Bush, huge volumes of data, but not user-friendly, and I think it was well intentioned. I am concerned that as we think about how we get better performance and metrics, at least at the Federal level, when we add new reporting we ought to be thinking as well maybe we could take away some of the others, because that sends a message, I think, as well to the work force that this is not just make-work, but this is going to be critical and it is going to be evaluated, it is going to be viewed, it is going to be useful. And I will close with the comment that all three of you have made, and that is, you have to be relentless, that none of this is easy, none of this comes quickly, and kudos to all of you for having that relentlessness.

With that, I again want to thank the Governor, the county executive, and the deputy mayor. The hearing record will be kept open for additional questions for our witnesses until noon tomorrow. I ask that each witness respond promptly to any questions submitted to them.

The Government Performance Task Force will hold its next hearing this Thursday at 10 a.m. in the hearing room of the Senate Budget Committee. The hearing will cover the issues of Federal procurement and contracting.

If there is no other business, the hearing will come to an end. Thank you.

[Whereupon, at 3:54 p.m., the Committee was adjourned.]

QUESTIONS SUBMITTED FOR THE RECORD

STATE OF MARYLAND
OFFICE OF THE GOVERNOR

MARTIN O'MALLEY
GOVERNOR

STATE HOUSE
100 STATE CIRCLE
ANNAPOLIS, MARYLAND 21401-1925
(410) 974-3901
(TOLL FREE) 1-800-811-8336

TTY USERS CALL VIA MD RELAY

July 14, 2010

TO: Senator Judd Gregg, US Senate Budget Committee

FROM: Governor Martin O'Malley

RE: Follow Up Questions from the July 12th Field Hearing Titled PerformanceStat: Measuring Priorities Progress and Results

---

Question One: How would you apply the Stat model to a budget system that does not make a shifting of resources necessary?

Answer: Although a balanced budget is not mandated at the federal level there is still an expectation for federal investments to be made in the absence of waste, fraud or abuse. Ensuring adherence to a budget is not the sole purpose of StateStat—it is a tool for managing performance across government as a whole, taking all resources into account.

Fiscal and policy decisions in Maryland are made after careful consideration of relevant data that my office is able to provide to the legislature in a timely manner. Now, when it is time for the legislative session to begin and I am asked to make tough choices I know those choices—whether policy or budget— are well informed, sound, and based on thoughtful analysis.

Question Two: Would you have used this system if you did not have to reallocate resources, but could simply add resources where needed?

Answer: Yes. The outcomes that are produced by routine reporting, review, scrutiny, and relentless follow up oftentimes are more far reaching than a reallocation of resources. Sound policy is developed on the basis of validated data, best practices are identified and shared, and reforms are quickly implemented and tested in an ongoing evaluation process.

RESPONSIBLE CONTRACTING: MODERNIZING THE BUSINESS OF GOVERNMENT

THURSDAY, JULY 15, 2010

U.S. SENATE,
COMMITTEE ON THE BUDGET AND THE TASK FORCE ON GOVERNMENT PERFORMANCE,
Washington, DC.

The Committee met, pursuant to notice, at 9:58 a.m., in room SD–608, Dirksen Senate Office Building, Hon. Mark Warner, Chairman of the Task Force, presiding.

Present: Senators Warner, Cardin, and Whitehouse.

Also present: Senator Murray.

Staff present: John Righter, Amy Edwards, Ron Storhaug, and Gregory McNeill.

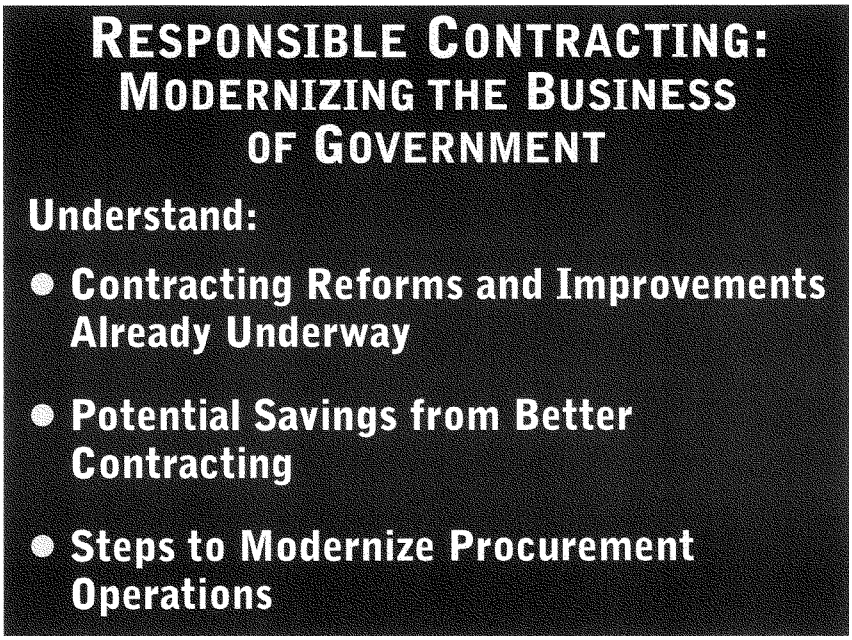
OPENING STATEMENT OF SENATOR WARNER

Senator WARNER. The hearing will come to order. Welcome to the Senate Budget Committee's Government Performance Task Force hearing on "Responsible Contracting: Modernizing the Business of Government." I want to thank my colleague Senator Whitehouse, who actually was the instigator of this hearing, for his leadership and interest in this subject and for the willingness of our more senior members on the Committee and in the Senate, Senator Murray, for being here as well.

As I have explained to a number of the witnesses, let me acknowledge on the front end there may be some shuffling of the gavel. Things here happen on strange time sequences that as a new guy I do not fully understand yet. Today we have a key vote at 11. I personally have a NASA markup going on right now that is very important for facilities in my State, so there will be a bit of shuffling. I know Senator Whitehouse has an important conference call he has to take midstream, so I ask the indulgence of the witnesses and our audience.

So, let me go ahead and make my opening statement, and then I will ask Senator Murray and Senator Whitehouse if they would like to make a statement. Then we will introduce the witnesses.

Today we will take a closer look at the Federal Government's contracting procedures and practices and learn about opportunities to improve contract oversight and leverage greater savings.



Specifically, I hope our witnesses will tell us more about contracting reforms that are already underway at Federal agencies; second, the potential savings from contracting improvements; and, third, steps to modernize procurement operations.

This Task Force on Government Performance has held several hearings examining opportunities to improve the performance of the Federal Government to achieve better savings and service. As we attempt to scale back and deal with our growing fiscal challenges, we must also look at ways to modernize the business of Government, and contracting practices are due for some upgrades.

Unfortunately, as my colleagues know, whenever I make any comments, I always refer back to my previous job for at least a moment. During my tenure as Governor of Virginia, we developed a centralized approach to State procurement and developed an online marketplace that has achieved some impressive results.

Thank you, Amy, for holding up the chart.

Senator WHITEHOUSE. How well managed was Virginia during the time you were Governor?

Senator WARNER. Thank you, Senator Whitehouse, for that very important——

[Laughter.]

Senator WARNER. You know, as a matter of fact, it was ranked No. 1 in the whole country, a designation that we maintained until changes just in the last week or so. I think we fell to No. 2. But you can only keep good practices going for so long.

But part of those good practices were represented here on our procurement activities. As of last year, Virginia's electronic procurement system has registered more than 38,000 vendors, has supported more than $20 billion in purchases, and saved Virginians more than $280 million from streamlined purchasing—something that I think could be brought to the Federal Government as well. I know firsthand that results can be achieved by smarter spending, and, again, I think we can do that at the Federal level as well.

But effective contracting and procurement is more than just saving money. Contracting is also critical to providing the quality services the public deserves. A recent example and one that has been important to me as the home-State Senator—but I know Senator Whitehouse and Senator Murray have expressed concerns as well—has been the mismanagement of millions of dollars to develop what should be a basic data base at Arlington Cemetery.

The Washington Post
Thursday, June 24, 2010

Flawed record system cost Arlington millions

Army reports efforts to digitize archives, yet old paper system endured

BY CHRISTIAN DAVENPORT AND AARON C. DAVIS

Arlington National Cemetery officials with limited expertise in federal contracting regulations and scant outside supervision improperly paid millions of dollars to companies that failed to create a digital database of the cemetery's records.

As a result, the nation's most hallowed military cemetery uses a flawed and antiquated paper system for tracking the whereabouts of thousands of buried service members and their relatives. Although the cemetery has spent $5.5 million over seven years to upgrade its records, problems abound, according to an Army inspector general investigation and other Army documents.

One contract was so flawed that a handwritten note attached to a legal review of it said, "This is probably not the best way to do business," according to the Army's investigation, which was released this month. But the note said that the "contract is not illegal."

The Army's report found that the cemetery had "no acquisition strategy, no integrated IT system and a series of IT regulatory violations." And the cemetery's use of outside contractors had not been reviewed by outside Army officials for more than 10 years.

One of the headstones is worn and faded but offers some clues, including that its owner might have been a Navy captain. (Gerald Martineau/the Washington Post)

Many of the problems in the IG's report focus on the cemetery's No. 2 administrator, Thurman Higginbotham. Despite having no training as a contracting officer, he was identified "as the government point of contact for monitoring all IT contract performance." The report identified Higginbotham only by title. Calls to him Thursday were not returned.

The cemetery is the final resting place of two presidents, 11 Supreme Court justices and service members from every war and major conflict in U.S. history. It is a national shrine regarded as a pinnacle of precision, from the perfect lines of white headstones to the silent cadence of the guards at

The Army's Inspector General found that Arlington Cemetery improperly paid millions of dollars to contractors that failed to deliver a new data base to hold the cemetery's records. As a result, they found 211 misplaced or misidentified graves for our fallen heroes, and that is actually only three sections of the 75 sections of the cemetery that have been audited so far. This was literally a system where they were still using three-by-five cards because all of the millions of dollars that have been spent on upgrading the data bases had never been coordinated. The IT functions had never been put in place. And right now the Army is scrambling. We have put

in place a series of private sector folks who would like to come in on a pro bono basis and help. But if we do not have good contract management, this is the results that we could see. And, again, that is what our hearing is about today.

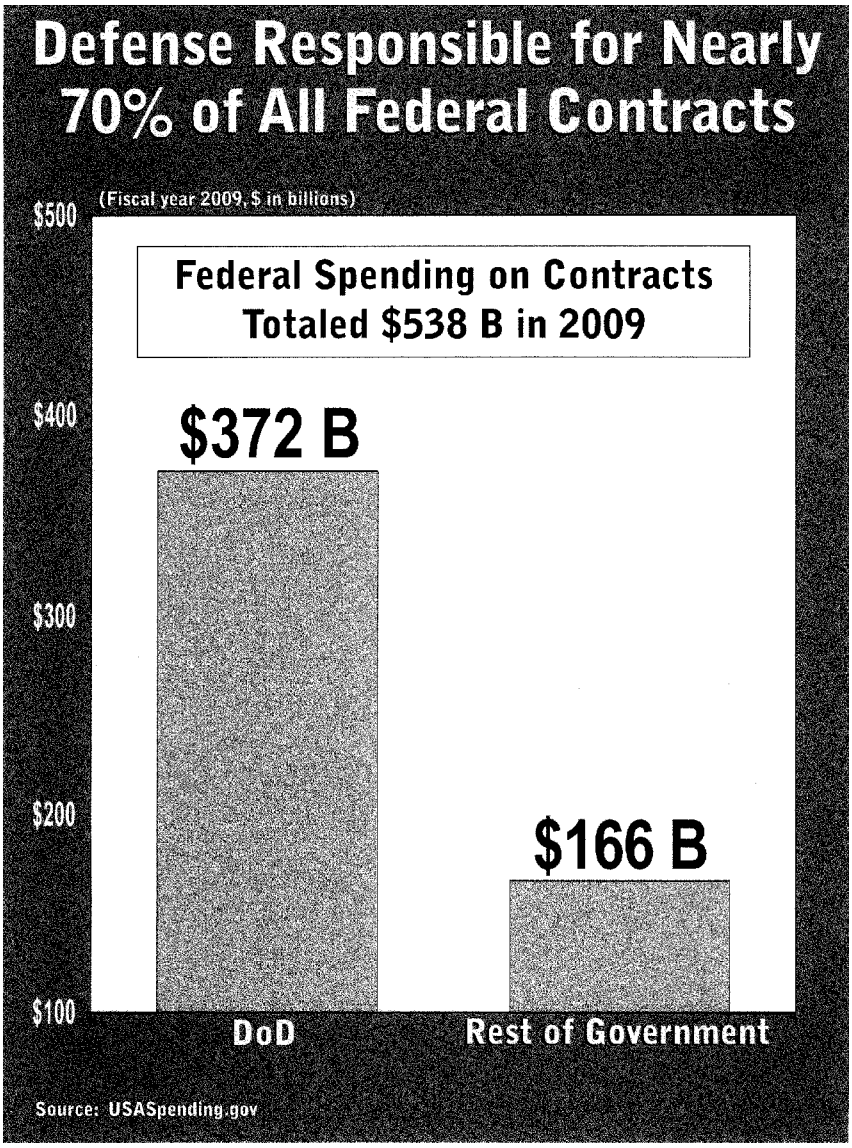
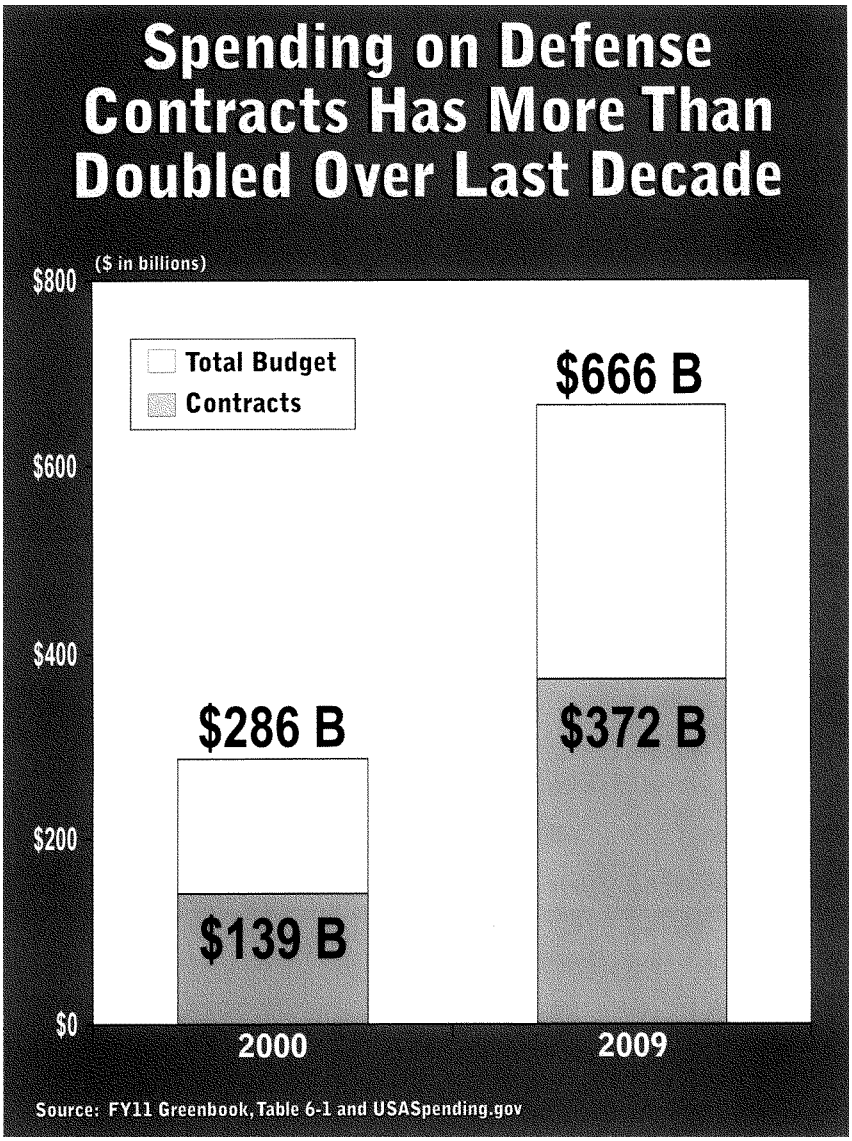


Chart 4, the Federal Government spent $538 billion on contracts in 2009, and 70 percent, or $372 billion, was spent on the Defense Department alone.



And as our final chart shows—following in the footsteps of our great Chairman, Chairman Conrad, you cannot have a Budget Committee hearing without charts and graphs. As our next chart shows, defense contract spending has more than doubled over the last decade.

It is worth pointing out that this growth is in line with the growth in the overall defense budget, which has also doubled over the last decade.

Given the growth in contracting, I hope our witnesses today will discuss the oversight structures in place to ensure that this growth has been effectively managed.

I am also pleased with the Obama administration's focus on contracting and procurement improvements and mandates to save, and I would like our first panel to discuss how they are currently working to ensure effective contracting oversight and to better leverage the spending power of the Federal Government.

With that, I would like to call upon first Senator Murray and then Senator Whitehouse for opening statements.

OPENING STATEMENT OF SENATOR MURRAY

Senator MURRAY. Well, thank you, Mr. Chairman, for holding this hearing, and I will not have an opening statement. I just want to welcome both of you and look forward to the question-and-answer period. I have several questions I would like to ask, and thank you for hosting this hearing today.

Senator WARNER. Senator Whitehouse.

Senator WHITEHOUSE. Thank you very much, Senator Warner. I think this is exactly the sort of hearing that we envisioned when I asked Chairman Conrad to set up this Task Force on Government Performance for the purpose of trying to better evaluate Government performance, efficiency savings, ultimately toward the goal of, I hope, being able to put an efficiency number into our budgets in the future and hold administrations to account to try to achieve those efficiency savings.

Clearly, Government contracting is an important area because, as you have pointed out, the extent of it and the hundreds of billions of dollars that flow through it just gets bigger every day. Anytime you have that much money out there, it is a target for waste and abuse and for greed and for laziness and all of those human characteristics.

So particularly when you have for-profit corporations involved, there are all sorts of risks. The oversight and management function becomes incredibly important. It is not unheard of, particularly—I am on the Intelligence Committee—in very classified programs where there is little oversight and highly technical issues at stake, to question whether the Government actually has the capability to oversee what it is being told by the contractors or whether the contractors are running the show, running the oversight, running every element of it, because they have simply run ahead of the capability of Government to keep track of what they are doing and to understand the technical substance of what they are doing.

There is always the danger in the contracting oversight world of what I call and what economists have for a long time called regulatory capture, that over time slowly but steadily the influence of the regulated entity—the contractors, in this case—through revolving doors, through putting their own people into Government, through threats of litigation if you do the wrong thing and subtle rewards if you do the right thing, step by step it gets to the point where the regulator or the oversight authority becomes more beholden to the industry than to the public. And that is a common theme throughout administration, but particularly acute where you are dealing with very big corporations with huge resources and

enormous public dollars at stake. And then, of course, campaign and political activity by these corporations can compound the problem and make it even more acute.

So I think it becomes very important that we take an active role to defend the American taxpayer and make sure that these moneys are being wisely spent. Clearly, there is an important role for corporations and for contracting in Government. But it is also a role that we have a responsibility to carefully oversee. So I applaud you for holding this hearing and look forward to the testimony of the witnesses.

Thank you.

Senator WARNER. Thank you, Senator Whitehouse. Thank you, Senator Murray.

Our first panel, we have Daniel Gordon, the Administrator of the Office of Federal Procurement Policy at OMB. Mr. Gordon is responsible for developing and implementing acquisition policy, supporting over $500 billion in Federal spending annually. Prior to joining OFPP, he spent 17 years at GAO and served in several posts in the Procurement Law Division before being appointed Deputy General Counsel in 2006 and Acting General Counsel in April 2009.

Our second witness is Mr. Shay Assad, the Acting Assistant Secretary of Defense-Acquisition in the Office of the Under Secretary of Defense for Acquisition, Technology, and Logistics at DOD. Mr. Assad is responsible for all Department of Defense acquisition and procurement policy matters. He serves as the principal adviser to the Deputy Under Secretary of Defense for Acquisition and Technology and the Defense Acquisition Board on acquisition procurement strategies for all major weapon system programs, major automated information system programs, and service acquisition. So clearly, Senator Whitehouse, I think we have the right two guys in terms of oversight, both overall Federal Government and particularly at DOD.

Let us start with Mr. Gordon, and before you begin, let me make clear that each of the witnesses' full written statements will be included in the hearing record. So, gentlemen, thank you for both being here.

STATEMENT OF THE HONORABLE DANIEL I. GORDON, ADMINISTRATOR FOR FEDERAL PROCUREMENT POLICY, OFFICE OF MANAGEMENT AND BUDGET

Mr. GORDON. Thank you. Senator Warner, members of the Committee and the Task Force on Government Performance, I appreciate the opportunity to appear before you today to discuss Federal acquisition and the part it can play in improving the performance of Government.

What I would like to do is briefly highlight now some of the progress we have made following the President's direction in March of last year to achieve real, sustainable improvements in our acquisition system. As Senator Warner pointed out, the context of the President's direction was the fact that in the years 2001 through 2008, we had been seeing an unsustainable increase in spending on contracts and contractors, rising an average of 12 percent a year

during that period, so that the amount we were spending on contracting each year more than doubled in that period.

The Government's acquisition work force, however, barely grew in size, which meant they could not cope with this tsunami of buying that was taking place with predictable results.

I cannot tell you today that we have solved all the problems. Far from it. It took years to dig the hole that we are in, and we cannot dig ourselves out of it in a few short months. But I can tell you we have made real, measurable progress.

First of all, we are finally investing in our acquisition work force. They are the lifeblood of the Federal procurement system. Agencies have started hiring acquisition professionals, albeit in modest numbers, and we are working on improving the training that they get. For fiscal year 2011, the President has requested that Congress appropriate $158 million for the civilian agencies' acquisition work force, and I urge you to support that request. This is a relatively small investment that will have a high return, especially when you consider that our acquisition work force is handling more than half a trillion dollars in contract spending every year. And in terms of where we are with that enormous annual outlay, the big picture headline is that we put the brakes on spending.

Instead of the 12 percent annual increase that we have been seeing, in fiscal year 2009 we had an increase of only 4 percent. Across the executive branch, both at DOD and the civilian affiliate agencies, we are more carefully reviewing what we buy and how we buy it. My colleague Shay Assad will be telling you about DOD's commendable efforts in this regard, and we at OMB are, of course, working very closely with Shay and his colleagues at DOD. But the heightened sense of fiscal responsibility of acquisition is, of course, not limited to DOD. We are seeing proof of it and encouraging it every day in every agency.

My written statement has statistics about our governmentwide progress in savings and risk reduction. What I would like to do very briefly, though, is give you five examples of how our agencies are demonstrating fiscal responsibility in their procurements, one of which is going to resonate with Senator Warner's comment about e- procurements in Virginia where I do think the States and local governments have done extremely well.

No. 1, agencies are pooling their buying so that we are finally leveraging the purchasing power that the Federal Government should have as the world's largest customer. Perhaps the best example is the set of agreements GSA recently negotiated for office supplies. Those agreements will guarantee for the first time that every Federal buyer in every Federal agency, whether they buy in person, over the phone, or on the Web, will receive deep discounts for hundreds of different office supplies. That may sound mundane, but the result could be as much as a quarter of a billion in savings.

Second, agencies are focused on increasing competition, and a great example I would like to mention about increased competition comes from DOD, the Military OneSource Program, which provides important support services for our military personnel and their families. That procurement has never been competed until now. DOD collaborated with the Department of Interior's Acquisition Assistance Center, which ran a full and open competition. That com-

peted contract is expected to save taxpayers $300 million as well as to provide better services to our military families.

Third, agencies are moving away from pricing arrangements that have the Government, which means the taxpayers, bearing too much of the risk, to more prudent fixed-price contracts. For example, EPA recently shifted from a cost reimbursement to a fixed-price contract for remediation clean-up services at a Superfund site and is now paying 65 percent less.

Fourth—and this is what the Senator's comment about EVA made me think of—agencies are now routinely driving down prices by conducting electronic reverse auctions on the Web in which vendors are bidding online for the Government's business. One example, again: DHS last year ran more than 2,000 electronic reverse auctions, saving us millions of dollars.

Finally, agencies are giving long overdue attention to contract management. FEMA, for example, has put together high-quality training for its COTRs, as they are called, the contracting officer's technical representatives. They play a key role in ensuring that taxpayers get the price, the schedule, and the quality that the contractor committed to deliver.

I realize these are only examples. We need to make these success stories the norm across the Government. To do that, we are working with the agencies' chief acquisition officers, their chief procurement executives, and directly with the work force. I am meeting them, we are meeting with them in town hall meetings, by e-mail, on a wiki, to share best practices and push for their adoption across the Government.

There is much work yet to be done, but our early results show that we are on track in our efforts to achieve savings, reduce risk, and achieve better results for our Government and our taxpayers. I look forward to working with you and other Members of Congress on this important endeavor, and I would be delighted to answer any questions you may have. Thank you.

[The prepared statement of Mr. Gordon follows:]

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503
www.whitehouse.gov/OMB

STATEMENT OF
THE HONORABLE DANIEL I. GORDON
ADMINISTRATOR FOR FEDERAL PROCUREMENT POLICY
OFFICE OF MANAGEMENT AND BUDGET
BEFORE THE
COMMITTEE ON THE BUDGET
UNITED STATES SENATE

JULY 15, 2010

Chairman Conrad, Ranking Member Gregg, Senator Warner, Senator Bunning, and Members of the Committee and Task Force on Government Performance, I welcome the opportunity to appear before you today to discuss our shared interest in improving federal acquisition and the part it can play in improving the performance of government. Our current fiscal challenges underscore the importance of maximizing the effectiveness of every tax dollar we spend. With approximately one of every six of these dollars going to contractors, it is imperative that federal contracts provide the best value for the taxpayer.

In March 2009, the President directed agencies to become more fiscally responsible in their contract actions and to take immediate steps to achieve real and sustainable improvements. He charged agencies with saving $40 billion by Fiscal Year (FY) 2011 and reducing the use of high-risk contracts. The President's mandate has instilled a new sense of fiscal responsibility in agencies, which has slowed the unsustainable contracting cost growth rate of the past decade, from an average annual growth rate of 12 percent between FYs 2000 and 2008 to just four percent between FYs 2008 and 2009. This Administration's commitment to fiscal responsibility

was again underscored in plans recently announced by Dr. Ashton Carter, the Undersecretary for Acquisition, Technology, and Logistics at the Department of Defense (DoD), to free up $100 billion in the Defense budget by eliminating excessive costs, unproductive overhead, and programs that can't be managed to be affordable.

The new fiscal discipline that is emerging in contracting is the result of three inter-related efforts. First, agencies are focused on cutting contract costs. They are using smarter buying practices that have been shown to save money – such as strategic sourcing – and improving oversight to ensure that taxpayers get the price, schedule, and quality the contractor committed to deliver. Second, agencies are reducing the use of high-risk contracting practices that can lead to taxpayers paying more than they should. They are competing contracts that, in the past, were awarded for higher prices on a sole-source basis; and they are relying more heavily on fixed-price contracts that require contractors to deliver completed products and services and, in doing so, create a greater incentive for efficiency than when the government simply reimburses contractors for what they spend. Third, agencies are building the capacity and capability of the acquisition workforce. The acquisition workforce is the lifeblood of our procurement system and I can tell you with confidence – after face-to-face meetings at many of our procuring agencies – that the dedication and determination of these women and men are driving better acquisition outcomes. We must ensure agencies have the resources they need to support a strong and well-equipped acquisition workforce. That workforce, I should note, includes program and project managers and contracting officer technical representatives (COTRs) as well as contracting professionals, all of whose contributions are needed. Whether we achieve the best long-term results from our acquisition activities depends on the quality of their skills and the support that we give them.

This morning, I would like to briefly highlight a number of key actions we are taking to advance each of these important efforts and share a few examples of the improvements that we are already seeing.

Achieving acquisition savings

To facilitate immediate improvement following the issuance of the President's March 2009 Memorandum, OMB last year directed each agency to develop an acquisition savings plan. This approach was built on the premise that every agency can and must immediately operate in a more cost-effective manner and reduce inefficiencies and waste from its practices and programs. At the same time, this approach recognizes that each agency has a unique mission with different acquisition requirements, as well as strengths and weaknesses, and therefore needs to tailor actions that best serve its specific circumstances. In response to OMB's direction, each of the 24 agencies identified in the Chief Financial Officers Act – who collectively account for more than 98 percent of all federal procurement spending – developed plans to reduce contracting costs. These agencies are on track to save more than $19 billion by the end of FY 2010. Most of these savings efforts will have recurring benefits that contribute to agencies' ability to save $40 billion by FY 2011.

Agencies are using a combination of strategies to achieve savings. In some cases, agencies are ending procurements that do not meet program goals or that support projects that are no longer needed. In other cases, they are increasing use of acquisition practices that have been shown to drive costs down and improve the quality of performance. Agency plans identify specific savings initiatives as well as the difference between what would have been spent in the absence of the savings initiative and what the agency expects to spend as a result of pursuing the initiative.

At least two promising cost-savings trends have already emerged. First, agencies are improving the way in which they leverage the government's buying power – both across the agency and government-wide. Second, agencies are driving competition by using innovative buying tools such as online reverse auctions.

Strategic sourcing. Agency spending for many commonly-used items is typically fragmented across multiple departments, programs, and functions, which means that agencies often rely on hundreds of separate contracts, with pricing that varies widely. The result is that agencies often do not get the best price they could if their spending were consolidated, leading to an unacceptable waste of taxpayer dollars. To address this waste, agencies are reviewing their internal buying patterns and identifying opportunities to achieve significant savings for recurring requirements. In particular, a number of agencies are negotiating better pricing and deeper discounts for recurring needs for commercial products acquired under blanket purchase agreements (BPAs) negotiated under the Federal Supply Schedules program managed by the General Services Administration (GSA). For example, the Department of Homeland Security (DHS) expects to save more than $87 million during the next six years by having standardized department-wide desktop operating systems, e-mail, and office automation and then negotiating a department-wide BPA for the full suite of products at a substantial savings.

OMB is building on these efforts by bringing agencies together to identify commodities that all agencies buy and that can be purchased at lower prices by leveraging their collective buying power. In late 2009, a team of agencies selected office supplies as a promising target of opportunity to combine individual requirements. The team selected GSA to act as the government's servicing agency to plan, negotiate, and manage government-wide BPAs for office supplies in recognition of GSA's experience in buying commonly used commercial off-the-shelf

products. GSA convened a group of agency experts to better understand agencies' specific requirements, share pricing information, analyze spend data and develop a requirements document reflecting agencies' shared needs. Using this information, OMB and GSA were able to secure up-front spending commitments from agencies – more than $250 million in all – to increase vendor interest in competing in the procurement. The new office supply BPAs, which include sustainable technologies and other green products, will:

- entitle federal agencies to automatically receive the discounted pricing just by using their SmartPay card -- whether they buy on-line, over the phone, or in person -- at any one of the twelve winning vendors, which includes two service-disabled veteran-owned small businesses and eleven small businesses overall;

- help federal agencies cut procurement costs for office supplies by as much as 20 percent, or close to $200 million, over the next four years, which does not take into account even deeper price discounts of up to 19 percent that will kick in as government-wide purchasing increases the spending above pre-determined volume discount thresholds; and

- require the winning vendors to provide detailed spend data which will allow agencies to analyze internal business processes and develop more efficient ones, which can be shared with the commodity team and GSA to obtain additional savings and improve future office supply agreements.

While we are pleased by these results, the progress with respect to office supplies is only a first step. OMB is actively working with agencies to identify other suitable opportunities for government-wide strategic sourcing, especially in the area of information technology, where a number of agencies have begun to successfully pool their buying power, and medical and surgical supplies, where the Department of Veterans Affairs has already leveraged the buying power of its own medical centers through an integrated network of national and regional contracts. In addition, GSA will launch a knowledge management portal later this summer, where studies, market research, and spend analyses developed in connection with government-wide and agency-wide strategic sourcing initiatives will be posted to promote knowledge sharing

of best demonstrated practices. The portal will further develop strategic sourcing as a tool for fiscally responsible buying.

Online reverse auctions. Agencies are increasingly obtaining the economies and efficiencies made possible by conducting web-based "e-procurements." In particular, agencies are using electronic reverse auctions, where vendors use an online site to bid prices down to win an agency's work, in order to generate greater competition. This practice is helping agencies obtain lower prices, especially on their purchases of commercial off-the-shelf products, and these web-based tools have become a routine part of how we conduct procurements in the 21st century: agencies conducted thousands of electronic reverse auctions last year. The Department of Health and Human Services, for example, offers on-line reverse auction services to customers who use its "Electronic Commodities Store" (ECS) – a government-wide acquisition contract for IT hardware and software products. Last year, agencies placing orders under ECS using reverse auctions reduced their costs by roughly 17 percent. Beyond the immediate savings, electronic reverse auctions provide a convenient way for agencies to maintain documentation of each auction online for use in the development of better price estimates and purchasing strategies for future requirements.

Reducing high-risk contracting

As I noted at the outset, President Obama has directed agencies to reduce the risk of overspending that occurs when contracts are awarded without the benefit of competition and when agencies agree to reimburse contractors for their expenses, instead of insisting on a fixed price upfront. To meet this direction, every agency is taking steps to reduce by 10 percent the share of dollars obligated through new contracts in FY 2010 that are awarded with inadequate competition – those awarded without any competition or through a competition that attracted

only one bidder – or through contracts with insufficient cost control, including time-and-materials or labor-hour (T&M/LH) and cost-reimbursement contracts.

While we have only begun to change the culture of government purchasing, our analysis of agency data reported in the Federal Procurement Data System indicates that agencies have made good initial progress:

Progress in increasing competition. In the first two quarters of FY 2010, the percentage of dollars awarded through new noncompetitive contracts dropped by 10 percent when compared to the same time period in FY 2009. In addition, use of new competitively awarded contracts in FY 2010 that received only one bid dropped by two percent when compared to the first two quarters of FY 2009. A number of agencies reported strengthening their internal controls to help in these efforts. For example, one agency reported creating a competition board, made up of contracting and program officials, to review justifications for non-competitive contracts.

While agencies have thus made progress in opening more contracts through competition, additional work is required to attract more bidders. When work that has been performed on a sole-source basis for a long period is first opened to competition, the incumbent may initially be the only bidder until other companies become convinced that the expenditure of bid and proposal costs will be worth the effort. Agencies are working to attract new sources and bidders. Some agencies are also breaking out pieces of requirements that are most likely to attract additional bidders, encouraging long-time subcontractors – including small businesses – to consider competing as prime contractors, and restructuring requirements in ways that more closely reflect how work is performed commercially.

Progress in increasing fixed-price contracting. In the first half of FY 2010, the percentage of dollars awarded for new T&M/LH contracts dropped by 7 percent when compared to the same time period in FY 2009 and the percentage of dollars awarded for new cost-reimbursement contracts dropped by 6 percent. In many cases, these efforts have been facilitated by peer reviews, contract review boards, or other practices that create collaboration between senior agency program and acquisition managers and bring seasoned contract and other experts together to help contracting and program offices identify and address high-risk practices. Through such collaboration and with knowledge of costs historically paid by the agency under cost-reimbursement contracts, the Environmental Protection Agency (EPA) was able to switch to a fixed-price basis for remediation work at the Tower Chemical Superfund site. EPA estimates that this action helped the agency significantly reduce its costs, dropping 65 percent from the original baseline estimate of what it would have cost to acquire these services on a cost-reimbursement basis. Following a similar model of using historical knowledge of prices paid for services under a cost-reimbursement contract to negotiate a fixed-price task order, the Enterprise Architecture Office in the Internal Revenue Service (IRS) achieved significant savings for technology improvements associated with the modernization of core taxpayer services. In some cases, agencies, including DoD, have moved from T&M/LH contracting to cost-reimbursement contracting, where the level of uncertainty regarding the agency's requirements prevents the agency from negotiating a fixed price. This interim step, especially for complex requirements, reduces risk for taxpayers, because agencies can more effectively monitor a contractor's costs on a cost-reimbursement contract.

Strengthening the acquisition workforce

A capable and appropriately sized workforce is a critical element in supporting better acquisition outcomes and improved government performance. To realize savings and reduce contract risks, our contracting and program offices must understand the marketplace and work collaboratively to clearly describe the government's requirements in a way that can generate robust competition – our most effective tool for achieving best value for the taxpayer. Led by our contracting officers, our acquisition teams must be able to negotiate lower prices, favorable contract terms, and the right incentives for contractors to control their costs and perform efficiently. We must have in place an adequate number of well-trained COTRs. These officials play a critical role in contract management, ensuring that contractors perform as they promised and taking corrective action to address performance shortfalls. When use of a higher-risk vehicle, such as a cost-reimbursement contract, is justified, the acquisition workforce must be able and ready to deploy the broader range of management skills these contracts demand – including finance, accounting, cost and price analysis, and program management.

Unfortunately, the lack of capacity and capability within our workforce to meet these demands has hampered our ability to manage contract risk and control contract costs for much of the past decade. Between FYs 2000 and 2008, spending on contracting doubled while the size of the acquisition workforce remained essentially flat. This lack of capacity has caused harm at every step of the acquisition process, from poor definitions of the government's requirements, to unjustified sole-source contracting and poorly-run competitions, to failure to adequately oversee the contractor and ensure that it delivers what it committed to, in terms of cost, schedule, and performance.

To reverse this trend, the President, in his FY 2011 Budget, requested that Congress appropriate $158 million for the civilian agencies' acquisition workforce. This small investment will have a high return as our contracting officials improve their capacity and capability to save resources and reduce risk from the hundreds of billions that are spent on contracts every year. Specifically, the $158 million would enable most civilian agencies to increase their acquisition workforce by five percent as well as to invest in training and technology. This amount also includes resources for the Federal Acquisition Institute to help civilian agencies leverage their investment for common workforce needs, such as for the collection of acquisition workforce data, curriculum development and training for certification standards as they are updated to reflect the skills required for acquisition in today's environment. To sustain acquisition workforce improvements in the future, OMB is requiring agencies to submit an annual acquisition human capital plan that shows how the agency is aligning its acquisition workforce skills with its acquisition needs. These plans should help agencies to identify gaps in workforce skills and size as well as to plan future resource needs that will serve as the basis for budget preparation and justifications for FY 2012 and beyond.

These key actions are being supported by a variety of additional initiatives to improve workforce development. Some agencies are using intern programs to provide structured paths for career development and advancement. Others are bringing back retired contract specialists to mentor newer members of the workforce and provide greater workforce stability. Another promising approach some agencies are pursuing is the use of rotational assignments to give contract specialists exposure to the skills and perspectives in offices of other key stakeholders in the acquisition lifecycle – from finance and information technology to program and human

capital. Through these concerted efforts, we will strengthen our workforce and build on the progress we have been making to improve acquisition results.

Promoting best practices

As agencies have begun implementing their plans to achieve savings and reduce risk, a number of best practices have emerged. As you have heard, we see promising examples of agencies:

- working to attract new sources and bidders for competition, challenging justifications for sole-source contracting and revisiting solicitations and specifications that receive weak interest from the marketplace to see how participation can be increased;
- leveraging the expertise of their most experienced practitioners to help program and contracting offices structure new contracts and restructure old ones to create stronger incentives for contractors to perform more efficiently and effectively and to tie the payment of fees to the achievement of results;
- reviewing their pool of contracts to identify opportunities to achieve savings by combining requirements for recurring needs both within and across agencies; and
- capitalizing on the power of technology to improve acquisition planning and strengthen the quality of competition.

These and other best practices are helping agencies save money and get better results for our taxpayers. At this point, these practices are not being used consistently across all agencies. We are committed to doing all we can to share demonstrated best practices as they are identified, so that strategies which work well are replicated across government and become the norm rather than the exception.

My Office, the Office of Federal Procurement Policy (OFPP), is facilitating the rapid adoption of successful practices in a variety of ways, from hosting regular roundtables and conference calls with Chief Acquisition Officers (CAOs) and Senior Procurement Executives (SPEs), to periodic forums with contracting personnel through the recently re-established Front Line Forum. We are creating a catalogue of initiatives from agency savings plans so acquisition

officials can see what their peers are doing to address similar challenges, and we plan to make available the growing number of individual agency success stories as a resource to better understand our achievements. In that regard, we recently surveyed the CAOs and SPEs to identify new ways of sharing information through the Chief Acquisition Officers Council (CAO Council). The survey results indicated a great desire to improve communications and collaboration between agencies, and we are in the midst of identifying a number of improvements for the Council's consideration. As one immediate step in response to an agency's suggestion, I have begun to email out "Notes from the OFPP Administrator" so agencies have more timely information on ongoing matters of interest in which OFPP is playing an active role. We will also solicit ideas for improved information sharing as we meet one-on-one with agencies to review progress on their plans.

Equally important, we are facilitating continuous collaborations between DoD and the civilian agencies. As the government's predominant buyer, DoD has a wealth of experience that civilian agencies can tap into, both learning from the challenges that DoD has faced and looking for opportunities to replicate the Department's successes. For example, DoD has been the acquisition community's leader in the use of "peer reviews." As noted earlier, this practice brings seasoned contract professionals and other experts together to help contracting and program offices achieve the best results. The interchange between peer review teams and host teams bolsters the quality of contracting by helping to identify better alternatives to risky and inefficient practices, so that programs which require contract support can get better results for our taxpayers. We are encouraging all agencies to adopt some form of this model practice, especially for large-dollar major acquisitions that support priority goals and involve complex requirements.

I am also pleased to note that the Department is similarly looking to civilian agencies for best practices and taking advantage of their skills, where appropriate, to improve the performance of the Department's programs. With the leadership and support of my colleague Shay Assad, the Director of Defense Procurement and Acquisition Policy, DoD recently strengthened the quality of contract support for its Military OneSource Program, which provides a variety of important support services to military personnel and their families. Since its inception shortly after the September 11, 2001, terrorist attacks, the program has relied on a contract that had never been competed. Recognizing the many pressing requirements demanding the attention of its acquisition workforce, the Department looked to outside acquisition support to help put a more cost-effective contract in place. The Department found this quality support at the Department of Interior (DOI)'s National Business Center, which provides acquisition support to other agencies. In close collaboration with DoD, DOI conducted a full and open competition. The winning bidder agreed to a number of cost-saving measures, including charging the call center operation services based on actual monthly call volume, rather than a fixed monthly rate. In all, the new contract is expected to save DoD $300 million over five years and result in high quality services to military personnel and their families. The Military OneSource initiative was recently honored by the CAO Council as an example of inter-agency acquisition at its very best.

We must replicate these types of successes. In collaboration with the leadership at DoD and the civilian agencies, and listening to, and working with, the thousands of dedicated federal employees who are our acquisition workforce and who are working very hard to improve results, I am confident that we will have more good news to share as our efforts continue to take hold.

I am also optimistic that we will begin to see improvements in the use of small business contractors. At the end of April, the President established an interagency task force to develop

recommendations by August for ensuring small businesses have a fair opportunity to compete for federal procurement opportunities. The Small Business Administration, the Department of Commerce, and we at OMB are leading the effort, working with other contracting agencies, to identify recommendations for removing barriers that discourage small business participation, using innovative strategies and technologies to increase participation, and conducting outreach. A number of agencies have reported successes in tapping into the creativity, innovation, and technical expertise of the small business community as they take steps to increase the use of competition. Last year, for example, the Department of Energy's National Nuclear Security Administration (NNSA) separated its functions for cyber security and IT support services into two separate contracts in order to generate more competition. The smaller, more manageable requirements drew strong interest from almost 50 small businesses that had been prequalified to offer their IT services to federal agencies under a government-wide acquisition contract managed by the GSA. The robust competition enabled NNSA to award two five-year fixed-price contracts to small businesses this past April that will allow the agency to save $22 million, or 15 percent of what it was previously paying for these services under its prior higher-risk cost-reimbursement contract.

Conclusion

There is much work ahead, but early results show that we are on track in our efforts to achieve savings and reduce contracting risk. OMB will meet periodically with agencies to review progress against their savings plans and risk reduction goals. We will help those who are achieving success to sustain and build on those results; we will work closely with those who are having difficulties, to identify actions that can be taken to improve results. An online dashboard will launch later this summer to track agencies' progress.

A new sense of stewardship is emerging in contracting offices across government. From the smallest agency to the largest department – even in areas that are the hardest to oversee and assess, such as in the Intelligence Community – steps are being taken to improve the way the government buys goods and services. OMB is committed to ensuring that all agencies remain vigilant in their efforts to maintain fiscal discipline and achieve the best value for our taxpayer.

I thank the Committee and the Task Force for taking time to consider the critical connection between federal acquisition and government performance. I look forward to working with you and other members of Congress as we implement meaningful and lasting improvements for our contracting processes and how the government delivers services to our taxpayers.

I would be pleased to address any questions you may have.

Senator WARNER. Thank you, Mr. Gordon.
Mr. ASSAD.

STATEMENT OF THE HONORABLE SHAY D. ASSAD, ACTING ASSISTANT SECRETARY OF DEFENSE FOR ACQUISITION, OFFICE OF THE UNDER SECRETARY OF DEFENSE FOR ACQUISITION, TECHNOLOGY, AND LOGISTICS, U.S. DEPARTMENT OF DEFENSE

Mr. ASSAD. Senator Warner, members of the Committee, thank you very much for the opportunity to speak with you today. The subject of today's hearing is "Responsible Contracting: Modernizing the Business of Government," and it is a matter that is one of Secretary Gates' highest priorities. He recently directed all echelons of the Department to take a "hard, unsparing look" at how we operate with the goal of cutting overhead costs to transfer those savings to force structure and modernization within the programmed budget. Just over 2 weeks ago, Dr. Ashton Carter, the Under Secretary of Defense for Acquisition, Technology, and Logistics, directed that all DOD acquisition professionals find ways to improve the way we conduct business in order to deliver better value to the taxpayers for the goods and services we acquire for our warfighters. Dr. Carter's memo is really about increasing the buying power of the Department and getting a better deal for the taxpayers.

In directing us to re-examine every aspect of how we do business, Secretary Gates has told us that we should ask two questions. First, is what we are doing respectful of the American taxpayer at a time of economic and fiscal duress? And, second, is this activity or arrangement the best use of limited dollars given the pressing needs to take care of our people, win the wars we are in, and invest in the capabilities necessary to deal with the most likely and lethal future threats?

We need to examine not only what we are acquiring, but also how we are acquiring these activities and programs. Within the Department of Defense, we process over 3 million contracting actions a year. This year we will spend somewhere between $350 and $400 billion in goods and services on behalf of the taxpayer.

There are a number of actions that we can and must take to infuse arrangements into our contracts and motivate industry to achieve greater efficiency, and we must expect to reap the benefits of those efficiencies, and we will insist that industry share those savings with the Government.

In the coming months, Dr. Carter will issue final guidance to implement this initiative. I will conclude by stating that there is a significant opportunity to save billions of dollars. But the savings will only be realized if we have a well-trained and sufficient work force to implement the change that is necessary.

As the individual responsible for overseeing the growth and the development of the acquisition work force, I know I speak for the entire work force in expressing my gratitude to Secretary Gates, Deputy Secretary Lynn, Dr. Carter, and Members of Congress in supporting the much needed growth and increased capability of our work force. We will not accomplish this savings without a competent, capable, well-trained, and properly sized work force.

I thank you for the opportunity, and I welcome your questions.

[The prepared statement of Mr. Assad follows:]

HOLD UNTIL RELEASED

BY THE SENATE COMMITTEE

ON THE BUDGET

STATEMENT BY

MR. SHAY D. ASSAD

Director

Defense Procurement and Acquisition Policy

BEFORE THE

Senate Committee on the Budget

July 15, 2010

Chairman Conrad, Ranking Member Gregg, Senator Warner, Senator Bunning, and Members of the Committee and Task Force on Government Performance: My name is Shay Assad and I am the Director of Defense Procurement and Acquisition Policy. I am also presently performing the duties of the Assistant Secretary of Defense for Acquisition, in the Office of the Under Secretary of Defense for Acquisition, Technology, and Logistics (AT&L).

After serving tours on board two Navy destroyers, I began my career in acquisition thirty-two years ago as a Naval Procurement Officer at the Naval Sea Systems Command. I left the Navy in 1978 and joined the Raytheon Company. Over my twenty-two year career at Raytheon I held a variety of contracting and operational positions ultimately serving as a Corporate Vice President, a Corporate Senior Vice President, and finally, as Corporate Executive Vice President and Chairman and Chief Executive Officer of one of its major subsidiaries. I retired from Raytheon in July 2000.

In 2004, I entered Government service as the senior civilian contracting official for the U.S. Marine Corps. In April 2006, I was selected to serve as the Director of Defense Procurement and Acquisition Policy.

Thank you for your invitation to appear before you today. The subject of today's hearing, "Responsible Contracting: Modernizing the Business of Government," is a matter that is one of Secretary Gates' highest priorities. He recently directed all echelons of the Department to take a "hard, unsparing look" at how we operate with the goal of cutting overhead costs to transfer those savings to force structure and modernization within the programmed budget. Just over two weeks ago, the Under Secretary of Defense for

Acquisition, Technology and Logistics, directed all DoD acquisition professionals to find ways to improve the way we conduct business in order to deliver better value to the taxpayer for the goods and services we acquire for our warfighters. Today, I will take this opportunity to outline how we intend to implement this direction.

First, as stated by Dr. Carter we should distinguish the present challenge of delivering better value from the concept of "acquisition reform." Whereas acquisition reform has entailed a re-examination of acquisition processes, achieving better value through efficiency will require us to focus on execution and specific outcomes. The desired outcome is to find and realize more than $100 billion in savings over the next five fiscal years starting in FY12. The objective of realizing better value in no way denigrates efforts that have been made and are being made to revise and improve our acquisition policies, such as implementation of the Weapon System Acquisition Reform Act last year; however, this different.

This efficiencies initiative is really about doing all we can do to make sure every dollar counts. In directing us to re-examine every aspect of how we do business, Secretary Gates has told us we must ask two questions. "First, is this respectful of the American taxpayer at a time of economic and fiscal duress? And second, is this activity or arrangement the best use of limited dollars given the pressing needs to take care of our people, win the wars we are in, and invest in the capabilities necessary to deal with the most likely and lethal future threats?" We recognize that the nation is at somewhat of a crossroads having devoted a significant amount of resources over the past decade toward defense spending. While it is our expectation that the Congress will continue to appropriate

sufficient funds for the defense budget, we are committed to root out inefficiencies so that we are able to attain two to three percent net annual growth in warfighting capabilities without a mirrored budget increase. We will seek to identify those unproductive or low-value-added overhead expenses that have prevented us from realizing optimal value for our nation.

Over the past two years, with Secretary Gates' unwavering leadership, over 30 difficult choices have been made to cancel or curtail major weapon system programs that were either performing poorly or simply exceeded our practical needs. While the Secretary will continue to challenge efforts to retain or restore funding for poor performing programs and unneeded systems, this efficiencies initiative requires us to look within the remaining programs and activities. In other words, we need to examine not only what we are acquiring, but also how we are acquiring these activities and programs. I realize American citizens would hear this and say, well of course, that's what we expect you to do. With that in mind, I will now expound upon the kinds of costs we expect to trim in order to realize this two to three percent net annual growth in warfighting capabilities and do more without more.

Nearly $400 billion of the Department's annual budget is spent on contracts to acquire combat capability in the form of both goods and services. The business arrangements involved with over three and one-half million annual contract actions that execute these funds are primary focal points for this initiative. Each of these arrangements entails necessary and not so necessary overhead expenses on both the government and industry side.

Primarily, we will look prospectively at new contracts. We recognize that securing the desired amount of savings will take time. We seek to restore affordability of the goods and services we acquire. We are engaging senior leaders from the defense industry to help us understand where and how we can enhance and incentivize their efficiency and productivity.

Specifically, there are a number of actions we can and must take to infuse incentive arrangements into our contracts and motivate industry to achieve greater efficiency. We expect to reap the benefits of that efficiency as industry will share savings with the Government. While none of these emphasis areas are new per se, the difference now is a concerted push to adopt these practices across the Department. First, and at the core of all successful procurement in both the government and commercial sectors, is the unmatched value that is achieved when we leverage real competition. We pay a dear price for early program decisions that set us on a path to acquire goods or services from a single supplier or a directed source. There are actions we can take to avoid such situations. For example, we must maximize the use of technical data packages and open systems architecture to foster an environment that is favorable for future competitions. Recognizing the proliferation of multiple award indefinite quantity/indefinite delivery (IDIQ) contracts, we are beginning to more closely examine the extent to which these arrangements have yielded true competition for individual task or delivery orders amongst the contractors that hold these IDIQ contracts. We can and are emphasizing acquisition strategies that formulate service contract requirement sets into mission areas to improve the opportunities for meaningful competition throughout the course of the IDIQ contracts' period of performance.

Inside and outside the Department, there has been a significant degree of scrutiny placed on our utilization of the proper contract type for a given effort. There is no "one size fits all" solution and we will continue to use the various contract types as appropriate for each situation. Over the past two years, we have generally discouraged new cost plus award fee (CPAF) contracts because we have found that objective incentive arrangements enable us to better align contractor profitability with outcomes in the form of contractor-delivered accomplishments. We will restrict the use of pure award fee contracts to those situations where objective measures do not exist. We will seek authority from the Congress to employ multi-year contracts when significant savings are possible. We are working to reduce the backlog of undefinitized contracts and re-emphasize the fact that we get a better deal when we prospectively price and negotiate our contracts as opposed to authorizing work and postponing agreement on price. For system development and procurement contracts, we will look to structure contracts that require Government and industry to share equally in overruns and underruns (with overruns having analytically based ceilings). Although we will examine each and every opportunity to open up a requirement for competition, the reality is that a significant proportion of defense spending will be allocated to follow-on acquisitions of existing weapon systems in a "sole source" mode. Managing that requires adjustments to account for actual realized costs experienced under prior production lots. Such a searching examination must take place at all tiers (prime and subcontract). I am personally leading all the peer reviews for sole source contract awards valued at $1 billion or more and I am directing contracting officers to obtain and utilize actual cost histories from all major suppliers when forming pre-negotiation objectives. This is an area that is

particularly ripe to achieve a significant amount of savings that will translate to enhanced buying power for the Department. The Government must do more to incentivize prime contractors to manage their subcontractors and reduce prime and subcontractor overhead costs.

We are certainly mindful of the fact that the Department spends more than 50 percent of its contracted dollars on a variety of support services which enable us to project power and sustain our warfighters. To acquire such services, we are essentially phasing out the use of time and materials (T&M) contracts because they lack cost controls and have often led to situations in which contractors have realized unconscionable actual profit rates. With the help of legislation from the Congress, we are significantly curtailing the use of single source IDIQ service contracts in favor of multiple-source, continuously competitive contracts.

Our structured method of computing objective profit and fee for contract negotiations entails a series of calculations we call the "weighted guidelines." The policy behind the computation of objective profit and fee was developed during a time in which the prime to subcontractor ratio of work and associated allocation of risk was very different than we typically see today. Most major procurements for systems entail a far greater degree of effort that is subcontracted than in the past. We intend to re-examine that calculus to ensure we are recognizing risk and rewarding higher productivity with higher profits. We need a system that enables us to incentivize contractors to innovate. At the same time, we need to appropriately acknowledge the value contractors receive from improved cash flow. Additionally, we intend to challenge industry to reduce the gap we all too frequently see between proposed and actual rates in forward pricing rate agreements. We need to ensure

our contracting officers are anchoring their price fair and reasonable determinations on meaningful rate agreements.

In seeking inefficiencies to eliminate, we will look to target non-value added contract costs such as certain expenses in a contractor's general and administrative (G&A) cost pool or non-value added overhead expenses. We must act to curb the exorbitant costs we often pay contractors to prepare complex proposals for those systems we are acquiring on a sole source basis.

The Navy has established a pilot program to reward those suppliers with a proven and consistent track record of excellence. We will monitor that pilot closely and determine if it can be emulated at the Department level.

Finally with respect to initiatives relating to industry, we will look to maximize opportunities to tap into the efficiency, creativity and agility that are the hallmarks of small business suppliers. Particularly in the services sector, we will continue to influence up front acquisition strategies to carve out specific and appropriate mission segments to provide for small business participation.

In addition to those efficiencies that can be realized by incentivizing and influencing industry, there are a number of practices the Department's acquisition professionals must utilize to improve our own efficiency. Last year, Secretary Gates charted us on a path to restore the capability of the acquisition workforce. We will continue to augment our capacity and increase our skills to deliver value to the warfighter while at the same time leveraging the unique qualities that the non-profit federally funded research and

development centers (FFRDCs) and university affiliated research centers (UARCs) bring to bear.

Before embarking on new programs, we must first consider affordability. To the extent we have to shape requirements and designs to align to affordable programs, we will do so. The Department must adopt a mindset for managing programs to cost objectives based on "should cost" estimates. At the same time, our recent emphasis on restoring the organic government cost analyst capability within the Department will enable us to use historically-based independent cost estimates as "will cost" to inform the management of "should cost" estimates. Similarly, we must work to improve the consistency and quality of government audits that are used to support contracting officers preparing for contract negotiations. At the same time, we recognize the need to direct limited audit resources on those areas that will provide the most value added results.

Organizationally, the Department can achieve efficiencies by eliminating some of the redundancies within its warfighting portfolios to leverage those situations where similar programs are pursuing similar objectives. For acquisition of services, DoD components should look to emulate to some extent the model the Air Force has employed to manage and oversee that broad spectrum of contracts. Finally, in the research and development arena, the Department's acquisition professionals can do more to protect the future by sustaining investment while focusing on high value-added work.

In the coming months, the Under Secretary of Defense for Acquisition, Technology and Logistics will issue final guidance to implement this initiative. I will conclude by stating that there is a significant opportunity for savings but the savings will only be realized

if we have a well-trained and sufficient workforce to implement the kind of change that is necessary. In that regard, I know I speak for the entire DoD acquisition workforce in expressing my gratitude to Secretary Gates, Deputy Secretary Lynn, Dr. Carter and the Congress in supporting the much needed growth and increased capability of our workforce. I thank you for this opportunity and I welcome your questions.

Senator WARNER. Thank you, Mr. Assad, and thank you, Mr. Gordon.

Let me start by echoing what you both have said, that as we see these dramatic increases in the amount of contracting, the worst example of penny-wise, pound-foolish is not investing in the Federal contracting oversight work force so that we have the appropriate procurement officers, we have the oversight, and we have the expertise. Again, I know from limited prior experience as Governor that not having folks familiar with new techniques, new tools, and simply loading up additional responsibilities without increased oversight is a recipe for disaster. I think Secretary Gates is right, and I know Mr. Gordon has also been a big advocate for this.

I have a couple of questions. Then as I mentioned earlier, I may have to step out for about 15 minutes.

First, perhaps both of you could address this. One of the things we have seen in contracting—and perhaps this goes to work force issues—is the appropriate size and scoping of a contract. When we go low bid, which at first blush sounds best, but if we get the inappropriate sizing in the contract on the front end, time and again we see contractors come in on a low bid and then with change orders see the original contract size doubled, tripled, or quadrupled. How do we put in place better sizing procedures and framing procedures and have both appropriate penalties and restrictions both on contractors who have underbid and expect to have change orders and agencies that do not have any line responsibility in terms of doing the hard work up front in terms of sizing a contract?

Mr. ASSAD. Senator, there really are two types of products that we buy. We buy products—that is, equipment, goods—and we buy services. And we have to look at them slightly differently. In the world of services, we are now spending more money in the Department of Defense than we do on major weapons systems and/or goods. We spend about 53 percent of our funds on services, 47 percent on major equipment and goods. And in the world of services, the key is to expand competition as much as we possibly can when we buy services, and to ensure that the scope—that is, the work statements that we are asking contractors to bid to—is understood and that we are using the proper types of contracts to buy the goods and services that we are about to do.

In the world of services, one of our problems has been that, again, probably for convenience and expediency, we hold a competition, we select a particular contractor, and that contractor becomes an incumbent over an extended period of time. What we are trying to do at the Department is to extend the number of contractors that will compete on a competitive basis continuously, to reduce the length of time of our services contracts so that the scope of work can be more properly understood and we can get more effective control over what is being performed, and then be able to conduct the oversight to ensure that we actually got the services that we contracted for.

In the world of major weapons systems, it is a little bit of a different situation. In that world it is all about properly defining your requirements. And Secretary Gates has talked a lot about the 75-, 80-, 85-percent solution versus the solution which shoots for the

moon. and the idea and concept being we are much better off getting equipment into the hands of our warfighters 3 or 4 or 5 years down the road that increases their capability rather than taking 15 or 20 years in an effort to try to produce something that remarkably increases their capability but inevitably takes longer than we thought and costs the taxpayers significantly more money.

So in that particular case, what we are doing is we are spending a lot of time up front talking about what are the technologies that are risky and have we made the proper investments up front before we begin making significant amounts of spending in engineering, manufacturing, and development, of ensuring that we are not asking our contractors to achieve things that are incredibly difficult to achieve, and that there is a recognition of the proper type of contract that is fair to both sides in terms of expectation.

What we have failed to do in the past is create contracts that are reflective of the outcomes that we want to get, and what we were doing was measuring process rather than measuring the outcome. And at the end of the day, that is what the taxpayer wants. Did we get what we paid for? And are we paying a fair price?

So I think what you are going to see from the Department is a lot more time spent on the front end of programs because much like in industry—and I spent a good deal of my career in industry, in major corporations—the fact of the matter is most of the time is spent in defining the requirement.

Senator WARNER. I guess very briefly, because my time has expired, Mr. Gordon, do you want to——

Mr. GORDON. I will be very brief. Shay's office and mine work very closely together. I agree with everything that Shay said. The one point I might add is that the challenge of requirements definition is directly tied to the weakness of the acquisition work force and the need for the acquisition work force and the program people to work together. When we do not write the statement of work properly, we end up with contractors coming back and saying they need more money, saying they want an equitable adjustment. Starting the acquisition properly makes all the difference in the world, and for that we need better trained acquisition professionals, and we need them working with their program people.

Senator WARNER. You are consistent on your points, but I would only add two quick points—and we are joined by Senator Cardin. I appreciate Senator Cardin being here as well. One, I would have liked to have heard in that answer, Mr. Assad, something that said, And we are laying out both specific incentives and penalties to reward good behavior in terms of contracts, not expanding beyond scope and size, and clearly I understand the weapons system differently than, say, the services piece, particularly focused on some of the IT contracting, which is very robust in my community, but how we size that correctly and reward contractors or keep to that size and penalize both contractors and/or agencies who get it wrong on sizing. And since my time has expired, Mr. Assad, you will not get, at least at this point, the very pointed question I was going to ask you right now on how did we get into this outrageous mess at Arlington Cemetery and what are we going to do to make sure—and I know the Secretary of the Army and I have had a number of conversation about this to make sure that it is corrected

and never happens again. It has been, a national embarrassment. But if I can get another round, just to forewarn you, that is what I am going to come back to.

Senator Murray?

Senator MURRAY. Thank you very much, Mr. Chairman.

Mr. Assad, thank you. We are all focusing on the Federal deficit, and bringing down the national debt. In light of that, it is more important than ever that we make sure all of our programs are running as cost-effectively as possible. Every penny counts here.

I want to talk to you—because the GAO recently testified that the reliance on contractors continued to increase and we heard that again today that this is leading to overall cost increase. In their testimony, the GAO noted that of the 50 programs in their 2010 assessment, only 19 had filled all of their authorized positions, and 86 percent of the programs providing data needed to hire contractor support to do the job. How can Congress better assist the Department of Defense in recruiting qualified candidates so we can avoid using these contractors and save the taxpayer money?

Mr. ASSAD. Senator, the point you made is absolutely valid and on point. The reality is one of the things that we are looking at right now is we grow the acquisition work force some 20,000 people over the next 5 years. About 10,000 of those folks will be in program management, systems engineering, logistics management, business management roles. It is in those roles that the growth of the contractor community has really burst to points where it is way beyond where it should be.

Mr. Gordon talked about inherently governmental work, and the fact is we need to bring back into Government more of the capabilities so our program managers and our program offices can, in fact, properly oversee these contracts with an arm's-length relationship. We are making good progress.

Senator MURRAY. And are there hiring incentives——

Mr. ASSAD. Yes, and I would like to talk about that. We are making good progress. At this point we would have—we were planning to have hired about 3,400 people over—it is a 5-year plan. Of those 20,000, we thought we would be at about 3,400. We have, in fact, hired about 4,600. So we ahead of schedule. We are hiring quality people, and I think the flexibility that Congress gave us with the 852 funds and the increased funds provided by Congress with regard to hiring our acquisition work force give us the tools we need.

So I think it is a little bit too early for us to request additional assistance from Congress. We need to actually go out and do what you have given us the authority to go do. And I think we are well on our way to do that.

Senator MURRAY. OK. And are we working to get veterans into——

Mr. ASSAD. Oh, absolutely. Absolutely. One of the key things we are finding is a number of our technical—especially at the Defense Contract Management Agency, we are finding that a lot of veterans, especially retired E–8s, E–9s, folks with tremendous maintenance experience, are now coming into our work force to help oversee the very equipments that they were maintaining. So that is a good thing.

Senator MURRAY. OK. And I also wanted to ask you a really important question. As you know, on June 30th this year, the WTO publicly announced that Airbus had received illegal subsidies that have damaged the U.S. aerospace business. According to U.S. Government estimates, that is about $200 billion in today's dollars in total subsidies to Airbus. That has artificially lowered their prices, and tens of thousands of our American work force have lost their jobs because of those illegal subsidies, and our U.S. industrial base capacity has been reduced significantly, including our knowledge base that we need to build our defense system.

Now, competition is key—we all know that—in making sure the Department of Defense gets the best value for their dollar. But it is also really important that the DOT factor in any unfair competition that another company may be receiving. And I wanted to ask you today, in light of that, how is the DOD planning to account for those illegal subsidies that have been received by Airbus—WTO has said that publicly now, and very clear—in the upcoming bid for the KC–X aerial refueling tanker?

Mr. ASSAD. I have to be measured in what I say, Senator, because this is an ongoing source selection. But we think that we have taken adequate steps to ensure that the taxpayers are protected from any findings that might come out of a WTO ruling. As you know, there are two particular cases—one, the European Union versus the United States, the United States versus European Union. I personally—my office represents the Department in supporting the Trade Representative in both of those cases. And it is an extremely complicated situation and matter. It is a matter that is not likely to be resolved and is going to be subject to appeal, and it is going to take a significant amount of time for that to play out.

What we have ensured is that in any instance the taxpayers will be totally protected if, in fact, there is a ruling, a final ruling——

Senator MURRAY. I know why you are saying what you are saying to me, but I just want us all to remember the taxpayers have been harmed now, significantly, and our work force, our industrial base, and our capabilities. So I know why you are saying what you are saying, but I will tell you, there is a lot of us that feel very strongly about the fact that we are now competing against a company with a plane that has been illegally subsidized so they can artificially lower their cost, and that is not a fair competition. And I know what you have to say.

Mr. ASSAD. Yes, ma'am, I certainly understand your position.

Senator MURRAY. Thank you.

Senator WHITEHOUSE [presiding]. I have a call that I am supposed to take at any moment, but it has to come in first. So what I might do is go ahead, and if the call comes, I will yield immediately to Senator Cardin. But if you are answers my question and somebody taps me on the shoulder and I suddenly jump up, it really does not have anything to do with what you have said, so please take no offense.

Mr. GORDON AND MR. Assad, what is the total amount that the U.S. Government spends annually on contractors, both generally and within the Defense Department?

Mr. ASSAD. Well, I can tell you that the total amount of funds that we spend for the goods and services we buy is approximately—in fiscal year——

Senator WHITEHOUSE. Define the "we" in your answer.

Mr. ASSAD. The Department of Defense.

Senator WHITEHOUSE. Department of Defense, yes.

Mr. ASSAD. $372 billion last year, and about 53 percent of those funds were for services, and services typically are getting contractors to provide service to support the Department.

So it is a significant amount of money that we spend in the contracting of services, so it is about 53 percent of the funds.

Senator WHITEHOUSE. Mr. Gordon, governmentwide, what is the number?

Mr. GORDON. Government-wide, including DOD, of course, Senator, it was in fiscal year 2008 something like $535 billion, maybe $537 billion. And in 2009, when we slowed that increase from the 12 percent we had been seeing annually on average, it was about $560 billion. It would have been much higher if we had continued on the prior track.

Senator WHITEHOUSE. So to go from $535 billion to $560 billion was actually a reduction in the rate of increase that we were seeing?

Mr. GORDON. Yes.

Senator WHITEHOUSE. That is a pretty significant tell-tale all on its own, isn't it?

Mr. GORDON. It is, sir. More than half a trillion dollars a year.

Senator WHITEHOUSE. Is it the case from time to time, indeed relatively regularly, that under the services contract side of the Defense Department contracting you will find American soldiers and Government employees providing similar services, in some cases side by side in the field, to Government contractors with the Government contractors being paid more than the soldier or Government employee?

Mr. ASSAD. I think that there is no doubt that we have a large contracted work force in the field working side by side with our warfighters. What we have done is basically logistics support of our warfighters in terms of what we call life support—dining facilities, laundry, things like that. We really do not have warfighters doing much of that anymore. It is provided by contractors. But there is no doubt that contractors make more money than our military work force. I mean, there is no question about that.

Senator WHITEHOUSE. What effect do you think that has? I mean, clearly there is a bit of a morale effect if two people are more or less side by side, suffering the same risks, doing the same work, pursuing the same goal, and one is being paid significantly more in the private sector than the other one on the Government payroll. But in addition to that morale effect, does it clearly to recruitment, revolving door, other concerns? Sometimes I feel that people get trained at Government expense and then move out into the contractor world where they take the training that they received at Government expense to go back and do the same work for the Government at a higher rate, and that is sort of an unfortunate result that merits a little bit of attention.

Mr. ASSAD. It does merit oversight, Senator, but I do not think it is as widespread as your concern might be. For the most part, we have tried to divide those responsibilities so that what the contractors are performing is work that really our soldiers—either the choice has been made by our commanders in the field they do not want soldiers and marines performing those responsibilities, or they are of a technical nature such that our marines and soldiers are doing certain amounts of maintenance and the contractors are doing perhaps more sophisticated maintenance.

Senator WHITEHOUSE. The Commission on Wartime Contracting in Iraq and Afghanistan report identified in particular KBR, which collected nearly $32 billion since 2001, was connected to what the Commission called the vast majority of war zone fraud cases and a majority of the $13 billion in questioned or unsupported costs, and in particular, an issue that we focused on a lot has been the payment of at least $80 million in bonuses to KBR for the allegedly faulty electrical work that resulted in the fatal electrocutions of more than a dozen U.S. soldiers in the field. That sounds like a massive failure of oversight and really a bitter irony for the families of those dozen soldiers to realize that KBR was paid bonuses for that work.

How are we responding to the Commission's report in terms of trying to protect against this sort of stuff happening again?

Mr. ASSAD. Senator, in fact, the information is not exactly accurate. The fact is we paid zero award fee to KBR during that period of time for which we deemed them to have unsatisfactory quality oversight of their electrical performance. That was between, I think, the period January of 2008 to around May of 2008. The fees that they got—I mean, the reality of life is if you go to the field and you talk to the commanders in the field, they will tell you that in general KBR does an adequate job in supporting our troops. The amount of money—and $80 million is a lot of money. But they also performed a lot of work outside of that particular period for the electrical work, and I think what we awarded them was about 40 percent to 50 percent of the fee that was available for the work beyond the electrical work. But we actually awarded them zero—irrespective of what they performed during that period, it was zero award fee. My office oversaw that.

Senator WHITEHOUSE. Senator Cardin.

Senator CARDIN. Well, first, thank you both very much for your service. We very much appreciate it. The Federal Government is the largest purchaser of goods and services in the world, and Congress has made it clear through statutes that we want a certain amount of that procurement work reserved for smaller companies, 23 percent. There are five goals that are spelled out in law, and the most recent survey indicated that only one agency complied with all five of the goals and two agencies failed to reach any of the goals set out.

So, Mr. Gordon, I want to ask you whether you are satisfied with the efforts we are currently making for small businesses to be able to participate in Federal procurement as Congress has envisioned. As you know, small companies are the living force behind job growth and innovation in this country. Are we doing enough, or do we have to do more?

Mr. GORDON. Senator Cardin, we are not doing enough. The President and the administration are not satisfied with the situation. We need to be meeting those statutory goals not only for small businesses, a 23-percent goal, but also the goals for the subsets, such as the service-disabled-vet-owned small businesses.

The President, as you know, signed a direction to us on April 26th to set up an interagency task force to look for ways to expand the opportunities for small business contracting. We in OMB are working with the Department of Commerce, the Small Business Administration, and the buying agencies right now, this summer, to come up with concrete recommendations for ways to move forward. There have to be more opportunities.

I will tell you, Senator, too often people think, Oh, well, if you buy smarter, if you use strategic sourcing, that is going to mean you turn to the big companies. Not true. In my opening statement before you arrived, Senator, I talked about a new initiative to buy office supplies through blanket purchase agreements at much lower prices. At the time those were rolled out at the beginning of June, GSA awarded 12 of those agreements. Eleven of the 12 were to small businesses. Eleven of the 12 were to small businesses, two of which were service-disabled-vet-owned small businesses.

In our experience, we can make progress on small business contracting and get a better deal for our taxpayers. We can meet both of those goals if we are open to flexibility and looking for opportunities for our small businesses.

Senator CARDIN. Well, thank you for that reply. You know, one of the major problems we have is the abuse of bundling, which is somewhat related to whether the different agencies have enough personnel to be able to evaluate the number of interested contractors. In the Department of Defense, I must tell you a frequent complaint I receive from defense contractors is that they are often required to work with the larger companies in order to be able to have their work seriously considered, leading them to be subs or in some cases actually bought out by the larger companies.

Mr. Assad, I know your background, and you have had a distinguished private sector career working for one of the Nation's largest companies. With no aspersion at all as to the company you work for, there has clearly been intimidation within the defense contracting industry to partner with a larger company if you intend to do business with the Federal Government. What is your response for more direct contracts between small companies and the Department of Defense so that they do not have to rely on being subcontractors or in some cases being bought out by the larger company?

Mr. ASSAD. Senator, right now our goal is 23 percent. We are running at about 18.9. That is not good enough. That is nowhere near good enough. And one of the things—I do not know if you have had an opportunity for your staff to show you Dr. Carter's recent memo that he put out into the work force, but the biggest single area where we have an opportunity to significantly increase small business is in the world of services. And we are going to focus on this like a laser beam.

We get a better deal when we have small business participation, and especially competitive small business involvement. And where

we are going is if we establish multiple award contracts in the future, we are going to insist that not just a certain amount of the work be set aside for small businesses, but that small business participation exists in every multiple award environment, and if there are two or more firms that can accomplish that work, we want it competed amongst the small businesses.

So what you are going to see from us is a tremendous focus in trying to grow in the world of services opportunities for small business, because what happens on our hardware side of the street is—you know, when we buy an aircraft carrier or we buy some major pieces of equipment in any particular year, it really hurts our ability to get that percentage up. However, I just mentioned to you that we spend 53 percent of our money on services, and so that is where we are going to focus to grow small business opportunity. And I could not agree with you more about small businesses being in that limbo state of not being able to compete on the hardware side of the street with a major equipment supplier, and we do want to foster, for example, through our Small Business Innovative Research Program, opportunities for small business in that environment, too.

There is a lot of work to be done in this area, Senator, but I can assure you that—I am personally responsible for small businesses in my acting role, and I can assure you that we are focused on growing this.

Senator CARDIN. Thank you.

Thank you, Mr. Chairman.

Senator WHITEHOUSE. Thank you, Senator Cardin, and thank you, gentlemen. This more than half a trillion dollars a year in climbing is clearly a geyser of taxpayer funds that needs to be carefully watched, and I appreciate your efforts to increase and improve the oversight on it.

As you depart, I would ask if you would take as a question for the record and respond in writing, Mr. Assad, to the question that Chairman Warner asked having to do with Arlington.

Mr. ASSAD. Yes, sir.

Senator WHITEHOUSE. And if you could both respond to the recommendations of the Commission on Wartime Contracting in Iraq and Afghanistan and their September 21 report and let me know whether you think those recommendations are advisable and any comment you may have on those recommendations, I think that would be helpful. So I appreciate it very much and you are both excused. I thank you for your presence here today.

[The information referred to follows:]

Response from Daniel I. Gordon, Administrator for Federal Procurement Policy

Question from Senator Whitehouse Regarding Recommendations of
the Commission on Wartime Contracting
July 15, 2010
Senate Budget Committee

Question

"And if you could both respond to the recommendations of the commission of the wartime contracting in Iraq and Afghanistan in their September 21 report, and let me know whether you think those recommendations are advisable and any comment you many have on those recommendations. I think that would be helpful."

Answer

The recommendations of the Commission on Wartime Contracting (CWC) address many important contract administration issues and, if implemented, will improve how the government, especially the Department of Defense (DoD), oversees and manages its contracts. This is particularly important with respect to management of high-risk contracting vehicles, such as cost-reimbursement and time-and-materials contracts. The President's March 4, 2009 Memorandum on Government Contracting directed agencies to reduce their use of high-risk contracting vehicles, in part because preventing unjustified cost growth during performance of this kind of contract requires closer oversight and management by the government. All of the CWC recommendations seek to strengthen critical audit and oversight functions, and I support DoD in their implementation.

In addition to suggesting improvements to DoD's audits and contract administration functions, the recommendations also seek to improve the reliability of the underlying contractor business systems. Without complete or accurate contractor data, the Government is unable to conduct effective oversight and management. I understand DoD has published a proposed rule to amend the Defense Federal Acquisition Regulation Supplement (DFARS) to improve the effectiveness of DoD oversight of contractor business systems, and I also understand that DoD has issued guidance to address internal management issues that should help resolve audit differences between the Defense Contract Audit Agency, the Defense Contract Management Agency, and defense components. I look forward to working with my colleagues at DoD as they continue to make improvements to their contracting function.

Senator WHITEHOUSE. We will take a 2-minute recess while we call up the next panel of witnesses. Thank you both so much. Thank you for your service.

[Recess.]

Senator WARNER [presiding]. The Committee will reconvene. I want to again thank Senator Whitehouse, Senator Murray, and Senator Cardin for chairing, whoever did, while I slipped off to the Commerce Committee. And I thank our second panel as well.

Our second panel will offer outside perspectives on both contracting practices and suggestions for improvement. I think it is going to be a lively panel. I know we have different views here, which I think is important that we as members hear.

First we will hear from Dr. Allison Stanger, a professor of international politics and economics and Director of the Rohatyn Center for International Affairs at Middlebury College. Dr. Stanger's most recent book, "One Nation Under Contract: The Outsourcing of American Policy and the Future of Foreign Policy," was published by Yale University Press in 2009. She is a member of the Council on Foreign Relations, Academic Leadership Council of Business for Diplomatic Action. She was also a contributor to the Booz Allen Hamilton project on the world's most enduring institutions, the Woodrow Wilson School Task Force on the Changing Nature of Government Service, and a whole lot of other stuff which will be submitted for the record.

Our second witness is Dr. James Carafano, the deputy director of the Kathryn and Shelby Cullom Davis Institute for International Studies and director of the Douglas and Sarah Allison Center for Foreign Policy Studies at The Heritage Foundation. Dr. Carafano is a historian and teacher as well as a writer and researcher on the fundamental constitutional duty of the Federal Government to provide for the common defense. Dr. Carafano's most recent book is "Private Sector, Public Wars: Contractors in Combat—Afghanistan, Iraq, and Future Conflicts." He is also a 25-year veteran of the Army, manages the day-to-day research program as the director of the Allison Center, and has a series of very distinguished background as well.

We will get to the panel. Dr. Stanger, you go first.

STATEMENT OF ALLISON STANGER, PH.D., RUSSELL LENG 1960 PROFESSOR OF INTERNATIONAL POLITICS AND ECONOMICS, MIDDLEBURY COLLEGE

Ms. STANGER. Senators, it is an honor and privilege to share some thoughts with you here today. I have submitted a longer statement for the record, and I am going to use my 5 or 6 minutes here to make a simple argument: that our cherished value of self-government now depends on radical transparency in all Government business transactions.

As we have heard on the first panel, the business of government is increasingly in private hands, and there is broad consensus that the current Federal acquisition system is antiquated, ill-equipped to deal with the surging demands placed upon it. A few key figures from USASpending.gov make the general trend clear. In 2000, DOD spent $133.2 billion on contracts. By 2008, that figure had grown to $391.9 billion, which is an almost threefold increase.

Again, the same period, 2000 to 2008, the State Department spent $1.3 billion on contracts. Eight years later, contract spending had grown to $5.6 billion, an increase of 431 percent. In 2000, USAID spent $478.6 million on contracts. By 2008, the figure had grown to $3.3 billion, which is an increase of 690 percent in 8 years' time.

Despite this paradigm shift in how Government conducts its daily business, contracting, I think, continues to be perceived as something peripheral to policy itself. Yet when contracting and grants comprise 83 percent of the State Department's requested budget, as they did in 2008, 82 percent of the Pentagon's budget, and a whopping 99 percent of USAID's net cost of operations, it is clearly no longer the case that contracting is something peripheral to policy. In the foreign policy realm, with America's first two contractors' wars in full swing, contracting has clearly become a strategic issue. It must be treated as such.

Now, I am a Vermont-based professor without a security clearance. I can present these numbers to you here today because of the 2006 Federal Funding Accountability and Transparency Act, or FFATA, which created USASpending.gov.

In preparing my written testimony, the figures I cited to you, I pulled them from that website in December 2009. But I discovered last week that sometime in early 2010 USASpending.gov's platform and interface were totally redesigned. Once significant change caught my immediate attention. The old version of USASpending.gov used to have a page entirely dedicated to subcontracts and linked to the home page. The subcontracts page used to report that the site was under development. It really provided a clear place holder for important forthcoming information. Today there is no subcontracts or sub-grants page linked to the home page, and the category does not even exist in the menu of choices.

Given recent revelations that U.S. taxpayer money has been flowing through subcontracts into the pockets of the Taliban in Afghanistan, the evaporation of the subcontracts page is troubling. Without transparency in subcontracts, we are effectively pouring taxpayer money into a black hole in Afghanistan with no real means of knowing how well that money is likely to be spent or even who is receiving it.

FFATA required that information on subcontracts be made available to the public by January 1, 2009, and the old website really made it clear that USASpending.gov was a work in progress, that this information was forthcoming. Today that has changed. The irony here, at least at the level of appearances, is that a website designed to show American taxpayers where their money is going, whose very existence is owed to legislation championed by then-Senator Obama, has grown less rather than more transparent under President Obama's administration.

Writing in Federalist No. 10, Founder James Madison saw what he called "the mischief of factions" being neutralized that the plethora of special interests in vast colonial America canceled one another out through both federalism and representative Government. In 21st century America, however, Government by contract instead encourages inside-the-Beltway special interests to coalesce and carry the day.

Government by contract means that Government is entirely dependent on the private sector to conduct its daily business, so effective oversight is too often hostage to a corporate bottom line. Whenever the economy falters, the profit motive encourages businesses to cut safety and security measures unless Government insists they do not do so. And our disdain for bureaucracy makes it difficult for Government to secure the staffing it needs to ensure that these short cuts are not taken.

Congress and the White House can, therefore, have the best of intentions yet be unable to escape the quagmire that Government itself has in part created through its incessant outsourcing. And I want to be sure that my basic point here is not misunderstood. There is no partisan villain in this tale, no conspiracy. We have together constructed a system that no longer functions as the Founders intended.

Rescuing Government by the people from the current Government by checkbook is a project for a generation, but we need to get started now. When so much of the work of Government is in private hands, standard approaches to transparency will no longer suffice. President Obama's March 4, 2009, Presidential memorandum ordering a governmentwide review of our contracting practices was a bold step in the right direction. The next step is to ensure that the spirit and letter of FFATA are upheld.

Thank you for your attention, and I welcome your questions.

[The prepared statement of Ms. Stanger follows:]

Testimony of

Allison Stanger
Russell Leng '60 Professor of International Politics and Economics
Middlebury College

At a Hearing on
"Responsible Contracting: Modernizing the Business of Government"

Before the
Senate Budget Committee

July 15, 2010

Chairman Conrad, Ranking Member Gregg, Task Force Chairman Warner, Senator Bunning, and distinguished Members of the Committee and Task Force on Government Performance, I am grateful for the opportunity to share some thoughts with you here today. It is an honor and a privilege to do so.

The business of Government is increasingly in private hands. And, there is broad consensus that the current federal acquisition system is antiquated, ill equipped to deal with the surging demands placed upon it. As I have argued elsewhere, it makes good sense for the government to harness the energy, efficiency, and bottom-up creativity of the private sector in as many free-wheeling ways as possible--up to the point where market imperatives begin to undermine the public interest.[1] We have reached such a tipping point in 2010.

In 2000, the Department of Defense spent $133.2 billion on contracts. By 2008, that figure had grown to $391.9 billion, an almost three-fold increase. In 2000, the State Department spent $1.3 billion on contracts and $102.5 million on grants. By 2008, grant spending had grown to $2.7 billion and contract spending had grown to $5.6 billion. In 2000, USAID spent $0 on grants[2] and $478.6 million on contracts. By 2008, those figures had climbed to $5.5 billion and $3.3 billion, respectively[3] (source: USAspending.gov).

While wartime contracting and successive supplemental appropriations have fueled these dramatic trends, it is important to emphasize, right up front, that this is not a partisan issue. Democrats and Republicans alike embraced outsourcing the work of government to the private sector whenever possible, both as a perceived cost-savings measure and as a mechanism for getting things done more efficiently. But the laissez-

---

[1] Allison Stanger, *One Nation Under Contract: The Outsourcing of American Power and the Future of Foreign Policy* (New Haven, CT: Yale University Press, 2009).

[2] USAID's problematic past accounting practices are currently on full public display at USAspending.gov. No data on grants are provided for FY2000-2006. All numbers were retrieved from USAspending.gov on December 1, 2009.

[3] Data quality appears extremely variable, but for general trends, it can suffice. I use 2008 numbers for the comparison, since 2009 aggregate numbers are still a moving target.

faire outsourcing—or to use Defense Secretary Gates' language, the "willy-nilly" contracting—that accompanied the wars in both Iraq and Afghanistan often meant that oversight and management were outsourced as well as implementation, with predictable consequences.

The matter appears to be no different on the domestic front. USAspending.gov's home page used to show (more on this oblique reference below) that 76 percent of federal spending in 2009 was on contracts and grants. Figures for the Department of Health and Human Services, for example, dramatically illustrate both the explosive growth in contracting and the complete inadequacy of existing federal accounting systems to track government spending in any sort of reasonably transparent and accurate way. In 2000, the Department of Health and Human Services spent $4.1 billion on contracts. By 2008, the same figure had more than tripled to $13.1 billion. However, in December 2009, USAspending.gov listed HHS spending at $405.7 billion on grants in 2000 and just $264.7 billion in 2008. That 2008 aggregate figure was flagged with a different color, indicating awareness of an obvious problem with data quality.[4]

	Contracts in 2000	Contracts in 2008	Change in Contracts	Grants in 2000	Grants in 2008	Change in Grants
Defense	$133.2 billion	$391.9 billion	294%	$2.3 billion	$4.6 billion	200%
HHS	$4.1 billion	$13.1 billion	320%	$405.7 billion	$264.3 billion	-65%
USAID	$478.6 million	$3.3 billion	690%	0	$5.5 billion	N/A
State	$1.3 billion	$5.6 billion	431%	$102.5 million	$2.7 billion	2634%

Despite this paradigm shift in how government conducts its daily business, contracting continues to be perceived as something peripheral to policy itself rather than wholly comprising it. When contracting and grants comprise 83 percent of the State Department's requested budget, as they did in 2008, 82 percent of the Pentagon's budget and a whopping 99 percent of USAID's net cost of operations, this is clearly no longer the case. In the foreign policy realm, with America's first two contractors' wars in full swing, contracting has become a clear strategic issue. It must be treated as such.

Until very recently, data on the broadening scope of government-wide procurement were unavailable to the general public. That changed in 2003 with the launch of the General Services Administration's Federal Data Procurement Service (FPDS), which made data on contract spending (both for-profit and not-for-profit) available to registered users. Since FPDS issued annual reports and made them publicly available on its web site, its launch marked the start of a new era of relative transparency.

[4] The table that follows comes from David Litman and Allison Stanger, "Acquisition in Crisis: Transforming Workforce and Process in the Public Interest," White Paper for a forum organized by the Partnership for Public Service, January 2010. Numbers have not been adjusted for inflation.

In 2006, the Federal Funding Accountability and Transparency Act (FFATA) took things a step further when it instructed the White House Office of Management and Budget to create and maintain a searchable database that covers all federal spending in a user-friendly way. To public acclaim, USAspending.gov came online one month ahead of schedule, in December 2007. For the first time, the public could see in detail how the federal government spends taxpayer money. The web site crossed all sorts of divides. Not only did Barack Obama, then just the junior Senator from Illinois, and Sen. Tom Coburn, the Republican from Oklahoma, co-sponsor the legislation, but the Office of Management and Budget partnered with OMB Watch, a non-profit organization founded to keep OMB honest, to devise the new web site's software.

The new web site dramatically expanded the scope and quality of information available to the public on contracting and subcontracting. It allowed me, a Vermont-based professor, to get a good understanding of basic issues without a security clearance. The legislation mandated that OMB's database be expanded by January 2009 to include information on subcontracts and subgrants. USAspending.gov relies on FPDS contracting numbers, but corrects for inaccuracies it detects in its by-agency figures before presenting them to the public.[5]

FFATA was long overdue. Despite the tremendous amounts of money involved, government needed a push to launch a concerted effort to track those flows accurately. Putting together a government-wide system for tracking contracts and subcontracts was spurred by FFATA and remains a work in progress.

It should not surprise us to find government accounting in such disarray. Government's increasing reliance on contractors has fed a vicious circle that over time has resulted in a federal government that has been effectively hollowed out. The federal government had the same number of full-time employees in 2008 as it did in 1963, yet the size of the population has doubled and the federal budget in that same period of time has more than tripled in real terms. Every federal contract and grant needs to be managed, yet our government currently lacks the capacity for appropriate oversight.

The underside to this sweeping privatization of government power has become all the more apparent as the gap between the fortunes of Wall Street and of Main Street has widened. Since virtually every contract and grant represents jobs in some representative's district, focused lobbying can deliver bigger and bigger rewards. Special interest campaign contributions make the difference in every reelection campaign, with predictable consequences. The rapidly spinning revolving door between government and business is a standing invitation to corruption. The one interest that goes underrepresented in this mix is the public interest.

Writing in Federalist 10, founder James Madison saw what he called the "mischief of factions" being neutralized as the plethora of special interests in vast colonial America cancelled one another out through both federalism and representative government. In twenty-first century America, however, government by contract instead

---

[5] Allison Stanger, "Your Tax Dollars at Work: If You Can Find Them," *Washington Post*, May 18, 2008.

encourages inside the beltway special interests to coalesce and carry the day. Government by contract means that government is entirely dependent on the private sector to conduct its daily business, so effective oversight is too often hostage to a corporate bottom line.[6] Whenever the economy falters, the profit motive encourages businesses to cut safety and security measures unless government insists that they not do so, and our disdain for bureaucracy makes it difficult for government to secure the staffing it needs to ensure that these shortcuts are not taken. Congress and the White House can therefore have the best of intentions yet be unable to escape the quagmire that government itself has in part created through its incessant outsourcing. To be sure that my basic point is not misunderstood, there is no partisan villain in this tale, no conspiracy. We have together constructed a system that no longer functions as the founders intended.

Unfortunately, neither James Madison's proposed extended sphere remedy for the ill effects of factions nor Adam Smith's invisible hand promises any relief from this pernicious laissez faire brew. If Congress and business continue to pursue their own short-term interests unchecked, it can only lead us to financial ruin and the American people's complete loss of faith in our government. Rescuing government by the people from the current government by checkbook is a project for a generation, but we need to get started now. We can begin by distinguishing between wartime and peacetime contracting, recognizing the unique perils that inevitably arise when the profit motive goes to war, as well as the uncharted territory we have entered in Iraq and Afghanistan, where some things that never should have been outsourced have been (such as moving armed security).[7] But above all, the imperative of radical transparency in all government-business transactions has never been more important. Accountability and our cherished value of self-government now completely depend upon it.

Which brings me to the reason I have been using the past tense in referring to agency contracting and grants figures, and my data come from December 2009, not 2010. Why, the careful reader might wonder, does this expert witness use data from December 2009 rather than 2010? If USAspending.gov was the source of the 2009 data, why not utilize it again to provide more up to date information?

The answer is that some time in early 2010, USAspending.gov's platform and interface were totally redesigned. The makeover is supposed to endow USAspending.gov "with greater capacity for fulfilling FFATA requirements."[8] However, the site's FAQs do not include any references to this revamping or the reasons for it. Unless one, like me, had done extensive work with the previous web site, the user would indeed have no idea that anything at all had changed.

---

[6] The term "government by contract" comes from Jody Freeman and Martha Minow, ed., *Government by Contract: Outsourcing and American Democracy* (Cambridge: Harvard University Press, 2009).
[7] Allison Stanger, Testimony before the Commission on Wartime Contracting in Iraq and Afghanistan, June 18, 2010. http://www.wartimecontracting.gov/docs/hearing2010-06-18_testimony-Stanger.pdf
[8] Office of Management and Budget, "Open Government Plan," April 7, 2010, pp. 10-11. http://www.whitehouse.gov/sites/default/files/microsites/100407-omb-opengov-plan.pdf

What has changed? I am still in the process of answering this question, but one significant change caught my immediate attention and deserves mention here. The old version of USAspending.gov used to have a page entirely dedicated to subcontracts and linked to the home page. The FAQ section told the user that FFATA mandated that information on subcontracts be provided to the public by January 1, 2009. The subcontracts page reported that the site was "under development;" it provided a clear place-holder for important forthcoming information. Today, there is no subcontracts or subgrants page linked to the home page. The category does not even exist in the menu of choices. The extensive references to FFATA and what it by law requires have completely vanished. In short, the old site made it clear that important data were missing and soon to be forthcoming; the new site's architecture makes no explicit reference to aspects of FFATA that have yet to be fulfilled.

Given recent revelations that US taxpayer money has been flowing through subcontracts into the pockets of the Taliban[9], the evaporation of the subcontracts page is troubling. Without transparency in subcontracts, we are effectively pouring taxpayer money into a black hole in Afghanistan, with no real means of knowing how well that money is likely to be spent or even who is receiving it.[10] FFATA required that information on subcontracts be made available to the public by January 1, 2009 and the old web site made that clear. The new web site effectively camouflages that shortcoming. The irony here, at least at the level of appearances, is that a web site designed to show American taxpayers where their money is going, whose very existence is owed to legislation spearheaded by then Senator Obama, has grown less rather than more transparent under President Obama's administration. Perhaps this is mere coincidence or an unintended consequence of reforms aimed at another set of problems. But it is precisely the opposite of what we need at a time when our fiscal imprudence has become a national security issue and is perceived as such by many distinguished members of this body.

Why has the quest for transparency in government spending proven so difficult to date? For starters, the explosion of government outsourcing was not originally accompanied by the development of appropriate accounting systems for monitoring these flows. Getting the work done took precedence over ensuring that the right systems were in place to ensure that the work would be done well. Responding to the requirements of FFATA often meant being asked for data that one had not made a habit of collecting. All of this is in the process of changing, and dramatic improvements have been made. But data quality was and is a persistent concern, because the government's accounting systems have not yet fully adapted to the new normal, where the majority of the government's work is in private hands. Here Congress could be enormously helpful in providing incentives to get us where we need to go sooner rather than later.

---

[9] "Warlord, Inc.: Extortion and Corruption Along the U.S. Supply Chain in Afghanistan," Report of the Majority Staff (Rep. John Tierney, Chair), Subcommittee on National Security and Foreign Affairs, Committee on Oversight and Government Reform, U.S. House of Representatives, June 2010. http://oversight.house.gov/images/stories/subcommittees/NS_Subcommittee/6.22.10_HNT_HEARING/Warlord_Inc_compress.pdf

[10] Allison Stanger, "Addicted to Contractors, *Foreign Policy*, December 1, 2009. http://www.foreignpolicy.com/articles/2009/12/01/addicted_to_contractors

There is a connection between our penchant for outsourcing and what Senator Whitehouse has called regulatory capture in reference to the ongoing oil spill in the Gulf and government's failure to react in timely fashion to the mounting crisis. You don't need corporate malevolence to get regulatory capture. It can follow directly from hollowed out government. If a public servant has had a distinguished career in government interacting with the private sector, it is natural to think beyond retirement to the next challenge, which often coincides with the heavy burden of shouldering tuition payments for children attending college. Regulators who might one day be employed by companies they have been tasked to regulate present a serious moral hazard. Regulatory capture occurs when the regulators focus on these points of shared interest and their own narrow self-interest, forgetting those things that only government can do well.

Noting how easily regulatory capture can occur is not the same thing as arguing that insourcing to right the contractor/government employee imbalance will automatically solve this problem. For example, I had a reporter call me up and cite figures that showed that contractors were doing the majority of the cleanup in the Gulf. He wanted me to express outrage at this fact. I disappointed him by saying that the relationship is entirely acceptable; if those doing the cleanup in emergencies were regular government employees, they would be doing a whole lot of sitting around during non-crisis situations, which would be a waste of taxpayer money. This was not what he wanted to hear, and the story didn't run. But the point is still worth emphasizing. Contractors can provide vital surge capacity for emergency situations. It is also far too easy, with the ever present terrorism threat, to see the United States as in some sort of permanent state of emergency, sanctioning measures that over time undermine self-government.

But that is precisely why radical transparency has become so critical to the health of American democracy. If we are going to rely in unprecedented fashion on outsourcing the work of government to the private sector, both in wartime and peacetime, and both to for-profit and not-for-profit organizations, congressional oversight becomes infinitely more complex and challenging. This spending must take place in the full light of day. Americans need to be able to see where their tax dollars are going, and radical transparency promotes the right sort of incentive structure for Wall Street and Washington elites who together wield extraordinary power—at least from the perspective of the average American.

Lest I be misunderstood, I am well aware that the demands of national security must sometimes trump the public's right to know. When our enemy was the Soviet Union, there were many instances where this imperative rightfully prevailed. But the Cold War is long over, and our enemy today is not another state but a network of order-subverting terrorists who threaten our most cherished values. Fighting that new threat demands unprecedented cooperation, collaboration, and information-sharing between the public-private sectors, between federal, state, and local government, and with our NATO allies. Transparency serves each of those ends rather than undermining them. Thus, when our national security interests are properly understood, transparency does not threaten the national interest but instead upholds it. In the simplest of terms, transparency

is communication, and communication fosters the cooperation and teamwork on which our homeland security depends. The new counterinsurgency doctrine acknowledges this proposition overseas; why can't we do so at home?

I stand ready to be persuaded otherwise, but to date, I have found most concerns about the costs of transparency to be misplaced, excessively focused on the short term at the expense of the sustainable. I understand why these concerns exist; the world has changed dramatically in a short period of time, and human behavior always lags profound socioeconomic change. But to find it understandable is no reason to accept the status quo as an immovable object. We can and must do better.

In conclusion, when so much of the work of government is in private hands, standard approaches to transparency will no longer suffice. The American people need to be able to see where and how their tax dollars are spent—right through to the sub-award level. Companies as well as governments can operate with the purest of intentions, but if their most important transactions are opaque to the public, they will lose trust and effectiveness. President Obama's March 4, 2009 Presidential Memorandum ordering a government-wide review of our contracting practices was a bold step in the right direction. The next step is to ensure that the spirit and letter of FFATA are upheld.

Thank you for your attention and I welcome your questions.

Senator WARNER. Thank you, Dr. Stanger.
Dr. CARAFANO.

STATEMENT OF JAMES JAY CARAFANO, PH.D., DIRECTOR, DOUGLAS AND SARAH ALLISON CENTER FOR FOREIGN POLICY STUDIES, THE HERITAGE FOUNDATION

Mr. CARAFANO. I do not know if—
[off microphone].
Senator WHITEHOUSE. Oh, come on. Try.
[Laughter.]

Mr. CARAFANO. I would like to highlight five quick points and highlight three recommendations. My first point is contracting in the private sector, if it is done right, is a huge competitive advantage for any nation. World global product is $58 trillion. About a fifth of that is the United States. Most of that wealth was created by the private sector. Much of it was created by small and medium businesses, so harnessing that power is really the key to being the winner in the 21st century. And if you are a free nation, you actually start out with a competitive advantage. If you have rule of law, if you have transparency, if you have low rates of corruption, if you have a media and other people that bring transparency and sunlight, you have an enormous advantage in executing this thing. So getting this right—really, it is not even just about fiscal responsibility. This is about protecting and keeping the Nation free, safe, and prosperous in the 21st century, and leveraging one of the absolute most powerful advantages on the known planet is a big piece of that.

I and a team at Heritage, we have been looking at this issue for a very, very long time, and after years of study I come back again and again and again, when I get to the root of the problem, 99.9 percent of the time the root of the problem is Government is not a very good customer. And a lot of what I hear today is the right discussion. The enemy is largely us, being the people that contract for goods and services.

My concern is it is great to hear all this discussion and talk about fixing the problem and do this, and we can put aside the fact that we have heard this for decades and decades and decades from administrations both Republican and Democrat. Intentions are great, but intentions have to be meaningful, and analysis that focuses on outputs as opposed to outcomes to me is very troubling. So when we just throw numbers around out of context, numbers independently as if they mean something, whether they are good or bad or we are going to do this or we are going to do that, and it is not tied to a specific outcome that is clear and compelling, then I wonder whether reforms are actually going in the right direction.

The fourth point I would make is by and large the solutions that I would argue for, my personal prejudice is always people over-process, particularly where you are dealing with very, very huge, complex systems. Probably a great example of this is back in the 1990's, when information technology was really exploding, people had a good heart, and so we had the Clinger-Cohen act, and the notion was Government has to get on top of this. So we added a process. We said, Look, consider IT a major enterprise acquisition

for your Federal agency, period. And that seemed like a good thing. We were putting people in charge. Well, of course, we were really at the dawn of the IT revolution, and the people who were put in charge were clueless. They did not have any ideas on what good IT was. So it is like we gave matches to the kid, and as a result in the 1990's Government locked itself into a lot of stupid decisions that the private sector did not make in terms of buying proprietary software and different services. And we have been locked into that, and in large part you could argue that our IT policies and acquisition have stunk for decades because we put stupid people in charge at the beginning, and now we are just playing catch-up.

When you get the people piece right, everything else falls into place. And I want to just emphasize three areas of that. Getting an acquisition work force, I think everybody agrees that is absolutely right. We powered down our acquisition work force, particularly in DOD, at the end of the cold war. Huge mistake because we knew the only way we were going to grow capacity in time of war was to use the private sector and to take away the head that was supposed to run that. That was just dumb. And we have to build that back.

When we build that back, we have really got to be smart, and there is a good analogy here. If you look in the scientific community what keeps scientists at a university or a research center? And it is not just what you are paying them. They like to hang out there because it is cool. They have cool research facilities. They got great work. They have the tools that they need, and they are doing exciting things. So when we build this IT work force, we have to give them the tools and the capabilities and the authority to do their job; otherwise, they are not going to stick around. And if we just have a lot of people cycling through the system every 12 or 18 months, we are not going to get any oversight. Particularly in the area of the IT systems that support the acquisition oversight and management process, we have to put the investments in there and get the right systems in place.

The second piece I would emphasize is auditing. Everybody talks about auditing. Auditing is great. When we look at the history of the auditing of the auditor of the Defense Contracting Auditing Agency, it is not a pretty picture in the last couple years. You know, we have to get that piece right, and we have to, I think, make a distinction and re-create the difference between doing auditing of fiscal processes and what the Inspector General does.

And I am very concerned that in our rush to fix things, we are tending to blur these things together to the point that it actually might get counterproductive. They are important activities, they are interrelated activities, but they ought to be cleanly separate activities, and they ought to be a resource and run appropriately.

Then the last point I will make is we have really got to end the process of micromanagement. The concept of risk management was created to help leaders make decisions. It was not created to childproof the universe. You are never going to eliminate risk. And if you make laws and rules and processes that their sole purpose is to drive risk out of the system and not get anything done wrong, at the end what you are going to do is drive a process that is incredibly inefficient and incredibly risky.

So risk management works when it is in the hands of the people who have responsibility, so we need to be empowering program managers, we need to be empowering the acquisition work force, we need to have the oversight and transparency. But we cannot continually saddle them with more and more regulations and requirements and have them in turn impose more and more regulations and requirements which are actually creating a more inefficient system. So we get to the point where we are buying absolutely nothing with zero risk and spending an awful lot of money on it.

With that, I thank you for having me here today.

[The prepared statement of Mr. Carafano follows:]

Testimony before the
Committee on the Budget
United States Senate

July 15, 2010

Responsible Contracting: Modernizing the Business of Government for National Security

My name is Dr. James Jay Carafano. I am the Deputy Director of the Kathryn and Shelby Cullom Davis Institute for International Studies and the Director of Douglas and Sarah Allison Center for Foreign Policy Studies at The Heritage Foundation. The views I express in this testimony are my own, and should not be construed as representing any official position of The Heritage Foundation.

Thank you for the opportunity to appear before the committee today and address this vital subject. In my testimony I would like to (1) explain why getting contracting right is vital to the future security, freedom, and prosperity of the nation; (2) describe the vision for what government contracting for national security should look like; (3) identify what I believe are some of the key obstacles to achieving the vision; and (4) suggest the next steps in overcoming the systematic problems that plague modernizing government contracting processes.

My responsibilities at The Heritage Foundation include supervising all the foundation's research on public policy concerning foreign policy and national security. In recent years, the impact of government contracting on matters related to national security, primarily concerning defense acquisition but also in support for expeditionary operations, has been a subject of special interest for Heritage.

Getting contracting right is a fundamental responsibility of good governance—essential to the practice of limited government and fiscal responsibility. It is particularly important in regard to contracting in support of national security activities. Our men and women in uniform who enter harm's way to protect our liberties and freedom deserve the best support we can give them.

Since defense contracting represents a significant category of discretionary spending, it is especially vital that Washington get this part of federal spending right. Furthermore, I believe many of the attributes of good national security contracting are applicable to other government business practices.

The research team at Heritage that I represent is uniquely qualified to examine this issue. Our analysts have observed contracting and military operations worldwide, from bases in Afghanistan to factory floors here in the United States. They have conducted substantive research on most aspects of defense and homeland security. Heritage analysts also serve on a variety of government advisory efforts, including the Board on Army Science and Technology, the U.S.-China Economic and Security Review Commission, the Congressional Advisory Panel on Department of Defense Capabilities for Support of Civil Authorities After Certain Incidents, the Quadrennial Homeland Security Review Advisory Committee, and the Quadrennial Defense Review Independent Panel. Our research programs are non-partisan, dedicated to developing

policy proposals that will keep the nation safe, free, and prosperous. The results of all our research are publicly available on the Heritage Web site at *www.heritage.org*.

The Past and Future of Contracting for National Security

The capacity to conduct effective contracting is a potential key competitive advantage for the modern nation-state. The emergent role of contractors in all aspects of national security on and off the battlefield reflects a deeper and deeply significant transition in the nature of armed conflict, a significant rebalancing of the roles the private and public sectors play in war. This change is the most significant upheaval in the nature of warfare since the rise of the nation-state in the 17th century. It represents a transformation started long before the invasion of Iraq and, absent a dramatic change in the evolution of the global marketplace, the role of the private sector in public wars will continue to increase, regardless of the course of American domestic politics. At the same time, dealing with the challenge of harnessing the growing capacity of the marketplace to supply combat capabilities creates new and daunting responsibilities for government that cannot be addressed by business-as-usual practices. Government will have to change to keep up.[1]

Before the emergence of the modern nation-state, the public sector had authority but little power to mobilize resources for warfare. This led to what are now commonly and often pejoratively known as mercenaries, or "soldiers who fought for profit and not in the cause of their native land or lord."[2] Monarchs throughout Europe employed mercenaries to fight wars, improve logistical support, and wield the power of the private sector to better advance their strategic interests.

The expansion of the private sector's role in conflict helped initiate the transformation to the second great age of war when the public sphere came to dominate military operations. States took over the business of violence, turning wars from a largely private enterprise into an almost (albeit not) exclusively public operation.

Today, the world has entered a new age in warfare which is rebalancing the relationship between the public and private spheres. Globalization and the evolution of the private sector dramatically affect combat. Just as globalization appears to be an unstoppable force, the reliance on the private sector in war is also probably irreversible. Unlike the public sector, the private sector is bred for efficiency: Left to its own devices, it will always find the means to provide services faster, cheaper, and more effectively than will governments. With the assets of a modern, liberal society—a well-established judicial system, legitimate legislative branch, independent press, active community of public interest groups, and enabled citizenry—the United States is well positioned to effectively balance the public and private spheres in supporting national security.

Working through the legal, ethical, and practical issues surrounding military contracting will improve America's ability to prepare for this third age of combat. The private sector's increasing role in public wars can be a good thing for American security if the United States can learn to

---

[1] James Jay Carafano, *Private Sector, Public Wars: Contractors in Combat—Afghanistan, Iraq, and Future Conflicts* (Westport, Conn.: Praeger, 2008), pp. 11-12.
[2] Michael Mallet, "Mercenaries," in *Medieval Warfare* (Oxford: Oxford University Press, 1999), p. 209.

create a strong partnership between each sector that enforces accountability and uses America's competitive edge to its advantage.

A Vision for the Future

To turn government contracting from a liability into a competitive advantage requires a transformation in Washington's businesses practices. It will be easy to know when government. gets contracting right.

- The government will be supported by an experienced, capable, and empowered corps of contracting officers. They will have all the education and training, support tools, and authorities they need to do their job.

- The work of the contracting officer and the contractors will be overseen by qualified teams of auditors and inspectors general who each stick to their own job while providing real oversight and accountability, but at the same time do not interfere with the ability of the force to do its job.

- Inspectors and auditors will be accompanied by criminal investigators in sufficient numbers and with sufficient support to go after the bad apples in any barrel.

- The work of all the members of the "contracting" team in the administration and the Congress will be part of a system that provides visibility and transparency so that everyone who needs to understand what is being done and why has access to the information they need.

- And, most important, the contracting team will be supporting a U.S. team that is trained, organized, equipped, and led to get the job done right.

That is what contracting in the 21st century ought to look like. Turning that vision into a reality starts by abandoning unrealistic expectations and deeply flawed assumptions.

Obstacles to Overcome

It would be naïve to conclude anything but that the subject of government contracting has become over-politicized. Contracting controversies during "wartime," from the American Revolution to the Cold War, are a constant theme in American history. Separating fact from fiction is important. Parsing unsubstantiated allegations, prejudices, political judgments, and unfounded assumptions from real problems is part of meeting the challenge of harnessing the private sector for public wars, keeping the United States competitive, and overcoming anti-competitive practices that could well hamstring America's ability to effectively prepare for and fight future conflicts.

Some criticisms that are considered "common knowledge" have become real obstacles to reform and have to be set aside. They include:

- *A bad assumption that "fraud, waste, and abuse" are the root cause of government inefficiencies.* Eliminating misspent government dollars is frequently cited as a remedy for reducing spending. Such proposals ignore the fact that eliminating fraud, waste, and abuse has historically proven to be a relatively modest source of savings compared to the overall budget. While government should, of course, take every responsible measure to ensure it is a good steward of our tax dollars and provide the best support for our men and women in uniform, procedures to guard against waste should not be so restrictive that they undermine efforts to buy equipment and services and innovate and adapt to national security challenges.[3]
- *The wrong-headed notion that the efficiency and effectiveness of government business contracting practices should be judged by the standards of private-sector business practices.* The budgeting and regulatory oversight processes for government operations operate under different regimes than the private sector and always will. If the standard for government contracting is the private sector, the government processes will always be found wanting.[4]
- *An erroneous belief that some types of contracting vehicles are inherently more "virtuous" than others.* Types of contracts, such as cost-plus and sole-source, and award standards like "best-value" or "least-cost" are all established under the Federal Acquisition Regulations for a reason: Under the right conditions they provide the best services to the government.[5]
- *An unsupportable idea that inherently governmental is a usable standard for determining the division of responsibility between the public and private sectors.* The guide to all government actions ought to be the Constitution of the United States. While the Constitution establishes "providing for the common defense" as a core mission of the federal government, beyond the broad responsibilities it assigns to the executive and legislative branch it left to the wisdom of elected officials to determine how to best meet these responsibilities. Thus, beyond its responsibilities and the oversight of executing those responsibilities, no good or service is inherently governmental. The determination of what goods and services should be provided by the public or private sector should be determined by the conditions and the mission, not by an arbitrary belief that some functions are always best performed by government employees or wage-earning contractors.[6]
- *Dangerously believing that more regulations, more centralization, and more oversight best ensure the government's interests.* As my colleague at Heritage Baker Spring has noted, "[c]umulatively, congressional legislative and oversight activities have sought to centralize acquisition functions because Congress sees centralization as increasing its power to control the acquisition process and specific acquisition decisions. This perception is an illusion because the acquisition bureaucracy responds with a risk-averse

---

[3] James Jay Carafano and Eric Sayers, "Defense Spending Fraud, Waste, and Abuse: Hype, Reality, and Real Solutions" Heritage Foundation *Backgrounder* No. 2212, November 20, 2008, at *www.heritage.org/Research/Reports/2008/11/Defense-Spending-Fraud-Waste-and-Abuse-Hype-Reality-and-Real-Solutions*.

[4] Baker Spring, "Congressional Restraint Is Key to Successful Defense Acquisition Reform," Heritage Foundation *Backgrounder* No. 1885, October 19, 2005, at *www.heritage.org/Research/Reports/2005/10/Congressional-Restraint-Is-Key-to-Successful-Defense-Acquisition-Reform*.

[5] *Ibid.* See also, Carafano, *Private Sector*, pp. 81-82.

[6] See, for example, the discussion of the A-76 process in Carafano, *Private Sector*, pp. 72-78.

mindset that undermines accountability. In this mindset, the bureaucracy moves reflexively to protect itself by adding more bureaucracy to diffuse responsibility. Ultimately, Congress gets more bureaucracy and less accountability out of the acquisition system. Further, the excess bureaucracy is itself wasteful and slows the acquisition process."[7]

- *Flawed thinking which holds that the root of the problem is the profiteering of the private sector.* More often than not the root of government's problem is that government is not a very good customer—ill-defining requirements, under-funding programs, or ineptly managing contracts.

Washington will never get contracting right if it sticks to believing untruths that will lead to the kinds of "reforms" that make government contracting worse rather than better.

Modest Proposals for Moving Forward

Government contracting is massive and multifaceted. It is unrealistic to believe that there are "silver-bullet" solutions that will significantly improve performance across the entire government enterprise. As with most complex, non-linear problems, the best solutions will probably focus on decentralization and putting decisions in the hands of responsible officials who have the skills, knowledge, attributes, and capabilities to do the right thing.

Building the right federal enterprise for the conduct of contracting might start with the following initiatives.

- **Get Oversight Right.** Both the auditing and inspector general functions are vital to good governance. These functions, however, must be correctly performed and be kept distinct from one another. For example, a recent Defense Department policy has established that when a contracting officer disagrees with a Defense Contracting Auditing Agency (DCAA) finding the case is immediately referred to the Inspector General. This policy will have adverse "chilling affect" on contracting officers, unduly blurring the line between auditing and investigating. Reports by the Government Accountability Office and the Defense Business Board have cited weaknesses in auditing including emphasizing quantity over quality. DCAA must provide high-quality fiscal audits.[8] Getting DCAA's mission focus, procedures, and resources right is important.

- **End Micromanagement.** The trend toward excessive over management, particularly from the Congress, must come to an end. As my colleague Baker Spring notes, "while no single measurement can completely describe the level of micromanagement that

[7] Spring, "Congressional Restraint Is Key to Successful Defense Acquisition Reform."
[8] Gregory D. Kutz, "Defense Management: Widespread DCAA Audit Problems Leave Billions of Taxpayer Dollars Vulnerable to Fraud, Waste, Abuse, and Mismanagement," Government Accountability Office, GAO-10-163T, October 15, 2009; Defense Business Board, "Independent Review Panel Report on Defense Contracting Audit Agency," Report FY09-1, October 2008, at dbb.defense.gov/pdf/Independent_Review_Panal_Report_of_the_Defense_Contract_Audit_Agency_(Final_Report).pdf (July 7, 2010).

Congress imposes on the DOD through the legislative process, the length of the annual defense authorization bill is a good general indicator."[9] In 1973, the Defense Authorization Act for Fiscal Year 1974 was 19 pages long. In 2004, the authorizations act ran 388 pages. Excessive management drives up cost, creates more bureaucracy, creates a risk-averse environment, and stifles innovation and adaptability.

- **Measure Risk Right.** While the Federal Acquisition Regulations (FAR) correctly assign risk as a key metric in determining the right contract vehicle, adding more specific guidelines to acquisition regulations and guidelines leading to prescriptive solutions that are not sufficiently flexible to keep up with changing operational requirements, advances in technology, or the verities of the marketplace may not be the right answer. Rather, the capacity to assess and framework to assess risk should be built into contractor decision-making. One methodology has been suggested by analysts at the RAND Corporation.[10]

- **Treat Expeditionary Contracting Differently.** Shifting preferences to low-cost, fixed-price contracts and reducing the size of awards among multiple contractors have not resulted in improving efficiency or effectiveness. In expeditionary environments where lives are on the line, it is particularly vital that the government get the best services available for the mission. In October 2009, the Commission on Wartime Contracting specifically endorsed best-value contracting practices.[11]

- **Get the Work Force Right.** In October 2007, a commission set up by the Secretary of the Army issued its findings in a study titled "Urgent Reform Required: Army Expeditionary Contracting." Chaired by former Undersecretary of Defense Jacques S. Gansler, the commission found that almost every component of the institutional Army, from financial management to personnel and contracting systems to training, education and doctrine and regulations, needed to be beefed up to handle the volume of work experienced by military operations in Afghanistan and Iraq.[12] The strength of this report was that it focused on building the human capital and contracting officer support system as the key to improving the efficiency and effectiveness of contracting. In particular, is important that skilled and trained contracting personal have extended assignments to ensure continuity of program management.

- **Think Smarter.** There is also a way to seriously de-politicize even the most divisive political decisions and that is making clear that the requirements are driven by military necessity. The military actually had a great tool for doing that, but like a lot of other great

---

[9] *Ibid*

[10] Frank Camm and Victoria A. Greenfield, *How Should the Army Use Contractors on the Battlefield? Assessing Comparative Risk in Sourcing Decisions* (Santa Monica, Calif.: RAND Corporation, 2005), p. 11, at www.rand.org/pubs/monographs/2005/RAND_MG296.pdf (April 17, 2009).

[11] Commission on Wartime Contracting, "Lowest-Priced Security Not Good Enough for War-Zone Embassies," CWC Special Report No. 2., October 1. 2009, at www.wartimecontracting.gov/docs/CWC_SR2-2009-10-01.pdf (April 7, 2010).

[12] Commission on Army Acquisition and Program Management in Expeditionary Operations, "Urgent Reform Required: Army Expeditionary Contracting," October 2007, www.army.mil/docs/gansler_commission_report_final_071031.pdf (April 7, 2010).

> attributes of the force it got washed away in the great downsizing after the Cold War. During the "good" war, the U.S. military discovered a great tool for improving the efficiency of some military operations. It was actually a tool that had long been in use in the private sector, exploiting an emergent field of math to determine new ways of achieving business efficiencies by analyzing complex systems, discovering critical paths that determined productivity, and adjusting the allocation of resources to boost production. A robust corps of operational research analysts would be ideal for evaluating and determining the private-sector needs of the military in future operations. Developing and maintaining this corps of professionals ought to be a Pentagon priority.[13]

Learning Lessons, Looking Forward

There are good lessons to be learned from failure. In respect to government contracting, no experience has more to tell than the recent U.S. experience in wartime contracting. In the end, the single greatest shortfall in contracting practices in Iraq and Afghanistan was that Washington lacked the capacity to oversee the unexpected massive volume of contracts it handed out. As the Special Inspector General for Iraq Reconstruction noted, "the shortage of personnel (and the widespread lack of required skill and experience among those available) affected all facets of reconstruction assistance."[14] With the value of hindsight it is clear that fixing that problem would have resolved the majority of serious difficulties encountered in managing contracts. Even the most partisan critics would have had a hard time finding something to complain about. All the controversy might have been avoided if the military were a better customer. But it was not and will not be in the future either if we learn the wrong lessons—continuing to hamstring not just expeditionary contracting, but government acquisition and service contracting across the federal enterprise with more ineffective oversight and excessive rules that make little sense.

Getting the job done right hardly sounds as compelling a challenge as battling an evil military-industrial complex or unmasking a political conspiracy, but nevertheless it is the heart of the problem. If Washington seriously wants to deal with the real problems of government contracting then they will have to start to deal with the real problems that cause them.

Thank you for the opportunity to participate in this hearing and I look forward to answering your questions.

****

The Heritage Foundation is a public policy, research, and educational organization operating under Section 501(C)(3). It is privately supported and receives no funds from any government at any level, nor does it perform any government or other contract work. The Heritage Foundation is the most broadly supported think tank in the United States. During 2009, it had 581,000 individual, foundation, and corporate supporters representing every state in the U.S. Its 2009 income came from the following sources:
Individuals 80%

---

[13] Carafano, *Private Sector*, pp. 200-201.

[14] Special Inspector General for Iraq Reconstruction, *Hard Lessons: The Iraq Reconstruction Experience* (Washington, D.C.: US Independent Agencies and Commissions, 2009), p. 25.

Foundations 17%
Corporations 3%
The top five corporate givers provided The Heritage Foundation with 1.6% of its 2009 income. The Heritage Foundation's books are audited annually by the national accounting firm of McGladrey & Pullen. A list of major donors is available from The Heritage Foundation upon request. Members of The Heritage Foundation staff testify as individuals discussing their own independent research. The views expressed are their own and do not reflect an institutional position for The Heritage Foundation or its board of trustees.

Senator WARNER. Thank you both. I think there may be some spirited disagreement, but I think—not as much as you promised me, Sheldon. But I do think it was important that we have heard from all four of our panelists that the acquisition work force, getting those folks right, and getting them trained is key.

Dr. Carafano, I would like you to expand on your comment in a moment. I am going to ask one broad-based question and let you both answer. This notion of fiscal auditing responsibility versus the Inspector General role, I agree with you. They were different functions, and the two tend to blur sometimes and trying to recognize one—in the normal course of business, one is looking for that outlier, bad instances. I would love you both to expand on that.

What this Task Force has looked a lot at is the next level of Government performance geekiness, which we would all like but most folks' eyes roll over, which is performance metrics. And we have talked here a little bit about how do we have transparency, how do we get the contracting right. I would like you each to talk a little bit about, let us take DOD as an area. How do we get some common consensus on those performance metrics and what they ought to be?

My personal bias is—and I would like you to both comment on this, particularly Dr. Stanger. I think Dr. Carafano has a point that we are—we want to do our oversight job well, but at times what we do is simply layer on more requirements, layer on more reporting, without taking anything away. And I think sometimes the work force was caught with this 20 years of accumulated reporting requirements, and nobody sorts through what is important and what is not important. And then when we get to the question of how do we present that information in a website that is user friendly and understandable by somebody other than distinguished professors with incredible backgrounds, we do not get it right. So I would like your comment on, in this move toward more transparency, would you be willing to say we ought to audit a little bit of what all the reporting requirements are already out there and see what we can actually remove and prioritize so that the work force can do a better job of recognizing what is really important for us to know to do our job right. Broad-based throwing in questions, and recognizing that at the front end will be my only question. Then we are going to move to Senator Whitehouse because the roll call vote has just started, so we are going to have to probably slip out in about 10 or 12 minutes.

Ms. STANGER. Well, the point I would make is I am not an expert on auditing requirements, but I know that there has been this layering of requirement upon requirement, and when you get accumulated regulations over time, it tends to operate in irrational ways. So I definitely think that would be something for review.

But my point about transparency is just a simple one. It is not allowing everybody to understand ordinary citizens to understand the requirements. It is simply letting citizens know where the money is going. That is the part that concerns me, is that if you have these enormous percentages of business, the business of Government, in private hands and it is flowing through contracts to subcontracts and we cannot see where it is going, that to me is at

odds with the principle of self-government and needs to be corrected. So I am a keen advocate of transparency for those reasons.

I think we would all agree that the acquisition work force needs to be increased and better trained. I am wondering whether you might want to consider linking appropriate training—increased funds for building up the work force to appropriate training.

I will stop there.

Mr. CARAFANO. I think there is a real lesson to learn here from GPRA, the Government Performance and Review Act, which, again, interestingly, is another product of the legislation in the 1990's in a time when we were facing a similar fiscal situation that are today. We wanted to reduce Federal spending. We were trying to grow the economy, and so we wanted to make Government more efficient and more effective. So we introduced GPRA, which is by and large borrowing concepts from the private sector and applying them to Government, without clearly recognizing that Government business processes are different than private sector business processes because we have a Congress and we have rules and we have the foreign—the private sector does not. And if you actually look at the implementation of GPRA over time, what has increasingly happened is we have seen an increasing proliferation of metrics which are increasingly outputs as opposed to outcomes. So what we have actually been doing is, again, driving a bunch of behaviors which do not necessarily lead to the key things that we are interested in, which is getting the best value and the best services for the taxpayer.

So, clearly, I think from Congress' perspective, fewer, more truly meaningful metrics that are truly outcome-based are something that is worth striving for. So I commend your notion and your idea of where it is really worth going and delving into, because I think there is some real "there" there.

Senator WARNER. I personally believe we have gone from GPRA to PART to now the Obama administration's efforts as well. It seems like we reinvent the wheel. Part of the challenge and part of what this—it seems to me the administration has come in and, in a flurry in the first year, talk about transparency and performance metrics, and that quickly gets very tedious to people other than folks like us who get excited about it, and that process recedes, and then a new administration comes in and we reinvent the wheel. Part of the goal—and I appreciate Senator Conrad and Senator Gregg giving us this task force—is to try to get an ongoing legislative entity that beyond a particular administration will keep that focus in place.

I would ask you to—Dr. Carafano, you took on the issue around metrics performance. Dr. Stanger, you came back to transparency again. I would like you to reverse role each other and, Dr. Stanger, if you could talk a little bit about how do we get those performance metrics right. And, Dr. Carafano, I assume—I would like you to say Dr. Stanger's point, which is we at least ought to know where all the dollars are going. It seems to me like pretty common sense. I would take a little bit of an exception maybe to the notion that there are differences, but as somebody who has spent a career in the private sector and now some in the public sector the notion that they are totally apples and oranges, that there ought to be

some ability to measure in a better way the outcomes, as you said, because it should not be outputs.

So if you could address more the performance piece, Dr. Stanger, and, Dr. Carafano, if you could get more into the transparency issue, I would be curious.

Ms. STANGER. I think with respect to performance metrics, we can all agree that enhanced competition is key to both lowering costs and also encouraging innovation and the energy on which our economy's growth depends. So I think actually transparency is linked to putting in place the right incentives for the private sector, because if we really do want to, as we heard on the last panel, increase the involvement of small business, if we want to be sure that every contract is properly competed, then transparency is key, because if you want small business involvement—and we see this in the development realm in particular—you know, having the information out there on what is possible and what has taken place in the past is absolutely critical. So I see a definite link between my transparency theme and getting better Government performance in that realm.

Senator WARNER. Let me just ask, before we go to Dr. Carafano, the point I made and the point that I think Dr. Carafano made, which was sometimes under the guise of transparency we add on more and more requirements, I do think he has a point in terms of at some level in oversight a 535-member board, which in effect the Federal Government has with both the House and the Senate, each trying to ask specific items, can get into a level of micromanagement. How would you as an advocate for transparency sort through those? You know, should we be doing an audit of all the reporting requirements and all the management requirements that are out there to hone that list down so that we could focus on more important items, or the most important items?

Ms. STANGER. It sound to me like that would make a lot of sense, but I would just add to that that—I have lost my train of thought.

Senator WARNER. It happens to me all the time. Because we are seeing—what we are focusing on here is I hear from Federal employees all the time. Every administration comes in with a new set of reporting requirements. The Congress adds in every piece of legislation new reports requirements. It is hard to be against any new reporting requirement that sounds when you are arguing and there is an amendment that this is in the guise of transparency and to get us to greater effectiveness and better value. But at times I have seen the GPRA reports and PART reports. They are so voluminous that, again, perhaps with very few experts around there there is not a focus to them.

Ms. STANGER. My thought came back to me. Can I speak again? Sorry about that. I think it makes sense to perhaps redefine how we think of transparency, because in the way you are discussing it, transparency is very much a question of what Government is requiring what needs to be provided in terms of reporting to satisfy Government.

I would suggest that we instead think of transparency as being something that is in the eyes of the beholder in the sense that it is not what Government thinks needs to be required or put out there but, rather, that we ask people who are providing the serv-

ices what they would like to see publicly available or not publicly available and that transparency exists when the people who are depending on open sources agree that it is there. In other words, Government does not define transparency; the people do. And so I would encourage thinking about transparency in that sort of way with respect to regulations as well.

Senator WARNER. The only question I would have with that is I am not sure in this case more is always better and that at some point limitations—you could have—whether it is your contracting officials, whether it is your senior management, spending a disproportionate amount of time on simply reporting rather than doing their job.

Dr. Carafano?

Mr. CARAFANO. I would just like to jump back to the point on metrics, if I may for a second. Competition in small and medium businesses is actually a really good example, so defining—for example, small and medium businesses truly are the backbone in this country, enormous amount of innovation and a great resource for Government, absolutely. The question is: As a metric, is defining small business contracts as a percentage, is that a really useful metric, or is that just another output? And in driving to get to that metric, will you drive inefficient and poor behaviors as opposed to—I mean, and we really looked at why do small and medium businesses not do a lot of Government contracting, and it is usually because of the Tower of Babel of regulations and everything they have to go through to even find out about contracts and get them. So if we remove the barriers to entry level in the Government contracting, wouldn't that be maybe more effective than just establishing a percentage? So that is just a thought.

On the transparency side this is an enormous issue for Government, and I think one of the problems is when we try to address the field of contracting we try to come up with a silver bullet to solve every problem for everything. And Government contracting is incredibly complex. It is a lot of different vehicles doing a lot of different things. You should look at them all differently.

So if you are looking for a place to start, looking, again, at the IT support for the acquisition work force and the resources they have available and the adequacy of them I think is a very good place.

You know, the notion that giving us a lot of information is burdensome, that was true in the 19th century, and it was true in the 20th century, but I am not so sure it is true in the 21st century. We are creating new network tools, new social network tools so that places an enormous amounts of data incredibly quickly and allow you to slice and dice every way you do that. So I can go buy a piece of social ware, and I can tell you everything on the Web everybody is saying about Senator Warner today and who likes him and who does not like him, and I can give you all that data in about 5 minutes. And if I went to an acquisition work force and I asked you where are all the subcontractors working on this contract, he would say, "I will get back to you in 3 or 4 months."

So the IT is out there to give us a lot of information to solve a lot of these transparency problems, and if you work that piece at the start, at the acquisition start, it is not going to solve the trans-

parency problem for all of Government and all of Federal contracting. But it sure gives you a good start point to look at things.

Senator WARNER. Your point being that getting that—again, back to that initial sizing of the requirements right, at least on the IT piece, that—and I think you are saying then you have unlimited access to the data and how you slice and dice may not be as burdensome as in the past.

Mr. CARAFANO. Right.

Senator WARNER. I am going to turn it over to Senator Whitehouse to close out this part of the hearing, and I appreciate both of your testimonies and answers to questions. In terms of a written response I would love both of your thoughts as this administration takes on this conversation about what is an inherently governmental function, that whole broad-based philosophical basis of how we are going to sort through this. It is something I think we are going to have to be engaged in as well and would love at least your thoughts about how we ought to at least even approach that debate, and I would look forward to those written responses.

Senator WARNER. I will turn the balance of the hearing over to my colleague Senator Whitehouse. Thank you.

Senator WHITEHOUSE [presiding]. Thank you, Senator Warner, and thank you both for your testimony. As much as we have joked a bit back and forth about the dispute that often comes between majority and minority witnesses, what struck me was that the areas of overlap between your testimony were far, far greater than your areas of disagreement. Even when you go to the more thorough written testimony, you guys are very much in synch about the need for better management of this contracting practice and the tools for doing that.

A couple of things struck me. The first is that you seem both to agree that the practice of contracting has to a very significant extent run ahead of the policy about how we should be doing it. I noticed in Dr. Stanger's book, "One Nation Under Contract: The Outsourcing of American Power and the Future of Foreign Policy," two quotes that seemed to illustrate this a bit. Susan Yarwood, Deputy Director of Enterprise Services in the Office of the Secretary of Defense, in June of 2007 said, "We do not even know how many contracts we have now." And General Zinni, Anthony Zinni, the former commander-in-chief of the U.S. Central Command, said, "If I had to revamp how we do things, I would start with what should be contracted and what should not."

So we are at a fairly basic level to start with where the questions are what should be contracted and what should not and how many contracts do we have. Do you agree that we are—that the practice of contracting has run ahead of the policy as to how and when we should do it and how it should be overseen and there is a gap there?

Mr. CARAFANO. Maybe I will just start. Yes, I think that is very true. A great example of that is the A–76 process that was developed to determine whether some things should be inherently governmental or outsourced. So the A–76 process was a peacetime process, and it was designed for a very different military. And when you go back—and I discussed this example at length in my book. When you go back and you look at the tragedy of Walter

Reed, the tragedy of Walter Reed was everybody was just doing their job, they were just clunking through on the A–76 process as it existed and doing what it said, and the result of that is we have tragically failed to take care of our soldiers because the A–76 process did not recognize the notion that there would be a war tomorrow and all of a sudden you have to surge capacity and then you need to stop and go in a different direction.

So I think the answer to the question and where I would disagree with General Zinni is there is—and General Zinni knows this, and I am sure that is not what he said. You know, when they say how do you fight a war, the answer is, well, if you have seen one war, you have seen one war. You know, what should you contract? And the answer is, well, it depends. Technology is going to evolve. Governance is going to evolve. People's needs are going to evolve. So what is incredibly appropriate to contract today might not be a good idea to contract tomorrow.

What we tend to do is to use always economies and dollar as the key determination about whether something should or should not be contracted out or not. Oftentimes, that is not good. And, again, to my mind, no contracting vehicle is perfect, and nothing is more virtuous than others. A fixed contract is not more virtuous than a sole-source contract because it is all developed in a context. But certainly in situations where, you know——

Senator WHITEHOUSE. Certainly some are a little bit more risky than others, though, and would need strong oversight.

Mr. CARAFANO. It depends on context, absolutely. Certainly where national security is involved and people's lives are on the line, such as a contingency theory, contingency situations best value, I think—that is in the FAR for a reason, because that allows you to do the risk assessments that you need. So get the system and the people right, and then the decision about should I buy this or should I hire—you know, should I do this in the Pentagon, I think that will fall out more rationally.

Senator WHITEHOUSE. Yes, so you are behind the perspective that you presented. You accept the presumption that our policy as to how we should do this is not adequately settled for the extent of the practice we are engaged in.

Mr. CARAFANO. Absolutely, and if I just may very quickly, one of the reasons why I was a big fan of Secretary Gansler's report that he did for the Army was because they focused on exactly the right thing, which is how to build a system that is flexible and agile and accommodate the Army's changing needs as they change over time to in a sense get the policy and the structure ahead of the problem, not to wait for the war to figure out how we contract for it, but to have the things that we can adapt to the war and the needs we have. And I thought the philosophy and the structure behind the Gansler report was a good step in the right direction.

Senator WHITEHOUSE. Dr. Stanger.

Ms. STANGER. I think you are absolutely right that our policy has lagged practice, that we are only just beginning to think strategically about this issue, and much of it is due to what Secretary Gates has aptly called willy nilly contracting, that we wanted to pursue two wars simultaneously and to do so without a draft, and I think it is pretty clear that contractors have filled that gap, have

enabled us to fight both wars without a draft. And with a draft, of course, we would have a very different political situation.

But there have been some negative consequences of that. One of the big ones—and I think you pointed to it—is that accounting systems have really lagged reality. So the FFATA can ask for certain information, and the reality is that agencies simply were not collecting it. Even though billions of dollars were going out the door in contracts and grants, there were simply not systems in place to track that explosion in spending that everybody has identified and talked about.

So part of the reason I am insisting that the spirit and the letter of FFATA be upheld is I think it is going to keep the pressure on to get those accounting systems in place and be sure that the information that should be in the public domain is indeed there.

I think there is one thing where we might differ. I am not sure. I am not——

Mr. CARAFANO. I do not like a draft.

Ms. STANGER. Yes. That was not the point I was going to make. It might be on——

Senator WHITEHOUSE. Going to my next question, it is actually more helpful to me to single out that places where you do agree——

Ms. STANGER. Sure.

Senator WHITEHOUSE [continuing]. Because that gives us the foundation for moving forward and taking action, which is the ultimate purpose of the hearing.

The second place where you both seem to agree is that, in addition to the policy gap, there is also an accountability gap. Dr. Stanger, you document this in your book with a note that there are over 300 reported cases contracting mistakes or abuses in Iraq from 2003 to 2007, and the Government Accountability Office testified that there was not a single instance of anyone being fired or denied promotion in connection with those cases. That is sort of just one example, and it is really secondary. It has more to do with the oversight function. But do you both agree that there is a very substantial accountability gap both in terms of oversight of the contractors and oversight of the oversight function, who is watching the watchman?

Ms. STANGER. Absolutely. I would totally agree with that.

Senator WHITEHOUSE. Dr. Carafano?

Mr. CARAFANO. Yes, my concern is how in our effort to strive for greater accountability is we have actually accomplished the opposite because we have put more requirements, more requirements on, and what that has done is create a risk-averse acquisition work force that does not make decisions. So we see the train wreck coming, but a lot——

Senator WHITEHOUSE. I would actually add that what it also does is it creates a sufficiently complex contracting process, that it gives strategic advantage to larger and professional contractors who can leverage their ability to negotiate the process; whereas, the new company, the small company, the company with the bright idea that is not an institutionalized Government contractors, finds that forbidding and in many cases gets trapped in its snares and may not actually work its way through the process, even though they

have a better, cheaper product. So it actually, I think, hurts at both ends. It hurts at the oversight end in terms of the way the accounting folks work, the oversight folks work in the Government, and it is a deterrent or at least—a deterrent or an advantage in a way that is not relevant to the quality of the product and creates an artificial distinction between different contractors.

Mr. CARAFANO. I would argue that excessive regulatory requirements are the single greatest barrier to entry of small and medium businesses in Government contract competition.

Senator WHITEHOUSE. People get hired into the big contractors because they are expert at negotiating the snares and mines of the process. So we have the policy gap. We have an accountability gap. It also strikes me that we have a transparency gap. You both have mentioned that also. And in that context, one of the things that interests me is that if you are a Government employee and if you have a Government program, that is subject to considerable amounts of public scrutiny and the boundaries of what is amenable to public scrutiny and what is not is usually determined by national security concerns and the classification process, which has a sort of regimented nature of its own. And we can argue about how wise that is, but it is what it is.

Once you step out into the world of private Government contractors, the question of corporate proprietary interests rears its head, and that brings in a whole other level of non-transparency and non-disclosure that does not necessarily match with what should be classified or not. And I would submit that there are probably a great number of activities that if the Government engaged in them and then tried to claim that it was proprietary, the roof would fall in on whoever made the claim, and it would probably not withstand legal scrutiny; whereas, by having outsourced it, now suddenly you have raised this new barrier to public transparency in our democracy.

So you have to—I think we have to recognize that there is an inherent transparency problem with private contracting where proprietary protections are honored; on the other hand, you do not want to force people to give up trade secrets. Any thoughts on how we could improve in our contracting the way—what we demand that a private corporation should disclose when it is executing a governmental initiative?

Mr. CARAFANO. You know, as a general principle, I think it is a difficult question to answer. It is much like do you want security or liberty, and the answer is yes, right? And democracy is set up to create a natural tension so you seek to maximize both qualities simultaneously. So it would be hard for me to propose an overarching principle to address that. So I think there are some one eaches that we could start with in looking at some of these issues, and a related issue I would raise, for example, is the Defense Cooperation Act with Australia and Great Britain, which are treaties which are now pending before Congress, both designed to open up governments to having more knowledge about what contractors are doing and allowing contractors to have more knowledge of each other. So large companies in the United States which have, for example, subcontract—have divisions in Australia and one of the part

of the company cannot even talk to the other part of the company because of proprietary restrictions and ITAR and all the rest.

So those treaties are some good examples of the kinds of baby steps, but I think this is particularly an issue where it would have to be work on the eaches rather than trying to implement a general principle across the Federal enterprise.

Senator WHITEHOUSE. Now, one of the—Dr. Stanger, did you want to answer that, also?

Ms. STANGER. I would just add to that that I think just as we need to rethink what transparency means in the information age, we may need to rethink this as proprietary and how it relates to work done for Government. I think there has to be a higher standard of openness if it is done for Government, precisely because such a large percentage of the work is in private sector hands.

Senator WHITEHOUSE. Yes, and not to mention that we are well over half a trillion dollars a year going down this pipe, so it is worth making sure we can track it to the end.

In that context we are charged on the Budget Committee with trying to put a budget together every year. I am hoping that the process that we undertake through this task force will ultimately lead to having some confidence to add a savings number into the budget when we go through the process in future years. We obviously have to develop some ground work for that because you do not want to be willy nilly about throwing a number in the budget any more than you want to be willy nilly about your contracting practices.

But in terms of our enthusiasm to pursue this question of contracting, it will relate to results, and so I am going to ask each of you for a real ballpark-range number. If we are doing $560 billion a year in contracting and if we were to by your standards get it right, what order of magnitude savings would you guess we might expect? Are we talking about 1 percent and nibbling at the edges and, therefore, probably not worth devoting a lot of time and energy from this task force to the problem? Are we talking about 5 to 10 percent, 20 percent, maybe 50 percent, maybe 80 percent? Where is your range of comfort as to where those numbers might lie? And, again, I am not trying to pin you down, but this is a new effort, and we need to deploy our resources wisely as well. And if it comes back with everybody saying at best you will be able to knock $560 billion down to $555 billion, well, frankly, we should probably go look somewhere else then.

Mr. CARAFANO. I am going to give you a very unsatisfactory answer to that question, which is it is the wrong question, because we know for a fact that we do not really understand fully Government business processes. So anybody that comes to you and says, well, you can save X amount of money, they are just guessing, right? There are no analytics behind that.

I have been very critical of Secretary Gates who said we are going to save $100 billion in defense practices, and then they turn right around and issue out a letter, a request to people saying, "Give us some ideas." So they have defined a number which has no rigor behind it whatsoever. What the number is is the gap between what they have and what they need, right?

So, again, driving to get $100 billion savings in the end may cost us how many trillions of dollars of inefficiencies, we do not know. So driving to get to a number that we do not know if it is the right—how it got there, where it makes sense, I am very opposed against. I am very laudable of your effort, and I am all for fiscal conservativism, and I think you are on exactly the right intellectual track. But I think you are not ready to ask that question.

Ms. STANGER. I think you are ready to ask that question, but there is an inherent problem here that needs to be acknowledged, and it is what makes this so difficult, your job so difficult; namely, that everybody is talking about we need to buildup the acquisition work force because we cannot have oversight without some threshold level of employees to do it, to have them properly trained to be able to manage contracts in this new world. Yet obviously building up a work force is going to cost money in the short term, and you are doing it in the short term in order to get long-term savings. But on its face, it looks like you are adding to the budget rather than getting savings. But you need to do that in order to realize the long-term cost savings and restore oversight to Government.

So just one example to illustrate, I know that your Committee proposed cuts to the operating expenses budget of USAID. USAID is probably the hardest-hit Government agency. It has really become a contract clearinghouse.

Senator WHITEHOUSE. Contracting service, yes.

Mr. CARAFANO. It is all contractors.

Ms. STANGER. It is all contractors, and they want to restore that oversight function. Yet they cannot do it without an increase in the operating expenses budget, yet it looks like a good place to actually get immediate savings. So to me, that is the real conundrum, and it is a difficult one politically.

Senator WHITEHOUSE. But, I mean, encourage us a little bit. Assuming that we did this right, are we talking about potentially saving the American taxpayer a couple of million dollars here and there? Are we talking about potentially saving the American taxpayer a billion dollars here and there? Are we potentially talking about savings in the tens of billions of dollars if we got this right?

Ms. STANGER. Senator Whitehouse, I think we would be saving lots of money, probably billions of dollars, but I think more importantly we would be saving self-government. That to me is the central issue here.

Mr. CARAFANO. You know, I actually very much agree with that. I think we are shortsighted when we look at this in dollars and cents. We have a Government——

Senator WHITEHOUSE. Bearing in mind that you are in the Budget Committee. There are some obligations in that regard.

[Laughter.]

Mr. CARAFANO. And we have a budget for a purpose, right? And the purpose is to have a Government that serves the people. So the virtue of your effort, regardless of whether at the end of the day the Federal budget is bigger or smaller—and I could just say we could deal with entitlements growth and that would solve the whole problem. But you know what? Even if we solve the problem of Social Security, Medicaid, welfare, and all the other Federal programs tomorrow, I would still say that this is an incredibly vir-

tuous effort, because what is at risk here, as you well stated, is Government is supposed to serve us. If Government is not contracting correctly, if they are not doing the people's business, then democracy is at risk. And as I said in my opening statement, this is a huge competitive advantage for America. Tapping in to the most vibrant, exciting, capable private sector in the history of the planet is an enormous source of power. It is better than oil. And we cannot do that if we cannot do this right.

So if you never could credit saving a Federal nickel but you made a Government that served the people, I would add a statue for you out there.

Senator WHITEHOUSE. Final question. Was President Eisenhower right to worry about the military-industrial complex?

Mr. CARAFANO. No.

Senator WHITEHOUSE. We finally have disagreement because Dr. Stanger was nodding her head.

[Laughter.]

Mr. CARAFANO. Read the introduction in my book.

Senator WHITEHOUSE. All right. So at least we ended with some disagreement, although through a great deal of it there was much agreement, and as I said, the agreement between witnesses who come from different perspectives and points of view is a very helpful place for us to move forward from. So I thank you both for your areas of agreement and disagreement, and thank you for your testimony and all the hard work that you have put in in this area, and I encourage you to continue, because we depend on people like you who are willing to look hard and persistently at these important questions.

The hearing will remain open until the end of the day today. Sometimes the hearing record stays open a week. Sometimes it stays open 2 weeks. We are on a short leash, so the hearing record will close at the end of the day today. So if anybody wants to get anything in to add to the record, they have to do it today. But the hearing is adjourned, and I thank both witnesses for their testimony.

[Whereupon, at 11:41 a.m., the Committee was adjourned.]

QUESTIONS SUBMITTED FOR THE RECORD

Response from Daniel I. Gordon, Administrator for Federal Procurement Policy

QFR's from Senator Warner

1) Can you describe some of the successes agencies have experienced in using strategic sourcing to date, and also identify any future plans for strategic sourcing in other areas of procurement?

As noted in my written statement, agencies are using strategic sourcing to help them achieve savings and efficiency goals. Agencies use enterprise-wide initiatives, such as VA's efforts to leverage he buying power ofits own medical centers through an intergrated network of national and regional contracts, and also participate in government-wide Federal Strategic Sorcing Initiatives (FSSI). The current FSSI efforts for express delivery services and office supplies are available government-wide and further leverage the government's buying power. In the case of office supplies, for example, GSA projects government-wide savings of nearly $50 million annually. Additionally, the Strategic Sourcing Working Group (SSWG) of the Chief Acquisition Officers Council is pursuing FSSI opportunities for wireless services, software licensing, and a variety of IT equipment and services.

2) Do you have plans to evaluate more strategic sourcing opportunities with government-wide technology?

As mentioned above, we plan to evaluate government-wide strategic sourcing opportunities for a variety of IT equipment and services. To support this evauluation,we have expanded the leadership of the Strategic Sourcing Working Group, the senior governance body for FSSI, to include as Co-Chair OMB's Deputy Administrator for E-Gov and IT. The SSWG is working closely with GSA to identify new opportunuities in wireless services, software licensing and other areas.

To: Senator Mark R. Warner
From: Allison Stanger
Re: Responses to Questions for the Record
Date: July 19, 2010

Question 1—Have you had a chance to look at Recovery.gov in detail, and if so, how do you think this type of federal spending transparency compares to USAspending?

The platforms and interfaces differ, but like USAspending, Recovery.gov provides no information at the subaward level. The Federal Funding Accountability and Transparency Act (FFATA) required this information to be made available to the public by January 1, 2009. The legislation should apply to both web sites.

Question 2—Do you think the Recovery.gov model would be an improvement upon the way USAspending currently collects and reports data?

Both Recovery.gov and USAspending.gov are big steps forward in the transparency realm and are commendable efforts. Since transparency is in the eyes of the beholder, any transparency effort will always, by definition, be a work in progress. However, full transparency demands that subaward level information be carefully collected and shared with the public at the earliest opportunity.

Question 3—As the Obama administration continues its work to further define "inherently governmental," it would be useful to hear your perspective. Please share your thoughts on this topic (asked by MRW at meeting).

The matter of defining what is inherently governmental is enormously challenging, but it is my view that some clear lines need to be drawn if we are successfully to uphold our cherished principle of self-government.

I have argued before the Commission on Wartime Contracting that moving armed security contractors (those guarding personnel or convoys as they pursue work in different locations) are currently performing inherently governmental functions in Iraq and Afghanistan.[1]

While there is a general consensus that there are activities so intrinsic to the nature of government that they should not be contracted out, there is little agreement on what those activities are. Both OMB and Congress have repeatedly focused attention on the topic of inherently governmental functions, but to date have refrained from providing specific guidelines as to what particular activities must never be outsourced.

---

[1] Allison Stanger, Testimony at a Hearing on "Are Private Security Contractors Performing Inherently Governmental Functions?" before the Commission on Wartime Contracting, June 18, 2010. http://www.wartimecontracting.gov/docs/hearing2010-06-18_testimony-Stanger.pdf

Restricting the focus to those contractors able to deploy lethal force makes it easier to render a judgment. A leading advocate of minimal government, Milton Friedman, maintained, "The basic functions of government are to defend the nation against foreign enemies, to prevent coercion of some individuals by others within the country, to provide a means of deciding on our rules, and to adjudicate disputes."[2] Using Friedman's minimalist definition, the use of contractors in the realms of security and justice demand the strictest scrutiny. Even under this leanest of definitions, moving security contractors are performing inherently governmental functions, since they are actively involved in defending the nation against foreign enemies.

Section 5 of the Federal Activities Inventory Reform Act, Public Law 105-70 defines inherently governmental functions in potentially broader terms as "a function that is so intimately related to the public interest as to require performance by Federal Government employees." The Office of Federal Procurement Policy is expected to issue further guidance on this definition by late summer/early fall of this year. Yet even without that additional guidance, it seems clear that taking up arms to defend the interests of the United States, whether remotely pulling triggers on drone flights or to guard government personnel as they travel in war zones would seem to constitute active involvement in defending the nation against foreign enemies, hence clearing Milton Friedman's minimalist inherently governmental threshold.

Lest I be misunderstood, I must emphasize that the current use of armed security contractors is wholly well-intentioned, a matter of necessity rather than choice. The State Department and Department of Defense continue to utilize them, despite all the negative press, because an all-volunteer force leaves us severely understaffed for meeting US objectives in Iraq and Afghanistan simultaneously. State and DOD should therefore not be blamed for their reliance on armed contractors; with an all-volunteer force and an under-resourced civilian capability, they are doing the best job with the resources currently available of delivering what Congress and the President have explicitly and implicitly asked them to do. But understanding how we arrived at our present predicament renders our current practices neither desirable nor sustainable.

---

[2] Milton Friedman, *Why Government Is the Problem* (Palo Alto, CA: Hoover Institution Press, 1993), p. 6. http://media.hoover.org/documents/978-0-8179-5442-0_1.pdf

○