

COMPETITIVE SOURCING

Report on Competitive Sourcing Results Fiscal Year 2004



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Executive Summary

This report discusses the use of competitive sourcing (i.e., public-private competition) in FY 2004 by agencies tracked under the President's Management Agenda (PMA). The report is based on data collected by the PMA agencies.

Accomplishments.

In FY 2004, agencies completed 217 competitions involving 12,573 full-time-equivalent employees (FTEs). These competitions have served as a catalyst to improve quality and lower the cost of government performance through consolidation of activities, process reengineering, workforce realignment, and better leveraging of technology. These improvements are estimated to generate net savings or cost avoidances totaling approximately \$1.4 billion over five years. When combined with the \$1.1 billion expected from competitions completed in the prior year, the competitive sourcing initiative has positioned agencies to save more than \$2.5 billion for redirection to higher priorities or deficit reduction. Estimated annual net savings per FTE studied was approximately \$22,000 for competitions completed in FY 2004 -- nearly double the estimated net savings from competitions completed in FY 2003.

Savings increases are largely attributable to more frequent use of standard competitions, where the in-house team uses business re-engineering processes to create a most efficient organization (MEO) and public and private sector sources compete head-to-head. Savings have also been achieved through the use of larger competitions, where agencies may strategically group activities by region or business line. Although some feared that revisions to Office of Management and Budget (OMB) Circular A-76 would dismantle the workforce, government employees were selected to perform work involving approximately 91 percent of the FTEs competed in FY 2004.

Ongoing and future actions.

A number of steps are planned to help agencies get the best results possible from competition and continue to build confidence in the competitive sourcing process. Actions are designed to:

- *Maintain a competitive environment.* OMB will issue a "competition reminders checklist" to help agencies ensure they are encouraging robust participation from both sectors in their competitions. FY 2004 data indicates that a competition which involved two or more private sector bidders will generate savings that are substantially higher than one that had one or no private sector bids (more than \$32,000 vs. less than \$21,000 per FTE competed). This difference suggests that the combination of competition and re-engineering, rather than re-engineering alone, is the better driver of savings and management improvements.
- *Ensure accountability for results.* Agencies will be expected to validate results and ensure performance decisions are implemented in a timely and effective manner. The Chief Acquisition Officer's Council will work with OMB to identify best practices on post-award accountability. In addition, OMB will deploy a database to track competitive sourcing actions and analyze workforce inventories -- highlighting best practices and areas in need of improvement.

Part I. Summary of findings

Section 647(b) of the Transportation, Treasury, and Independent Agencies Appropriations Act, FY 2004 (Division F of the Consolidated Appropriations Act, P.L. 108-199) establishes a government-wide reporting requirement for competitive sourcing. Pursuant to the Section 647(b), each executive agency must annually inform Congress about its competitive sourcing efforts for the prior fiscal year.

Section 647 requires reporting on: the number of competitions; the number of federal employees studied under competitions; incremental costs; savings; the number of federal employees to be studied in the coming fiscal year; and how the agency aligns competitive sourcing decisions with its strategic workforce plan.

The Office of Management and Budget (OMB) has taken two actions to maximize the value of the Section 647 reporting requirement. First, OMB developed guidelines to ensure consistent and clear reporting. See OMB Memorandum M-05-01, *Report to Congress on FY 2004 Competitive Sourcing Efforts* (October 15, 2004), available at www.omb.gov. The guidance provides a standard reporting format and describes how agencies should calculate incremental costs and savings. Beginning in FY 2004, agencies have also been asked to identify fixed costs associated with overseeing competitive sourcing efforts. Copies of each President's Management Agenda (PMA) agency's report are available at www.results.gov. Second, OMB has developed this summary report to synthesize the information captured individually by agencies tracked under the PMA.¹

This report is divided into two parts. The first part of the report highlights significant findings and compares FY 2004 results to those achieved in FY 2003, as reported to Congress by OMB in May 2004.² These comparisons are used to identify promising trends and areas in need of improvement. Part II of the report provides appendices with consolidated data from each of the PMA agency reports.

A. Use of competition

1. Strategic applications of competition. Agencies are taking strategic advantage of the competitive sourcing process to reduce costs, increase efficiencies and eliminate wasteful processes. According to agency data, departments completed 217 competitions in FY 2004 and announced an additional 76 competitions that were ongoing at the end of the fiscal year. Table 1 highlights the types of management improvements that have been facilitated by these competitions. As the table describes, competition has laid the groundwork for a number of cost-saving and performance-enhancing management improvements, such as operational consolidation, process reengineering, workforce realignments, and better leveraging of technologies.

¹OMB provided Congress with an overview of the results discussed in this report by letter dated January 25, 2005. See www.whitehouse.gov/results/agenda/cs_2004_report_rev5a2_doc.pdf

² For a discussion on FY 2003 results, see COMPETITIVE SOURCING: Report on Competitive Sourcing Results, Fiscal Year 2003 (May 2004), available at www.whitehouse.gov/results/agenda/cs_omb_647_report_final.pdf

Table 1. Examples of improvements facilitated by competitions completed or announced in FY 2004

Management Objective	Cost-Saving Changes and Other Improvements Facilitated by Competition	Estimated Savings
FAA (DOT): Modernize Automated Flight Service Stations	<ul style="list-style-type: none"> • Consolidation of stations from 58 to 20. • Modernization of facilities and technologies. 	\$1.7 billion over 10 years
IRS (Treasury): Reengineer support operations	<ul style="list-style-type: none"> • Consolidation of distribution centers from 3 to 1. • Leveraging of technology. • Reduction of labor costs. 	\$ 207 million over 5 years
Forest Service (USDA): Improve IT support	<ul style="list-style-type: none"> • Consolidation of operations from 150 locations to 10 server farms. • Reduction of labor costs. 	\$147 million over 5 years
Navy (DoD): Make facilities management more cost-effective	<ul style="list-style-type: none"> • Leveraging of technology. • Restructuring of workflow to adopt customary commercial practices. 	\$73 million over 5+ years
SSA: Make IT support more efficient	<ul style="list-style-type: none"> • Consolidation and streamlining of help desk and administrative support activities. • Redeployment of labor to understaffed IT-related positions. 	\$36 million over 5 years
Education: Achieve better payment processing	<ul style="list-style-type: none"> • Consolidation of accounts payable operations. • Leveraging of technology. • Reduction of labor dedicated to payment processing. • Customer-focused performance standards. 	\$34 million over 5 years
Energy: Make the delivery of financial services support more efficient	<ul style="list-style-type: none"> • Consolidation of financial services operations from 15 to 2. • Restructuring of job mix. • Leveraging of telecommunications technology. 	\$31 million over 5 years
Public Buildings Service (GSA): Obtain less costly custodial services	<ul style="list-style-type: none"> • Reliance on a more cost-effective mix of federal and contractor support (identified through a series of regionalized competitions). 	\$14 million over 5 years
FBI (DOJ): Reduce the cost of vehicle maintenance	<ul style="list-style-type: none"> • New performance standards. • Consolidation of operations. • Reduction of labor costs. • More efficient use of resources. 	\$11.5 million over 5 years
OPM: Reengineer test administration services	<ul style="list-style-type: none"> • Leveraging of technology to automate test scheduling and materials ordering. • Reduction of labor costs. • Restructured customer-focused processes. 	\$10 million over 5 years
Bureau of Land Mgmt (DOI): Improve maintenance operations	<ul style="list-style-type: none"> • Restructuring of management. • More effective use of resources (sharing of road and maintenance crews between districts). • Use of temporary and term positions to maintain a flexible workforce. 	\$9 million over 5 years
Coast Guard (DHS): Make public works support for the Academy more effective & efficient.	<ul style="list-style-type: none"> • Streamlined work order process & reporting. • Fewer FTEs dedicated to administration. • Clear, customer-focused performance standards. 	\$ 6 million over 5 years

The most significant of the improvements summarized in Table 1 include the following:

- *Modernization of the Federal Aviation Administration’s (FAA) Automated Flight Service Station (AFSS) System.* The AFSS system provides pilot weather briefings, in-flight radio communications, flight planning, and search-and-rescue support. Studies by FAA and the Department of Transportation’s (DOT) Inspector General identified significant deficiencies with the AFSS system, including use of outmoded technologies and deteriorating facilities. Using public-private competition, FAA evaluated five competing service providers, including the incumbent government organization, to improve performance through the introduction of new or modified equipment and better facilities. FAA announced award to a private sector contractor that will transform and consolidate current operations. The contract will save FAA approximately \$1.7 billion over the next ten years.³ This is 70 percent above the minimal savings level FAA required offerors to demonstrate to be considered for award.⁴
- *Reengineering of key support operations at the Internal Revenue Service (IRS).* In FY 2004, IRS used the competitive sourcing process to examine the business processes relied on by its area distribution centers (ADCs), which are responsible for processing customer orders for more than 21,000 tax-related forms and publications. Competition was also used to evaluate how information technology (IT) support services could be leveraged more effectively by its tax processing centers (known as campus operations). The winning proposals (both submitted by the in-house provider) identified significant improvements for both operations. The government’s “most efficient organization” (MEO) plan for ADCs calls for closure of two of three facilities and a significant reduction in labor costs through greater reliance on digital technologies. The MEO for campus operations will reduce labor costs by taking advantage of technology and consolidating quality assurance support. IRS projects that the implementation of these two MEOs will save more than \$207 million over a five-year period.
- *Restructuring of Defense support operations.* The Department of Defense (DOD) continues its long tradition of applying public-private competition to effectuate cost avoidances for its commercial functions and focus resources on core defense activities. Table 2 provides examples of DOD competitions completed in FY 2004.

Table 2. Examples of DOD competitions completed in FY 2004

DOD Component	Activity	FTE	Provider	Annualized Savings (in millions)
Marine Corps	Facilities Maintenance	426	In-House	\$18.7
Navy	Maintenance/Hazardous Waste	290	Private Sector	\$14.3
Navy	Facilities Management	469	In-House	\$15.0
Air Force	Base Operating Support	191	Private Sector	\$6.4
Navy	Retail Supply Operations	258	In-House	\$6.3
Navy	Retail Supply Operations	201	In-House	\$5.2
DFAS	Security Assistance Accounting	362	In-House	\$4.2
Joint Chiefs	Facilities Maintenance	15	In-House	\$0.3

³ FAA initially reported an estimated savings of \$2.2 billion. This figure was based on the FY 2003 baseline and included savings accruing from the date the competition was first announced. The estimated net savings during the life of the 10-year contract is \$1.7 billion. This figure reflects the cost of transition.

⁴ This competition was announced in FY 2004 (Dec. 2003) but was not completed until FY 2005 (Jan. 2005). Accordingly, the results associated with this competition were not included in DOT’s report to Congress on FY 2004 competitive sourcing activities. In addition, the results are not factored into the FY 2004 cumulative savings figures in this report. They will be included in reports by DOT and OMB on FY 2005 results.

DOD competitions completed in FY 2004 concentrated, in large part, on addressing deficiencies in logistics, base operating support, facilities maintenance, transportation management, and finance and accounting. These competitions are projected to reduce costs for the Department by \$740 million over the next five years.

- *Improvements to IT support for the Forest Service.* During FY 2004, the Forest Service conducted a service-wide competition involving 1,200 FTEs in its information technology services group. When the study of the IT function was first initiated, the Forest Service's IT operations were scattered throughout approximately 150 locations across the country. A careful evaluation of the agency's needs by its key stakeholders – IT, personnel, budget, legal and program personnel – helped the agency realize that it could achieve significant savings without a diminution of service through consolidation and a more streamlined workforce. After performing a best value analysis of public and private sector proposals that took both cost and technical considerations into account, the Forest Service identified the government's MEO as the best alternative. By relying on ten server farms and other restructured processes to effectively meet its IT needs, the Forest Service expects to save more than \$147 million over the next five years.

2. Length of Competition. Proper planning prior to the announcement of competition has helped agencies to conduct results-oriented competitions in a timely manner without sacrificing quality decision making.⁵ As shown on Table 3, the average lengths of time for competitions completed in FY 2004 were nine months for standard competitions (although 12 months is the time limit allowed by the Circular) and three months for streamlined competitions. These figures reflect the time between the date the agency publicly announced the competition and the date of the performance decision.

Table 3. Average length of competitions completed in FY 2004*

Type of Competition	Average Length of Competition (in months)
Streamlined	3
Standard	9

*These figures do not include competitions conducted by DOD. DOD's competitions have exceeded the timeframes provided in the revised Circular. However, DOD has not completed a competition under the revised Circular to date. The Department has developed training materials and other guidance to help ensure timeframes are met when competitions are conducted under the revised Circular.

As necessary, agencies have taken advantage of the extensions allowed by the Circular. Under some circumstances, agencies have issued a time limit waiver where the competition is particularly complex. For example, the Competitive Sourcing Official (CSO) of the FAA issued a waiver to allow additional time for completion of its AFSS modernization competition. In other cases, agencies have extended streamlined competitions by 45 days in accordance with the Circular to permit the in-house providers to develop MEOs.

⁵ For discussion on steps agencies are taking prior to the announcement of competition to increase the likelihood of success, see section B.4 of this report.

3. Level of Activity. Agencies completed competitions involving 12,573 FTEs and announced competitions involving 9,651 FTEs.⁶ These figures exclude five competitions completed in FY 2004 that were reported in FY 2003. If these efforts were included, the total FTEs in competitions completed in FY 2004 would be 13,813.

Table 4. Number of FTEs involved in competitions completed or announced in FY 2004^a

Agency	FTEs in Completed Competitions ^b	FTEs in Announced Competitions ^c	Total
Agriculture	1,487	270	1,757
Commerce	9 ^d	0	9
Defense ^e	7,484	266	7,750
Education	230	0	230
Energy	222 ^f	724	946
EPA	1	53	54
HHS	716 ^g	482	1,198
Homeland	144	97	241
HUD	0	394	394
Interior	383	400	783
Justice	20 ^h	115	135
Labor	66	56	122
State	24	0	24
DOT	55	2,798	2,853
Treasury	830	1,861	2,691
VA	0	0	0
AID	0	0	0
Corps	0	1,516	1,516
GSA	179	191	370
NASA	443	237	680
NSF	0	0	0
OMB	0	0	0
OPM	164 ⁱ	163	327
SBA	39	27	66
Smithsonian	0	0	0
SSA	77	1	78
GOVERNMENTWIDE	12,573	9,651	22,224

- a. Includes streamlined and standard competitions under the revised Circular and streamlined and standard cost comparisons under the old Circular, including competitions conducted under deviations.
- b. Includes competitions completed in FY 2004 irrespective of when they were initiated.
- c. Includes competitions announced but not completed in FY 2004.
- d. Excludes one competition (for 34 FTE) completed in February 2004 but included in FY 2003 report.
- e. Section 335 of P.L. 108-136 required DOD to delay use of the Circular's revisions until 45 days after reporting to Congress on their impact and DOD's plan for implementation. DOD transmitted its report to Congress on February 24, 2004.
- f. Excludes one competition (for 159 FTE) completed in December 2003 but included in FY 2003 report.
- g. Excludes one competition (for 714 FTEs) completed in October 2003 but included in FY 2003 report.
- h. Excludes one competition (for 153 FTEs) completed in February 2004 but included in FY 2003 report.
- i. Excludes one competition (for 180 FTEs) completed in October 2003 but included in FY 2003 report.

⁶ OMB's January 25, 2004 letter reported 9,654 FTEs in announced competitions. However, this figure did not account for a minor revision made by one agency during the development of its report to Congress.

As Table 4 illustrates, 16 of the 26 PMA agencies completed or announced competitions in FY 2004 involving a total of 100 or more FTEs. Three agencies that had conducted no competitions in FY 2003, and one that had competed fewer than ten FTEs competed in FY 2003, completed or announced competitions involving a total of 100 or more FTEs during FY 2004. These agencies were the National Aeronautics and Space Administration (NASA), the Army Corps of Engineers (the Corps), the Department of Housing and Urban Development (HUD), and the Department of Labor (DOL). Each of these agencies has carefully selected activities that will benefit from competition, either in terms of cost savings, performance enhancements, or both.

- *NASA: Increasing the efficiency of support services shared by the field centers.* In FY 2004, NASA announced a competition to consolidate human resources, procurement, financial management and IT activities currently performed by a combination of federal employees and contractors in a highly decentralized fashion at each NASA center and headquarters. The study involved 200 civil servant and 228 contractor FTEs. Through competition, NASA sought to determine the best provider of service and the best location to consolidate this work. In May 2005, NASA selected a private sector contractor based on overall cost and technical merit. NASA anticipates significant savings from the consolidation, as well as redeployment of staff and budget to core mission needs. The transition is scheduled to begin in October 2005 and continue through September 2008.⁷
- *The Army Corps of Engineers: Making IT support services more cost-effective.* The Corps was the first organization within the DOD to announce a competition under OMB's revised Circular A-76 following the lifting of a legislatively-imposed moratorium. In the spring of 2004, the Corps announced a command-wide competition involving over 1,400 FTEs that will compare how well its employees can provide IT services to that of the private sector. This enterprise-wide effort was made possible by the Corps' competitive sourcing infrastructure, which requires planning for competition at the national level with the close involvement of local Corps leadership to identify and secure economies and efficiencies command-wide.
- *HUD: Strengthening the administration of multifamily housing properties.* HUD determined that its first competition, announced in April, 2004, should focus on the contract administration and compliance monitoring functions associated with a nationwide portfolio of over 7,000 assisted multifamily housing properties. The Government Accountability Office (GAO) and the HUD Office of Inspector General (OIG) have both reported high-risks and material weaknesses associated with the Department's rental assistance programs. Through this competition, HUD will identify the appropriate level of resources and best available source to significantly improve the performance of this commercial activity. The study involves 394 FTEs.
- *DOL: Reducing costs of various support operations.* DOL completed several public-private competitions covering a number of commercial operations performed with Department personnel, including printing and reproduction (to be performed in house) and regulatory activities support (which will be performed by a contractor). DOL estimates savings from its

⁷ Because NASA's performance decision was not made until May 2005, results are not factored into the FY 2004 cumulative savings. They will be reported by NASA and OMB in their respective reports on FY 2005 results.

first set of competitions to exceed \$3.4 million over a five-year period. Incremental costs were just over \$110,000.

In all, 20 PMA agencies – i.e., 77 percent of the PMA agencies -- completed or announced competitions involving 100 or more FTEs in FY 2003 or FY 2004.⁸ Of the six remaining PMA agencies, the Department of State recently announced a competition for multi-media services involving 199 FTEs at multiple bureaus, and the Environmental Protection Agency (EPA) plans to announce competitions involving approximately 200 FTEs during FY 2005. The National Science Foundation and OMB have identified activities for competition in FY 2005 and the Agency for International Development will be evaluating activities that could also be announced in FY 2005 based on the results of feasibility analyses.⁹

For a complete agency-by-agency breakdown on the numbers of competitions conducted and FTEs covered, see Appendix A (A-1 provides figures on completed competitions and A-2 provides data on announced competitions). Appendix B-1 identifies the types of activities competed or announced while B-2 lists activities competed most frequently. Finally, Appendix C lists by agency the number of FTEs in competitions planned for announcement in FY 2005.¹⁰

4. Provider of service. Agencies determined that in-house organizations would provide the best service when compared to the private sector for 91 percent of the more than 12,500 FTEs studied in FY 2004. This percentage is about the same as that reported from FY 2003 competitions. Appendix D identifies the percentage of work to be performed by each sector based on performance decisions made by PMA agencies.

The statistics in Appendix D should dispel any fears that employees are being disadvantaged by the changes OMB instituted in 2003 to improve the competition process and increase the consideration of best value when making selections between public and private sources. Despite concerns that the Circular's new "cost-quality" tradeoffs would harm federal employees, 95 percent of all such tradeoffs completed under the Circular in FY 2004 resulted in agency decisions to retain work in house.¹¹

⁸ Four agencies that completed or announced competitions involving at least 100 FTEs in FY 2003 reported less than this level in FY 2004: Commerce (DOC), the Small Business Administration, SSA, and the Department of Veterans Affairs (VA). Three of these agencies (all except VA), plan to announce competitions involving more than 100 FTEs in FY 2005. For example, DOC, has reorganized its infrastructure to more effectively identify activities likely to benefit from competition. DOC's internal Chief Financial Officers (CFO) Council, which has direct connections to budget and human capital decision-making, now serves as a central steering group. After the competitive sourcing office analyzes the inventory and works with bureaus to identify candidates for competition, the CFO Council will hear business case analyses and help set priorities for competition based on potential return on investment, alignment with the human capital plan, and the adequacy of private sector sources to perform the work.

⁹ OMB announced its first competition, for IT support services, at the end of January 2005. OMB announced its performance decision – for continued in-house performance – in April, 2005.

¹⁰ In most cases, FTE projections for competition are estimates that may be subject to adjustment based on the results of agency analyses (e.g., business case analysis, cost-benefit analysis).

¹¹ A recent study analyzing the effect of competition on the DOD civilian workforce lends further credence to the conclusion that competitive sourcing is not dismantling the workforce. The report concluded that of the more than 65,000 civilian positions studied at DOD since 1995, only 5 percent were reduced through the involuntary separation of federal employees. See *Competitive Sourcing: What Happens to Federal Employees?* IBM Endowment for the Business of Government (October 2004).

5. Level of participation. OMB's revised reporting guidance on competitive sourcing efforts (i.e., Memorandum M-05-01) requires agencies to identify the number of bids or proposals received from private sector contractors or public reimbursable providers in response to a solicitation issued in connection with a standard competition.

Agency reports indicate that success in generating interest in competition has been mixed. Nearly half of the standard competitions completed in FY 2004 involved two or more private sector offers. But, the remaining standard competitions had either one or no private sector offers.¹² As a general matter, agencies reported higher annualized net savings per FTE from competitions with two or more private sector offers (over \$32,000) than those with no such offers (just over \$18,000). Examples of actions taken by agencies that received multiple responses to their solicitations include the following:

- Prior to releasing its formal solicitation on the AFSS competition, FAA: (a) issued a request for information, (b) held meetings with interested vendors, and (c) issued several draft solicitations. FAA received five offers – one from the incumbent in-house provider and four from private sector contractors. According to FAA, each of the five competitors devoted considerable time and effort to develop and present alternative approaches to providing flight services.
- IRS, which received eight contractor proposals and proposals from the in-house providers in competitions involving its area distribution centers and campus operations (discussed above), took steps similar to those taken by FAA. Efforts to encourage private sector participation included focused outreach to prospective sources and interested industry associations.
- To encourage interest in its streamlined competition, the Bureau of Engraving and Printing (BEP) issued a solicitation on E-Buy, GSA's electronic quote system for contractors participating in its Multiple Award Schedules (MAS) Program. Four small businesses responded to the solicitation.

Several agencies that announced large competitions in FY 2004 indicated to OMB that they are also taking steps to encourage robust participation in their competitions.

- In connection with its enterprise-wide competition for IT, the Corps published a draft performance work statement (PWS) for public review and held a forum to provide both the private sector and the MEO team members an opportunity to ask questions about the draft. The Corps posted all questions and answers on its web site so interested parties could review the discussion. Feedback will be taken into account before the final solicitation is published.
- HUD's original plans for its first standard competition for the administration of multifamily housing properties called for one provider to support all of the agency's needs. However, feedback to a draft request for proposals indicated that the private sector was not prepared to accept this level of responsibility or risk and urged the Department to consider making regional awards instead. Based on this feedback, HUD modified its competition plan and will evaluate public and private sources on a regional basis and make multiple awards for this work.

¹² These figures exclude science competitions conducted by NASA pursuant to a deviation. See section D.2 for a description of NASA's science competitions.

For several of its performance decisions, DOL posted its competition form on FedBizOpps. The competition form, prescribed by Circular A-76, documents the costs to support the agency performance decision. This extra step helps to promote greater transparency and makes it easier for potential public and private sector participants in future competitions to understand the basis for past agency decisions.

OMB intends to issue a competition reminders checklist to help agencies ensure they are encouraging robust participation by both sectors in their competitions. The checklist will reflect, in part, the type of successful practices described above. For further discussion, see section D.2.

B. Savings

The management improvements that competition facilitates are helping agencies to lower costs for the taxpayer. Agencies project that the workforce realignments, process reengineering, technology investments, operational consolidations, and other efficiencies described in section A will help them achieve net savings or cost avoidances totaling approximately \$1.4 billion over the next five years.

One-time, out-of-pocket expenses for conducting competitions were \$74 million. This represents a return of \$20 for every dollar spent on competition. Fixed costs to provide central direction and oversight of the competitive sourcing program were roughly \$36 million – still a modest investment for a handsome return. For a breakdown by agency on incremental costs, fixed costs, and estimated savings by agency, see Appendices E, F, and G.¹³

Table 5 shows the cumulative savings projections from FY 2003 and FY 2004. When combined with the \$1.1 billion expected from competitions completed last year, the competitive sourcing initiative has positioned agencies to save more than \$2.5 billion for redirection to higher priorities. This equates to about \$522 million in annualized gross savings.

Table 5. Estimated savings from completed competitions

Savings	FY 2003	FY 2004	Two Year Total
Gross	\$1.2 billion	\$1.5 billion	\$2.7 billion
Net ^a	\$1.1 billion	\$1.4 billion	\$2.5 billion
Annualized gross	\$237 million	\$285 million	\$522 million

^a Net savings = gross savings less incremental costs (i.e., out-of-pocket expenses). Incremental costs attributable to completed competitions were \$88 million in FY 2003 and \$74 million in FY 2004. Net savings reflect adjustments for fixed costs in FY 2004, the first year OMB started to collect such costs. Adjustments have not been made for transition costs.

A comparison of savings figures from FY 2003 to FY 2004 shows a promising trend. As shown in Table 6, annualized net savings per FTE increased from \$12,000 in FY 2003 to \$22,000 in FY 2004. Competitive sourcing is now yielding over 27 percent in savings, on average, up from 15 percent in FY 2003.¹⁴

¹³ Except where noted, transition costs are not reflected in the savings figures reported in this document.

¹⁴ Percentages indicate annualized net savings per FTE as a percentage of the roughly \$80,000 in annual salary and benefits that the government pays per civilian FTE on average.

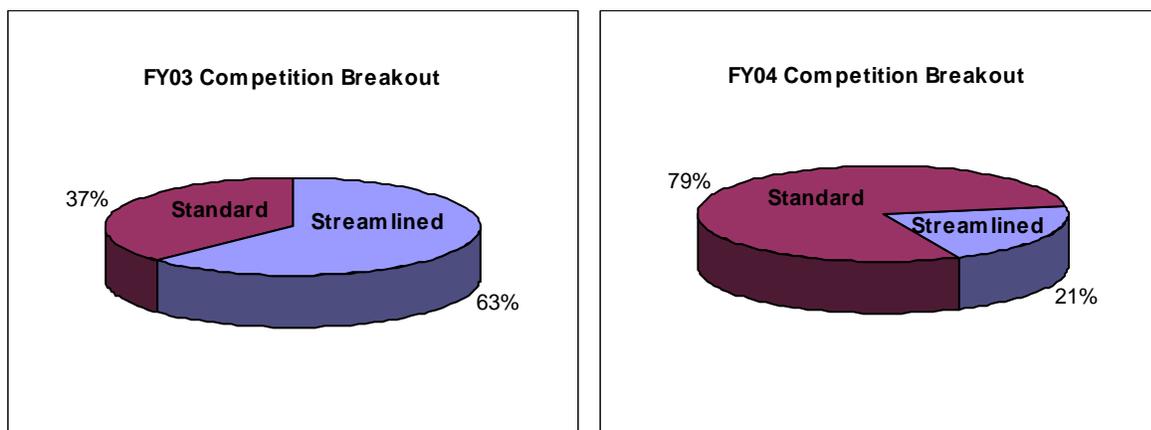
Table 6. Annualized net savings per FTE: FY 2003 vs. FY 2004^a

Factor	FY 2003	FY 2004
Annualized net savings per FTE	\$12,000	\$22,000
Savings rate	15%	27%

^a These figures have not been adjusted to reflect fixed costs (which were not reported by agencies in FY 2003). They also do not reflect transition costs. In addition, the FY 2003 figures reflect savings achieved under 5 standard competitions completed in the first quarter of FY 2004 by the Departments of Commerce, Energy, Health and Human Services, Justice, and the Office of Personnel Management but reported by OMB as part of its FY 2003 report. If the savings from these 5 competitions were removed from the FY 2003 data and added to the FY 2004 data, annualized net savings per FTE for FY 2004 would be \$23,000 and the savings rate for FY 2004 would climb to 28 percent.

There are several factors which suggest that this trend indicates the true potential of competitive sourcing.

1. Greater reliance on standard competitions. Standard competitions have replaced streamlined competitions as the predominant form for comparing the cost and performance of the public and private sectors. As Figure 1 illustrates, civilian agencies relied on standard competitions by a ratio of more than 3:1 in FY 2004, as measured by FTEs studied. By contrast, in FY 2003, civilian agencies favored streamlined competitions by a ratio of almost 2:1.

Figure 1. Civilian agency use of streamlined & standard competitions: FY 2003 vs. FY 2004 (based on FTE)

On average, standard competitions generate better returns than streamlined competitions. The weighted average annual net savings per FTE for streamlined competitions completed in FYs 2003 and 2004 was \$2,700. The weighted average for standard competitions during this same period was \$19,500. Standard competitions generally produce better returns because federal employees are routinely afforded the opportunity to identify better and more cost-effective business practices and public and private sector sources compete head-to-head.¹⁵ By contrast, most streamlined competitions are conducted through documented market research where contractors are not given the chance to submit actual offers.

¹⁵ DOD has traditionally relied on head-to-head competition and continues to do so. Approximately 98 percent of the FTEs included in competitions completed in FY 2004 were evaluated through head-to-head competition.

Table 7. Average annual net savings: streamlined vs. standard competitions

Type of Competition	FY 2003	FY 2004	Weighted Average ^a
Streamlined	\$900	\$10,300	\$2,700
Standard	\$16,300	\$23,800	\$19,500

^aWeighted average = the sum of the total net anticipated savings for FYs 2003 and 2004 divided by the sum of the FTEs competed in both years.

2. Pursuit of larger competitions. In conjunction with using standard competitions, agencies turned to larger competitions. The average size of a competition increased from 27 FTEs in FY 2003 to 58 FTEs in FY 2004. Larger competitions allow agencies to package activities across regions or by business line. Table 8 compares the cost avoidance projections for FY 2004 competitions involving less than 100 FTEs to those with more than 100 FTEs. As the table illustrates, returns are substantially higher for the larger competitions. This finding appears to be consistent with the results of a study published by the Center for Naval Analysis (CNA) in 2003. The CNA study reviewed 16 DOD competitions going back to 1996 that involved 100 FTEs or more at announcement. CNA found that these competitions were likely to achieve higher savings.¹⁶

Table 8. Average annual net savings based on the size of the competition

Size of Competition	FY 2004
Under 100 FTEs	\$21,400
100 or more FTEs	\$36,100

Of the seven agencies that reported savings increases of more than \$10 million between FY 2003 and FY 2004, six completed at least one competition involving 65 or more FTEs. See Table 9. In the case of Agriculture, the Forest Service conducted a 1,200 FTE service-wide competition for IT that, as noted above, is expected to produce more than \$145 million in savings over a five-year period. The Forest Service has helped to lead an impressive turnaround at Agriculture, whose total anticipated net savings from completed competitions has improved from a reported loss of \$3,596,000 in FY 2003 to a positive expected return of \$173,932,000 in FY 2004.

Table 9. Getting on track: agencies reporting savings increases of more than \$10 million from FY 2003 to FY 2004

Agency	Total Anticipated Net Savings from Completed Competitions	
	FY 2003	FY 2004
Agriculture	-\$3,596,000	\$173,932,000
Education	No competitions completed	\$87,448,000
DHS	No competitions completed	\$11,009,000
Interior	\$3,258,000	\$16,378,000
Treasury	\$253,000	\$217,867,000
GSA	\$6,211,000	\$18,339,000
SSA	-\$78,000	\$35,979,000

¹⁶ See *The Impact of Large, Multi-Function/Multi-Site Competitions*, CRM D0008566.A2/Final (August 2003).

3. Smarter use of streamlined competitions. Notwithstanding the increased reliance on standard competition processes and larger competitions, streamlined competitions continue to play a useful role in helping agencies to review their smaller activities. As a result of more strategic applications of the streamlined competition process, the average annual net savings have improved dramatically – *i.e.*, from \$900 in FY 2003 to more than \$10,000 in FY 2004.

Agencies are making an effort to give in-house providers the opportunity to develop MEOs so that more efficient and effective business practices are devised as part of the competition process, when the incentive to improve is generally greatest. Agency data indicates that half the PMA agencies that conducted streamlined competitions under the revised Circular gave in-house providers the opportunity to develop an MEO.¹⁷

At least two agencies – Treasury’s BEP and DOL -- have issued solicitations to establish private sector pricing and generate head-to-head competition. For example, BEP conducted a streamlined competition for security screening, one of a number of functions currently performed by the Bureau’s police officers. BEP issued a solicitation on GSA’s electronic quote system to promote interest in its streamlined competition among MAS contractors. Four small businesses responded to the solicitation. After comparing prices and technical capabilities of the small businesses to the in-house provider, BEP determined that one of the small business contractors offered the best value. BEP projects that reliance on the private sector will save almost \$900,000 over the five-year life of the contract – a 20 percent reduction in baseline costs.¹⁸ The in-house workforce that currently performs security services is being redirected to fill other vacancies within the Bureau.

Even where organizations were competed “as is,” competition instilled new disciplines to help agencies focus more closely on how their activities are performed. For instance:

- Following the completion of a streamlined competition involving software validation services, where the incumbent in-house provider was found to be the more cost-effective, SSA began tracking performance against the baseline established during the competition and has determined that the activity is operating well within budget.
- EPA reported that FY 2004 was the first year that it collected data to track the costs of its risk assessment/risk management activities. In other words, as a result of having conducted a streamlined competition for these activities in FY 2003, EPA is now able to determine if the work continues to be performed in a cost-effective manner.
- Managers at State’s Foreign Service Institute have changed their hiring practices for instructors of their familiarization and short-term language courses. In reviewing their current workforce as part of a streamlined competition (that was eventually won by the in-house providers), supervisors discovered that instructors were routinely being hired at the full performance level. Managers now are more likely to hire instructors at a lower level. State expects to save on labor costs without any negative effect on its ability to attract quality instructors, who can be promoted through these career-laddered positions.

¹⁷ The streamlined cost comparison process authorized by the prior Circular required incumbent providers to be evaluated “as is” – *i.e.*, they could not establish MEOs.

¹⁸ This competition was announced late in FY 2004 and was not completed until FY 2005. As a result, these savings will be included in the FY 2005 report.

4. Strategic selection of activities for competition. Beginning in FY 2004, OMB required agencies to report the function code associated with each activity competed, or the primary code where multiple functions were competed together.¹⁹ This added reporting element enables easier comparisons to see where competition is being applied, how it is being applied, and the results achieved.

Figure 2, below, identifies the ten activities that were competed most frequently in FY 2004, as measured by the number of FTEs studied. Figure 2 also identifies the ten activities that generated the greatest annualized gross savings per FTE for functions where there were at least three competitions conducted.²⁰ As the figure illustrates, there is considerable overlap between the two categories: *nine of the ten activities fall within both categories.*²¹

Even more telling, over 80 percent of the FTEs that were involved in competitions completed in FY 2004 (i.e., 10,166 of 12,573 FTEs) fell within one of the following five categories: (1) IT, (2) maintenance and property management, (3) logistics, (4) human resources, personnel management, education and training, or (5) finance and accounting. These activities generated the greatest annualized gross savings per FTE, ranging from \$24,800 to \$37,000. See Figure 3. This translates into an average savings rate of 31-46 percent.

Significant annualized gross savings per FTE were also generated by competitions involving procurement support functions (\$27,400) and administrative support (\$22,600). These activities were not a primary focus of competition to the same extent as the activities listed in Figure 3 (i.e., 373 FTEs were competed for procurement and 315 FTEs for administrative support). Some competitions involving multiple activities, such as those involving business lines, could include administrative support or procurement as secondary activities.

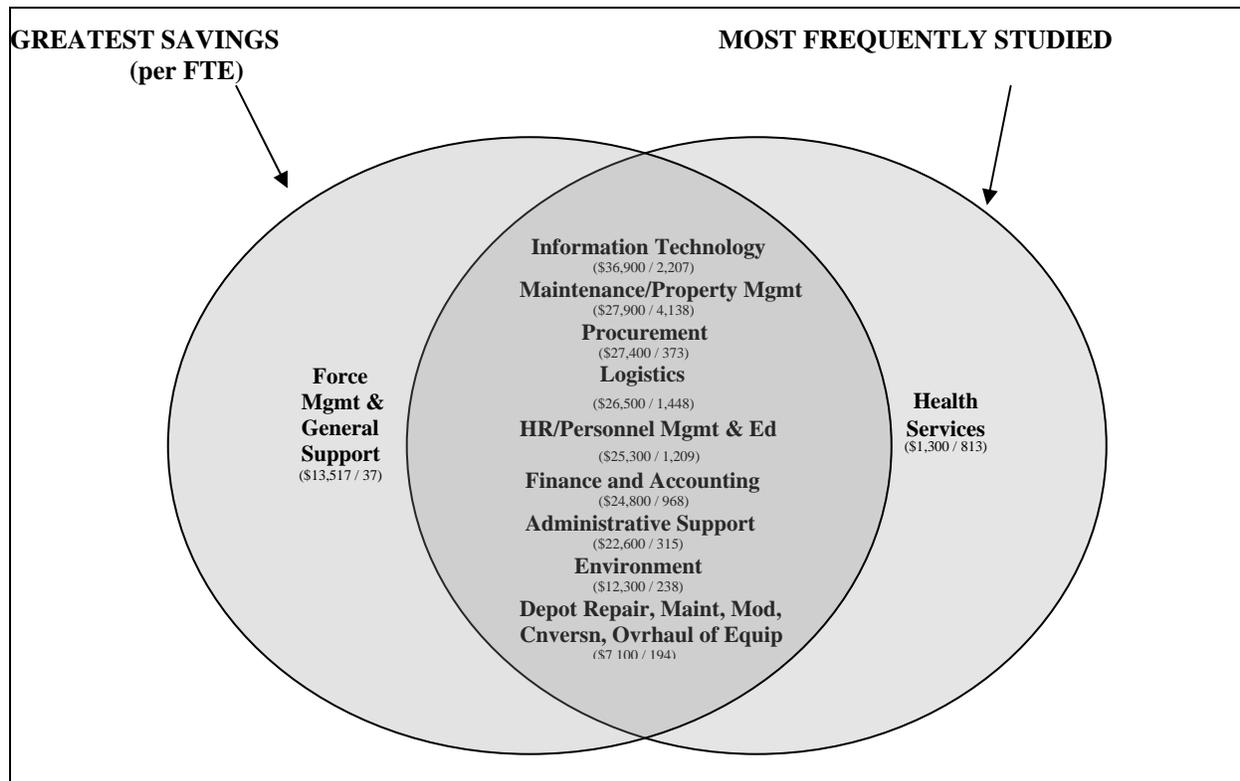
It is not surprising that the amount of competition activity centered around procurement support functions was relatively limited. The acquisition workforce has been pared down significantly over the past decade. Agencies have identified a portion of the commercial functions within the procurement discipline as unsuitable for competition in order to preserve an internal core competency and the capability to assist in the administration of contracted work. Of course, some procurement functions, such as awarding and terminating contracts, are inherently governmental activities that would not be considered for competition irrespective of the circumstances.

¹⁹ Agencies may chose from among 23 function code categories. For a list of function codes, see www.whitehouse.gov/omb/procurement/fair/2004function_codes.html. Agencies are required to use these same function codes to identify positions in their commercial and inherently governmental workforce inventories. For purposes of this report, OMB combined two related function code categories: the human resources function code (series "B") was combined with personnel management, education and training code (series "U"). In addition, the maintenance function code (series "S") was combined with the property management code (series "Z"). In addition, OMB treated administrative support as a separate function code. Administrative support is typically included as a sub-function in each of 23 main function codes.

²⁰ This threshold was included to account for possible aberrations.

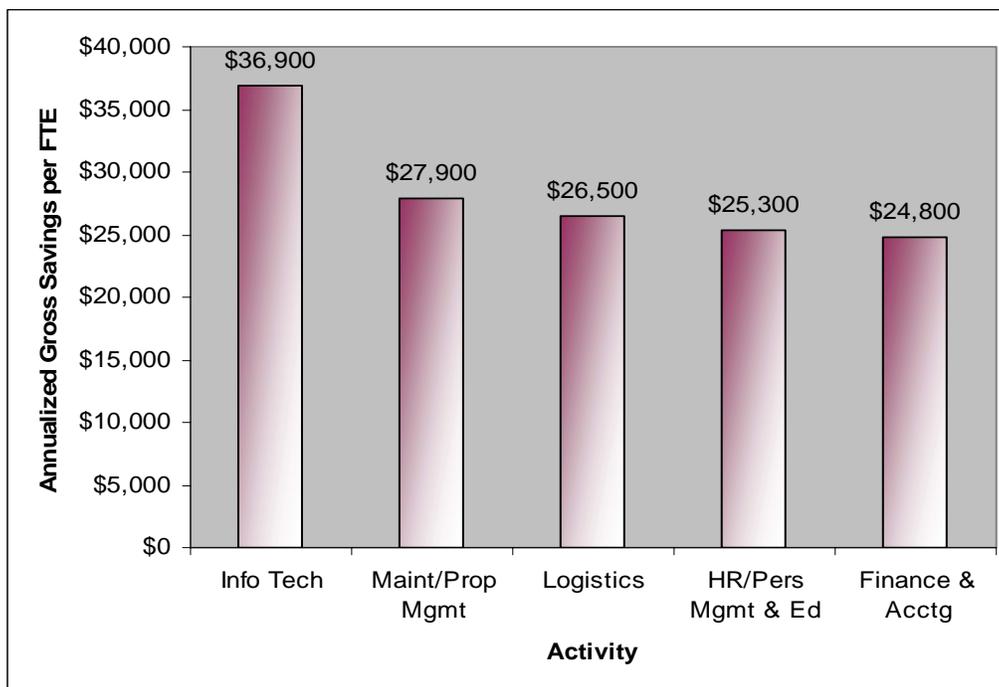
²¹ Examples of activities that did not fall within the top 10 in either category in FY 2004 include: testing and inspection services, program management support, social services, and civil works.

Figure 2. Activities generating the greatest savings & studied most frequently^a



^aParentetical figures represent the following: monetary figures indicate annualized gross savings per FTE; non-monetary figures indicate FTE competed.

Figure 3. Activities generating the highest annualized gross savings per FTE*



*The number of FTEs competed in each activity category were: Info Tech (2,207); Maint/Prop Mgmt (4,138); Logistics (1,448); HR/Pers Mgmt & Ed (1,209); and Finance & Acctg (968).

Not every competition conducted achieved the savings reflected in Figure 3. However, the agencies that reported competitions with above-average savings generally are taking the types of steps that have been identified by OMB in past reports as key to ensuring competition is used in a reasoned and responsible manner.²² These steps generally include:

- Securing cross-functional participation by program, human resources, acquisition, budget, and legal offices to facilitate effective communication and a broad-based understanding of competitive sourcing actions within the agency, and to help in defining activities that may be suitable for competition, beginning with the preparation of the Federal Activities Inventory Reform (FAIR) Act inventory;
- Developing some type of partnership between competitive sourcing and human resources offices to identify how use of competition can help to close skill gaps (caused by insufficient staffing or competency shortfalls), eliminate operational redundancies, and facilitate potential redeployments to higher priority activities;
- Conducting feasibility analyses of activities identified as candidates for competition to consider the efficiency of and customer satisfaction with current operations, annual rate of staff turnover, long-term demand for the function, and private sector capability and interest in providing services; and
- Obtaining high-level management support for competitions prior to announcement and maintaining strong, long-term executive leadership throughout the competition, transition to the selected provider, and implementation of the performance decision.

A number of agencies stated that the overall success of their competitive sourcing effort was significantly enhanced by the additional analysis they performed to ensure competition is being used in an effective manner. This analysis was performed after the agency initially identified competition candidates from their FAIR inventory. Table 10 highlights a few of the key steps IRS and DOE took to properly structure their activities for competition.

²² See *COMPETITIVE SOURCING: Report on Competitive Sourcing Results, Fiscal Year 2003* (May 2004); *COMPETITIVE SOURCING: Reasoned and Responsible Public-Private Competition, Agency Activities, A Supplement to the July 2003 Report* (September 2003); and *COMPETITIVE SOURCING: Conducting Public-Private Competition in a Reasoned and Responsible Manner* (July 2003).

Table 10. Using feasibility assessments and business cases to validate whether activities have been properly grouped for competition

Management objective	Steps taken to determine how well the proposed application of competition will achieve management objective	Estimated savings from competition
Reengineer support operations at IRS	<ul style="list-style-type: none"> • Activities at area distribution centers and IT support services at campus operations are identified from FAIR inventory as potential candidates for competition. • IRS subject matter experts and high-level managers, with contract support, perform business case analysis to evaluate if: (a) competition can achieve sizable potential return on investment and significantly improved performance (b) risks are manageable, and (c) results are likely to align with IRS' strategic business objectives. • IRS Strategy and Resources Committee, headed by Deputy Commissioner of Operations and Support, decides to proceed with competition after reviewing business case.^a 	\$207 million over 5 years
Improve financial services support at Department of Energy (DOE)	<ul style="list-style-type: none"> • Senior DOE functional personnel identify potential financial services support functions from FAIR inventory. • The study team develops plan of actions and milestones for conducting the study, including strategic study goals, study risks, employee communications strategies, and charters for the PWS and MEO teams. All major DOE locations under study are visited by PWS team to validate work tasks, workload, and positions to be studied. • Executive Steering Committee, chaired by DOE Deputy Secretary, approves the use of competition after reviewing study team's plan of actions and milestones. 	\$31 million over 5 years

^a For additional discussion on IRS' approach to the selection of activities, see *Implementing Alternative Sourcing Strategies: Four Case Studies*, IBM Endowment for the Business of Government (October 2004) at pp. 31-45.

C. Profiles of success

This section of the report provides a brief profile of competitions with above average returns in each of the activity areas that were competed most frequently in FY 2004, as identified in Figure 3 – i.e., IT, maintenance and property management, logistics, human resources, and finance and accounting.²³ The profiles, set forth in Table 11, below, provide a reference point for agencies as they plan competitions and consider best practices for achieving success.

Table 11 identifies:

- the primary activity competed;
- the agency that sponsored the competition;
- the agency’s approach for grouping activities;
- the time dedicated to preliminary planning;
- the type of competition and source selection strategy used;
- estimated savings; and
- the changes that are generating the savings.

As shown on Table 11, these competitions are largely shaped by the “success” factors described in Part B of this report. This includes use of the standard competition process, pursuit of larger studies, and strategic grouping of activities (generally grouped regionally, enterprise-wide, or by business line/business unit).

A number of competitions were conducted using the “cost technical” tradeoff process established by the revised Circular. OMB authorized this process so that agencies could consider, as appropriate, the quality of service in addition to cost in order to determine the best overall value to the taxpayer.

²³ At least 10 competitions were completed in FY 2004 in each of these function code areas. This section also includes profiles for competitions conducted on procurement and administrative support. As explained above, these activities also benefited from competition but were not the primary focus of competition in FY 2004, in terms of numbers of FTEs studied, to the same extent as other activities described in this section.

Table 11. Competitions generating above average returns in FY 2004

Primary Activity Completed	Agency	Approach for Grouping Activities*	FTE Competed	Time Dedicated to Prelim Planning	Competition Type / Source Selection Strategy**	Gross Annual Savings per FTE	Gross Annualized Estimated Savings per Competition	Primary Cost-Saving Changes***
Information Technology								
Information Technology Help Desk	SSA	1	68	1 month	Standard / CTT	\$104,000	\$7.1 M	A, D
Data Processing Services	Treas	2	360	6 months	Standard / Phased	\$60,000	\$21.6 M	D, A
IT Support	Treas	2	350	6 months	Standard / Phased	\$56,800	\$19.9 M	D, C
Average for all IT competitions completed in FY 2004			147			\$36,900	\$5.4 M	
Maintenance / Property Management								
Maintenance/Hazardous Waste	DOD	3	290	Data Not Collected – Old Circular	Cost Comparison/ LPTA	\$49,500	\$14.4 M	D, E
Facilities Maintenance	DOD	2	426	Data Not Collected – Old Circular	Cost Comparison/ LPTA	\$43,900	\$18.7 M	D,E
Roads Maintenance	USDA	2	66	3 months	Standard/ LPTA	\$43,000	\$2.8 M	D, F
NIH Real Property Management ^{ab}	HHS	3	714	Data Not Collected – Old Circular	Cost Comparison/ LPTA	\$42,400	\$30.3 M	A, B, & D
Average for all Maintenance & Property Management competitions completed in FY 2004			65			\$27,900	\$1.8 M	

^aThis competition was reported in FY 2003, but was completed in the first quarter of FY 2004. It is under review pursuant to a protest settlement. Estimated savings may be amended based on the results of the review.

Key

*Approach for Grouping Activities	**Source Selection Strategy	***Primary cost-saving changes
1 = stand alone 2 = grouped w/same activity at other locations (e.g., regional or enterprise-wide competition) 3 = grouped w/related activities at same or other locations (e.g., business line/business unit competition)	CTT = Cost-technical tradeoff Phased = Phased Evaluation LPTA = Lowest Priced Technically Acceptable	A = workforce realignment B = reengineered processes C = leveraging technology D = consolidation of operations E = clearer performance standards F = other

Table 11. Competitions generating above average returns in FY 2004 (continued)

Primary Activity Competed	Agency	Approach for Grouping Activities*	FTE Competed	Time Dedicated to Prelim Planning	Competition Type / Source Selection Strategy**	Gross Annual Savings per FTE	Gross Annualized Estimated Savings per Competition	Primary Cost-Saving Changes***
Logistics								
Retail Supply Operations	DOD	3	76	Data Not Collected – Old Circular	Cost Comparison/ LPTA	\$56,700	\$4.3 M	B,D
Distribution Operations	DOD	2	86	Data Not Collected – Old Circular	Cost Comparison/ LPTA	\$36,400	\$3.1 M	B, D
Traffic/ Transportation Management Services	DOD	3	108	Data Not Collected – Old Circular	Cost Comparison/ LPTA	\$33,200	\$3.6 M	A, D
Average for all Logistics competitions completed in FY 2004			66			\$26,500	\$1.7 M	
Human Resources /Personnel Management, Education & Training								
Human Resources and Training Services	ED	2	123	10 months	Standard/ CTT	\$86,200	\$10.6 M	B, D
Human Resources Training	DOE	2	146	4 months	Standard/ CTT	\$46,400	\$6.8 M	A, D
Test Administration ^a	OPM	2	180	4 months	Standard/ LPTA	\$12,600	\$2.3 M	B
Average for all HR/Personnel Mgmt , Ed & Training competitions completed in FY 2004			79			\$25,300	\$2.2 M	

^a This competition was reported in FY 2003, but was completed in the first quarter of FY 2004.

Key

*Approach for Grouping Activities	**Source Selection Strategy	***Primary cost-saving changes
1 = stand alone 2 = grouped w/same activity at other locations (e.g., regional or enterprise-wide competition) 3 = grouped w/related activities at same or other locations (e.g., business line/business unit competition)	CTT = Cost-technical tradeoff Phased = Phased Evaluation LPTA = Lowest Priced Technically Acceptable	A = workforce realignment B = reengineered processes C = leveraging technology D = consolidation of operations E = clearer performance standards F = other

Table 11. Competitions generating above average returns in FY 2004 (continued)

Primary Activity Competed	Agency	Approach for Grouping Activities*	FTE Competed	Time Dedicated to Prelim Planning	Competition Type / Source Selection Strategy**	Gross Annual Savings per FTE	Gross Annualized Estimated Savings per Competition	Primary Cost-Saving Changes***
Finance & Accounting								
Payment Processing	ED	2	97	10 months	Standard / CTT	\$70,500	\$6.8 M	B, C
Financial Services	DOD	3	38	Data Not Collected – Old Circular	Streamlined Cost Comparison	\$41,800	\$1.6 M	F
Financial Services ^a	DOE	2	159	6 months	Standard / CTT	\$39,000	\$6.2 M	A, D
Financial Management	DOD	2	79	Data Not Collected – Old Circular	Cost Comparison/ LPTA	\$35,200	\$2.8 M	D, E
Average for all Finance & Accounting competitions in FY 2004			58			\$24,800	\$1.6 M	

^a This competition was reported in FY 2003, but was completed in the first quarter of FY 2004.

Key

*Approach for Grouping Activities	**Source Selection Strategy	***Primary cost-saving changes
1 = stand alone 2 = grouped w/same activity at other locations (e.g., regional or enterprise-wide competition) 3 = grouped w/related activities at same or other locations (e.g., business line/business unit competition)	CTT = Cost-technical tradeoff Phased = Phased Evaluation LPTA = Lowest Priced Technically Acceptable	A = workforce realignment B = reengineered processes C = leveraging technology D = consolidation of operations E = clearer performance standards F = other

Table 11. Competitions generating above average returns in FY 2004 (continued)

Primary Activity Competed	Agency	Approach for Grouping Activities*	FTE Competed	Time Dedicated to Prelim Planning	Competition Type / Source Selection Strategy**	Gross Annual Savings per FTE	Gross Annualized Estimated Savings per Competition	Primary Cost-Saving Changes***
Procurement								
Contract Admin & Operations	DOD	1	55	Data Not Collected – Old Circular	Cost Comparison/ LPTA	\$70,500	\$6.8 M	A, B
Engineering Support for Acquisition	DOD	1	193	Data Not Collected – Old Circular	Cost Comparison/ LPTA	\$41,800	\$1.6 M	A, B
Average for all Procurement competitions completed in FY 2004			53			\$27,400	\$1.5 M	
Administrative Support								
CDC Administrative Support	HHS	2	196	2 months	Standard/ LPTA	\$29,300	\$5.7 M	A, D
Average for all Administrative Support competitions completed in FY 2004			21			\$22,600	\$0.5 M	

Key

*Approach for Grouping Activities	**Source Selection Strategy	***Primary cost-saving changes
1 = stand alone 2 = grouped w/same activity at other locations (e.g., regional or enterprise-wide competition) 3 = grouped w/related activities at same or other locations (e.g., business line/business unit competition)	CTT = Cost-technical tradeoff Phased = Phased Evaluation LPTA = Lowest Priced Technically Acceptable	A = workforce realignment B = reengineered processes C = leveraging technology D = consolidation of operations E = clearer performance standards F = other

D. Ongoing challenges

Based on the number of commercial positions identified in agency inventories as suitable for competition, competitive sourcing has the potential to generate in excess of \$5 billion in annual savings and/or cost avoidance.²⁴ Despite the successes reported in FY 2004, there are a number of steps that must still be taken to realize the full potential of competitive sourcing. These steps include: (1) accountability for results – i.e., making sure performance decisions are implemented in a timely and effective manner; (2) maintaining a competitive environment that is fully conducive to public and private sector participation; (3) improving the integration between competitive sourcing and human capital; and (4) eliminating legislative constraints that limit the use of public-private competition as a catalyst for making needed changes.

This section discusses these challenges and the actions OMB has taken or is planning to take to address them.

1. Ensuring accountability for results.

Issue: Weak follow-through has been a historical concern with competitive sourcing. As agencies complete competitions, OMB seeks to ensure that resulting performance decisions (i.e., implementing an agency tender (MEO), awarding a contract to the private sector, or issuing an agreement with a public reimbursable source) are implemented in a timely and effective manner. In this way, agencies and their providers will make good on their commitments to the taxpayer.

Steps taken or planned:

i. Validate results. OMB revised the PMA standards that it uses for measuring agency success with competitive sourcing as a viable management tool. Beginning with the first quarter of FY 2005, “yellow” and “green” agencies must demonstrate a positive anticipated net savings and/or significant improvement from competition. Green agencies must independently validate through sampling that savings to be achieved for the prior fiscal year were realized. In addition, OMB has asked the President’s Council on Integrity and Efficiency (comprised of agency inspectors general) to work with agencies in reviewing performance decisions to see that they are being properly implemented.

ii. Develop competitive sourcing tracking system. OMB is working with GSA to obtain contractor support to develop a database that can be used to collect information related to competitive sourcing on an ongoing basis. The database elements will build on those required by section 647 of Division F of P.L. 108-199 and the guidance OMB has developed (i.e., Memoranda M-05-01 and M-04-07 (February 26, 2004)) to achieve consistent and clear reporting of data.

OMB’s guidance seeks to ensure that agencies begin identifying achieved savings and/or performance improvements after phase-in tasks and a full performance-period has been completed. OMB’s revised guidance (issued in connection with FY 2004 reporting) also requires agencies to begin identifying their fixed costs – i.e., the costs of providing central

²⁴ According to the 2003 FAIR Act inventories of agencies tracked by the PMA, there were approximately 375,000 FTEs identified as suitable for competition.

direction and oversight on competitive sourcing for the agency. In addition, DOD is developing a standardized methodology for estimating baselines and associated modifications to the software (known as COMPARE) that is used to calculate and document costs in public-private competitions. OMB will work with DOD and civilian agencies to determine what guidance can best facilitate the tracking of actual savings. This review will also consider how fixed costs and transition costs are best reflected.

iii. Identify best practices addressing post-award accountability. The competitive sourcing working group of the Chief Acquisition Officer's Council (CAOC), in coordination with OMB, will update its managers guide to answer frequently asked questions about post-award accountability and provide models for consideration. OMB and the CAOC recognize that agencies must review performance against standards stated in contracts with the private sector or letters of obligation with in-house and public reimbursable sources to ensure work is being performed at the agreed upon level. The committee will review model letters of obligation (used to implement a performance decision that results in agency performance) as well as roles and responsibilities of key personnel, such as agency tender officials and contracting officers.²⁵

2. Maintaining a competitive environment.

Issue: The viability of competitive sourcing requires a transparent environment that is conducive to both public and private sector participation. Unlike contractors, federal employees do not generally have experience competing for work. For this reason, the Circular requires agencies to ensure their in-house providers have access to available resources (e.g., skilled manpower, funding) necessary to develop competitive agency tenders. It also encourages agencies to permit in-house providers to develop MEOs so they can demonstrate their capability to serve the taxpayer.

While most contractors are experienced in competing for work, they will not participate in a competitive sourcing action that offers little economic incentive or one where there is insufficient opportunity to perform the due diligence necessary to understand the government's requirements. Accordingly, agencies must: (i) package work in a manner that creates an economic incentive and (ii) give potential contractors a reasonable chance to understand the government's needs and offer the best solutions.

Success in generating contractor interest in public-private competition has been mixed. Nearly half of the standard competitions completed in FY 2004 involved two or more private sector offers. The remaining standard competitions had either one or no private sector offers. According to agency data, annualized net savings per FTE were considerably higher in competitions where there were two or more private sector offers (over \$32,000) than in competitions with no private sector offers (just over \$18,000). The difference between the amounts, as further delineated on Table 12, demonstrates that the combination of competition and re-engineering, rather than re-engineering alone, is the main driver of savings.

²⁵ The CAOC has developed a number of products to provide a better understanding of the purpose of competitive sourcing and the steps required to successfully conduct a competition. These include a Managers Guide (see www.fac.gov) and, more recently, a training video on competitive sourcing.

Table 12. Level of competition and associated annual net savings per FTE*

% of Standard Competitions	Bids Received			Total Competitions
	2+	1	0	
Government-wide	47% \$32,500	24% \$22,400	29% \$18,300	75

% of FTE Competed	Bids Received			Total FTEs
	2+	1	0	
Government-wide	45% \$32,500	31% \$22,400	24% \$18,300	9,935

* The table does not include NASA science competitions or DOD competitions without cost or savings data at the time that the government-wide data was compiled.

Steps taken or planned:

i. Issue competition reminders checklist. Based on lessons learned to date, OMB will issue a competition reminders checklist to help agencies ensure they are taking all appropriate steps to encourage robust participation by both sectors in competitions. The reminders will, in part, reflect the type of successful practices described in section A.5, above. These practices include issuance of draft statements of work or draft solicitations, public forums to obtain feedback from interested sources, and posting of the competition form that was used to justify the agency's decision so that future offerors may better understand the basis of the performance decision. OMB's Resource Management Offices and Office of Federal Procurement Policy (OFPP) will use the checklist to work with individual agencies in assessing whether they have given sufficient attention to the effective structuring of their competitions, as called for by the PMA standards for success.

ii. Improve the inventory development process. OMB has issued guidance to help improve the process agencies use to develop their inventories.²⁶ Development of a clear and accurate inventory is an important first step in the process of identifying where competition is best applied. Agencies that have had the greatest success with competitive sourcing are generally the same agencies that have made concerted efforts to first understand the functions their workforce is performing and how those functions relate to the agency's mission. For its part, OMB:

- has requested that agencies provide copies of internal function code definitions so a comprehensive list may be compiled for use in the FY 2006 inventory cycle;
- is requiring agencies to provide OMB with their rationales (i.e., reason code A justifications) for deeming activities unsuitable for competition when submitting inventory submissions for review and will post examples of "model" justifications;
- clarified the handling of fractional FTEs; and

²⁶ See OMB Memorandum M-05-12, *2005 Inventories of Commercial and Inherently Governmental Activities* (May 23, 2005).

- is working with the CAOC to identify best practices associated with the inventory development process.

These steps are generally intended to facilitate greater consistency between agencies and within agencies for the handling of similarly situated activities. However, final determinations regarding the classification of activities will continue to be made by the agency.

In addition, plans are under way to obtain contractor support for the development and deployment of the workforce inventory tracking system (WITS). WITS will be designed to reduce the burden associated with the inventory submission process and allow OMB to identify trends and changes within inventories from one year to the next.

iii. Test alternative competition procedures. OMB has granted a limited number of deviations to enable agencies to test alternative procedures that may enhance the effect of competition or allow its application to activities that are not typically competed using the traditional sealed bidding or negotiated procurement processes set forth in Parts 14 and 15 of the Federal Acquisition Regulation. Deviations granted by OMB include the following:

- DOE was granted a deviation to use the Multiple Award Schedules (MAS) Program to obtain private sector offers in a medium-sized standard public-private competition involving logistics operations at DOE Headquarters and Albany Research Center. DOE sought the deviation based on the significant number of qualified contractors that offer these services through the schedules and its past success in using streamlined procurement vehicles to acquire services from the private sector. To maximize the value of competition, DOE issued: (1) a formal questionnaire to a number of schedule vendors with direct work experience, including small businesses, that are capable and willing to submit an offer; and (2) a request for quotation to multiple MAS vendors and DOE's most efficient organization. DOE received multiple proposals. DOE indicated that another public-private competition of comparable size that was conducted during the same general time period received no private sector offers even though DOE used full and open competition to establish the cost of private sector performance.²⁷
- NASA was granted a deviation to evaluate the application of public-private competition to research and development (R&D) efforts. Under the deviation, NASA scientists compete with members throughout the scientific community (i.e., industry, academia, and other institutions) to perform world class science projects. Proposals are evaluated through a peer or scientific review process involving panels of experts. Proposals are then compared and awards made based on best value as determined by scientific merit and cost reasonableness. Awards are not winner-take-all and may be made to a combination of in-house scientists and private sector sources whose offers present the best case for the pursuit of promising R&D efforts.

OMB and the requesting agency have established parameters and reporting requirements to ensure processes are fair and transparent. When competitions are conducted pursuant to the deviation, agencies must identify the deviation and processes to be used so that potential sources can make informed business decisions as to whether they wish to participate.

²⁷ The competition was completed in FY 2005. Savings figures will be reported by DOE and OMB as part of the FY 2005 reporting cycle.

3. Integrating the human capital and competitive sourcing initiatives.

Issue: As discussed in OMB's May 2004 report, successful application of competitive sourcing requires that competition decisions be aligned with the agency's human capital initiative. Both PMA initiatives share a common goal of seeking to improve mission performance by: (a) closing competency and skill gaps; (b) identifying redundancies, unbalanced staffing, and other inefficiencies that cut across agency functions; (c) restructuring organizations; and (d) redeploying resources to higher program priorities. Agencies reported taking steps to address workforce needs, such as timing competitions to minimize workforce disruptions, involving human resource advisors to assist employees as they reorganize their operations, and exploring opportunities to provide "soft landings" for directly affected employees. At the same time, a number of agencies acknowledged that the current organizational linkage between these two initiatives is not well defined and opportunities to pursue succession planning may be lost or delayed.

Steps taken or planned:

i. Strengthen the linkage between the human capital and competitive sourcing initiatives.

OMB will work with the Office of Personnel Management's (OPM) Human Capital Officers and other human resources officials to identify practices for leveraging the shared interests of the human capital and competitive sourcing initiatives. Appropriate cross-walks will be identified between the human capital and competitive sourcing standards for success on the PMA scorecard.

ii. Hold government forums. This spring, OPM and OMB co-sponsored a symposium for federal human capital officers and competitive sourcing personnel to explore the interrelationship between the strategic management of human capital and the competitive sourcing initiative. Attendees considered steps for linking the two efforts to achieve their common goals. In addition, OMB will sponsor a government forum to facilitate the sharing of best practices in workforce inventory development. Views will be exchanged on the principles underlying the classification of employees and the interrelationship of particular positions with the mission of the agency. These dialogues should help to encourage greater collaboration throughout the competitive sourcing process.

iii. Share communication plans & take effective advantage of soft landing authorities.

OMB has identified model communication plans that agencies have developed to provide for open and frank communication with those affected by competitive sourcing. The model plans are designed to promote greater transparency and help allay employee concerns. The plans have been shared with agency Competitive Sourcing Officials. OMB and OPM are working with agencies to examine how approval for the use of soft landing authorities, such as Voluntary Early Retirement and Voluntary Separation Incentive Payment authorities might be more effectively integrated with key decision points during the competitive sourcing process.

4. Eliminating legislative constraints.

Issue: A number of legislative constraints are limiting the application of competitive sourcing, including at DOD and VA, where the potential return is arguably the greatest.

- DOD projects cost savings of more than \$6 billion as a result of competitions completed between fiscal years 2001 and 2006. However, a provision in the FY 2005 Defense Appropriations Act restricts the type of health benefits plans DOD contractors may provide to their own employees when performing work for the Department. This provision is highly problematic for several reasons.
 - *This restriction is costly:* it will eliminate any incentive for private sector offerors to identify cost-effective health insurance, including health savings accounts or medical savings accounts.
 - *This restriction is anticompetitive:* it will discourage businesses from competing.
 - *This restriction harms small businesses:* small businesses may have difficulty being competitive if their evaluated costs for health care are adjusted simply to match the cost of government health plans.
 - *This restriction is unfair:* it could potentially skew competitions in favor of in-house performance.
- VA has previously estimated a potential cost savings of more than \$1.3 billion over a five-year period. However, statute restricts its ability to conduct competitions.²⁸ This restriction is preventing taxpayers from enjoying significant savings and performance improvements that would occur if competition were permitted.²⁹ On the one public-private competition VA was able to complete under the PMA, for property management, VA projects net savings of \$45 million over 4 ½ years, or approximately \$36,000 in annualized net savings per FTE. These types of results can help VA enhance the quality of health care it provides and free up VA resources that can be dedicated to our veterans.
- Competitions completed by the Forest Service and DOI in FY 2004 are collectively expected to net approximately \$178 million in taxpayer savings over the next several years (\$162 million at the Forest Service and \$16 million at DOI). Yet funding restrictions threaten to restrict the reasoned application of competition. Funding restrictions are also blocking Agriculture from improving the efficiency and cost-effectiveness of its rural development and farm loan programs.

²⁸ See 38 U.S.C. 8110(a)(5), which restricts VA's use of public-private cost studies.

²⁹ The \$1.3 billion figure was based on the Department's 2003 FAIR inventory. After its 2004 inventory is published, VA will conduct a review of its commercial activities in coordination with OMB and intends to revise its competitive sourcing plan based on this review. In addition, if the Department is authorized to conduct competitions, it will update its plan annually based on experience, capacity, and an improved understanding both of the marketplace and its workforce. (VA's plan will include a project plan to address activities, costs, savings, and general timelines for competition.)

- Last year, the Department of Homeland Security sought to use competition to select the public or private sector provider that can most effectively help the Department make necessary improvements to its immigration information function. Restrictions in the FY 2005 Appropriations Act have thwarted opportunities to use competition to bring about these needed changes.

Steps taken or planned:

Work with the Congress. The Administration is urging Congress to remove legislative barriers to competitive sourcing as well as to appropriate funds to permit VA to proceed with competitions for its commercial operations that are suitable for private sector performance. The Administration believes the findings discussed in this report provide a strong foundation to support making resources available for competitive sourcing. The numerous examples and statistics included in this report show that agencies are becoming increasingly skilled at comparing private sector capabilities and costs to those of federal employees on a fair and level playing field. Equally important, they are using competition as an effective change agent to save resources and improve the delivery of services to our citizens.

Part II. Appendices

The following appendices have been included in this report to provide additional consolidated information on agencies' competitive sourcing efforts:

- Appendix A-1. Competitions Completed in FY 2004
- Appendix A-2. Competitions Announced in FY 2004
- Appendix B-1. Types of Activities Competed or Announced in FY 2004
- Appendix B-2. Activities Most Frequently Competed by Agency
- Appendix C. Planned Competitions for FY 2005
- Appendix D. Performance Decisions
- Appendix E. Incremental Cost of Competition
- Appendix F. Fixed Costs
- Appendix G. Estimated Savings for Completed Streamlined & Standard Competitions

1. *General caveat regarding data in the appendices.* The data provided in these appendices have been derived from individual agency reports prepared in accordance with OMB Memorandum M-05-01. Each agency has made a good faith attempt to provide the competition-specific information requested by OMB in its individual report and has reviewed the data in these appendices for consistency with its individual report to Congress. The attached appendices and the summary tables in the report are limited to the extent information was not included in an agency's report.

2. *Methodologies and assumptions.* The following explanations are provided for readers to better understand what figures in the appendices represent.

a. Streamlined and standard competitions. These terms include streamlined and standard competitions conducted under the revisions to OMB Circular A-76 published on May 29, 2003 and streamlined and standard cost comparisons conducted under the Circular prior to its revision.

b. Reporting period. Except for the competitions specifically identified in this paragraph, data reflect: (i) competitions completed in FY 2004 regardless of when they were initiated; and (ii) competitions announced in FY 2004 but not completed in 2004. The following five standard competitions, completed in FY 2004, were excluded from the cumulative data reported in these appendices: (1) an Office of Personnel Management competition for test administration (involving 180 FTEs); (2) a Health and Human Services competition for facilities management (714 FTEs); (3) a Department of Energy competition for financial services (159 FTEs); (4) a Department of Justice competition for vehicle maintenance (153 FTEs); and (5) a Department of Commerce competition for telecommunications operations (34 FTEs). OMB included these competitions in the appendices to the FY 2003 report because substantial action had been taken in FY 2003 and the competitions were completed well before the statutory

reporting deadline. However, because these actions were completed in FY 2004, some of them are discussed in Part I of the report. Caveats have been included whenever these competitions are referenced.

c. Incremental costs. To evaluate agency results in a consistent manner, OMB developed guidelines for agencies to calculate the incremental cost of competition and estimated savings. Consistent with Section 647, which calls for agencies to identify the incremental costs of competition, OMB developed guidance to capture only the out-of-pocket expense of competition. These costs include:

- The costs of consultants or contractors who participated in the conduct of the reported competitions;
- The costs of travel, training, or other incremental expenses directly attributed to the conduct of the reported competitions; and
- Incremental in-house staff costs that were incurred as part of conducting the competition (i.e., any staff hired specifically to work on a particular competition or fill behind employees temporarily working on a competition or overtime costs (where overtime costs are tracked)).

Reporting excludes any costs that would have been paid irrespective of whether the agency pursued competition, such as the costs of in-house staff that may have spent time on the competition during regular working hours, but were not hired to work on a competition and will continue to be on-board after the competition is completed. Any costs incurred prior to public announcement of the competition are also excluded. The steps typically involved in preliminary planning -- e.g., conducting a workload assessment, evaluating how the organization could be reorganized to operate more efficiently, benchmarking against industry standards -- are good management practices that offer benefit to the agency irrespective of whether public-private competition is pursued.

Incremental cost does not reflect, nor is it intended to reflect, the amount of overall effort an agency applies to competitive sourcing. It simply reflects the out-of-pocket costs to the agency.

d. Fixed costs. OMB's guidance for FY 2004 reporting requires that agencies identify fixed costs -- i.e., labor costs associated with providing central direction and oversight. Central direction includes that provided both by an agency's headquarters and, if applicable, that provided by a bureau. Fixed costs include the cost of FTEs that are fully dedicated to managing the competitive sourcing initiative at the agency and any contract support costs associated with this effort. They do not include the cost of FTEs or contract support associated with specific competitions or out-of-pocket (incremental) costs for conducting individual competitions. Some agencies are not currently collecting information on fixed costs in a systematic fashion and have provided an estimate.

e. Savings. To estimate savings achieved under the winning bid, agencies developed an "as is" baseline reflecting the total of in-house personnel costs, overhead, and contract costs. Transition costs (e.g., Voluntary Early Retirement Authority or Voluntary Separation Incentive Program costs, moving expenses, etc.) are not included in the baseline and are not captured in the savings figures in this report (except where noted).

Agencies were instructed to develop estimates that correspond to the manner in which the function was planned for budgeting purposes in the year that the announcement was made. This guidance is designed to produce a realistic estimate of savings and avoid baselines that reflect desired staffing levels or staffing that happened to exist at the time the competition was announced. In addition, agencies were instructed to adjust savings figures to constant 2004 dollars.

Agencies were further instructed to identify actual savings achieved on competitions completed either in FY 2003 or FY 2004 for which there are estimated savings. Because most competitions awarded in FY 2003 have not reached the end of a full performance period, agencies generally provided very limited information on actual savings. Cumulative figures are therefore not included in this appendix. However, OMB intends to include actual savings information in the next reporting cycle.

Note: Some figures in the appendices are presented in terms of FTE in order to provide a common measure across agencies. This does not mean that savings are exclusively the result of lower personnel costs. While savings were largely attributable to reductions in federal labor costs, reported savings may be derived in other ways. For example, where in-house sources have relied on private support contractors, the development of a most efficient organization may result in lower contract support costs.

f. Direct conversions. DOD reported on several direct conversion actions pursued prior to the issuance of the revised Circular. Despite the classification as direct conversions, pursuant to 10 U.S.C. 2462, DOD will not convert activities to private sector performance until after having considered the cost of in-house performance.

g. Planned competitions. In most cases, FTE figures are estimates that may be subject to adjustment based on the results of agency analyses (e.g., business case analysis, cost-benefit analysis).

Competitions Completed in FY 2004¹

Agency	Number of Competitions				Number of FTEs Completed						
	Streamlined	Standard	Direct Conversions	Total	Total				Average per competition		
					Streamlined	Standard	Direct Conversions	Total	Streamlined	Standard	Direct Conversions
Agriculture	12	4	0	16	66	1,421	0	1,487	6	355	0
Commerce	1	0	0	1	9	0	0	9	9	0	0
Defense	4	54	12	70	121	7,363	750	8,234	30	136	63
Education	1	2	0	3	10	220	0	230	10	110	0
Energy	1	1	0	2	76	146	0	222	76	146	0
EPA	1	0	0	1	1	0	0	1	1	0	0
HHS	33	5	0	38	365	351	0	716	11	70	0
Homeland	0	3	0	3	0	144	0	144	0	48	0
HUD	0	0	0	0	0	0	0	0	0	0	0
Interior	5	3	0	8	42	341	0	383	8	114	0
Justice	3	0	0	3	20	0	0	20	7	0	0
Labor	5	1	0	6	57	9	0	66	11	9	0
State	5	0	0	5	24	0	0	24	5	0	0
DOT	5	1	0	6	41	14	0	55	8	14	0
Treasury	1	5	0	6	10	820	0	830	10	164	0
VA	0	0	0	0	0	0	0	0	0	0	0
AID	0	0	0	0	0	0	0	0	0	0	0
Corps	0	0	0	0	0	0	0	0	0	0	0
GSA	28	1	0	29	147	32	0	179	5	32	0
NASA	0	20	0	20	0	443	0	443	0	22	0
NSF	0	0	0	0	0	0	0	0	0	0	0
OMB	0	0	0	0	0	0	0	0	0	0	0
OPM	9	0	0	9	164	0	0	164	18	0	0
SBA	1	0	0	1	39	0	0	39	39	0	0
Smithsonian	0	0	0	0	0	0	0	0	0	0	0
SSA	1	1	0	2	9	68	0	77	9	68	0
GOVERNMENTWIDE	116	101	12	229	1,201	11,372	750	13,323	10	113	63

Note:

1. Includes all competitions completed in FY2004 irrespective of when they were initiated, with the exception of five competitions that were reported with the FY 2003 report. These competitions included the following: (1) Department of Commerce competition for telecommunications (34 FTEs), (2) Department of Energy competition for financial services (159 FTEs), (3) Health and Human Services competition for facilities management (714 FTEs), (4) Department of Justice competition for vehicle maintenance (153 FTEs), and (5) Office of Personnel Management competition for test administration (180 FTEs).

Competitions Announced in FY 2004¹

Agency	Number of Competitions				Number of FTEs Completed						
	Streamlined	Standard	Direct Conversions	Total	Total				Average per competition		
					Streamlined	Standard	Direct Conversions	Total	Streamlined	Standard	Direct Conversions
Agriculture	0	2	0	2	0	270	0	270	0	135	0
Commerce	0	0	0	0	0	0	0	0	0	0	0
Defense	17	0	0	17	266	0	0	266	16	0	0
Education	0	0	0	0	0	0	0	0	0	0	0
Energy	0	2	0	2	0	724	0	724	0	362	0
EPA	0	2	0	2	0	53	0	53	0	27	0
HHS	0	4	0	4	0	482	0	482	0	121	0
Homeland	1	1	0	2	13	84	0	97	13	84	0
HUD	0	1	0	1	0	394	0	394	0	394	0
Interior	0	2	0	2	0	400	0	400	0	200	0
Justice	0	1	0	1	0	115	0	115	0	115	0
Labor	0	2	0	2	0	56	0	56	0	28	0
State	0	0	0	0	0	0	0	0	0	0	0
DOT	5	2	0	7	84	2,714	0	2,798	17	1,357	0
Treasury	1	6	0	7	10	1,851	0	1,861	10	309	0
VA	0	0	0	0	0	0	0	0	0	0	0
AID	0	0	0	0	0	0	0	0	0	0	0
Corps	0	2	0	2	0	1,516	0	1,516	0	758	0
GSA	2	1	0	3	22	169	0	191	11	169	0
NASA	0	19	0	19	0	237	0	237	0	12	0
NSF	0	0	0	0	0	0	0	0	0	0	0
OMB	0	0	0	0	0	0	0	0	0	0	0
OPM	0	1	0	1	0	163	0	163	0	163	0
SBA	0	1	0	1	0	27	0	27	0	27	0
Smithsonian	0	0	0	0	0	0	0	0	0	0	0
SSA	1	0	0	1	1	0	0	1	1	0	0
GOVERNMENTWIDE	27	49	0	76	396	9,255	0	9,651	15	189	0

Note:

1. Includes competitions announced, but not completed, in FY 2004.

Types of Activities Competed or Announced for Competition in FY 2004¹

Agency	Function Code																					
	B	C	D	E	F	G	H	I	J	K	L	M	P	R	S	T	U	W	X	Y	Z	000
Agriculture							•					•		•	•	•		•			•	•
Commerce														•								
Defense		•		•	•	•	•		•	•			•	•	•	•	•				•	
Education	•	•						•														
Energy			•	•						•							•					
EPA	•	•																				
HHS		•	•				•								•	•	•	•		•		•
Homeland	•											•										•
HUD			•																			
Interior			•												•	•	•	•		•	•	
Justice						•					•				•							
Labor	•	•	•													•		•				
State					•												•	•		•		
DOT	•	•	•		•										•	•				•		•
Treasury	•			•											•	•	•	•	•			
VA																						
AID																						
Corps																	•				•	
GSA		•													•						•	
NASA					•									•								
NSF																						
OMB																						
OPM		•	•				•								•			•				•
SBA																				•		
Smithsonian																						
SSA																	•			•		

Notes:

1. This chart identifies the primary activities that were the subject of competition.
2. There were no completed or announced competitions for activities primarily in the "A" function code, "Recurring Testing and Inspection Services, or in the "Q" function code, "Civil Works."

Key

B = Personnel Management C = Finance & Accounting D = Regulatory & Program Management Support Services E = Environment F = Procurement G = Social Services H = Health Services I = Investigations	J = Intermediate, Direct, or General Repair & Maintenance of Equipment K = Depot Repair, Maintenance, Modification, Conversion, or Overhaul of Equipment L = Grants Management M = Forces & Direct Support	P = Base Maintenance / Multi-Function Contracts R = Research, Development, Test, & Evaluation S = Installation Services T = Other Non-Manufacturing Operations (Logistics) U = Education & Training W = Communications, Computing, & Other Information Services	X = Products Manufactured & Fabricated In-House Y = Force Management & General Support Z = Maintenance, Repair, Alteration, & Minor Construction of Real Property 000 = Administrative Support
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Appendix B - 2

Activities Most Frequently Competed by Agency¹

Agency	Activity ^{2,3}	FTE ³
Agriculture	Information Technology	1,200
Commerce	Laboratory Maintenance and Operation	9
Defense	Base/Facilities Support and Management	3,348
Education	Human Resources and Training Services	123
Energy	Human Resources Training	146
EPA	Vendor Payments	26
HHS	Administrative Support	196
Homeland	Employee Development	113
HUD	Multifamily Housing Contract Administration	394
Interior	Bio-Science Support	330
Justice	Grants Management Support	115
Labor	Systems, Information, and Technical Support	36
State	Language Education	7
DOT	Automated Flight Service Stations	2,700
Treasury	Administrative Support	1,458
VA	n/a	n/a
AID	n/a	n/a
Corps	Information Management/Information Tech	1,461
GSA	Mechanical Maintenance	117
NASA	Shared Services	200
NSF	n/a	n/a
OMB	n/a	n/a
OPM	Clerical, Technical, and Administrative Support	163
SBA	Paralegal Support	39
Smithsonian	n/a	n/a
SSA	Information Technology Help Desk	68

Notes:

1. Activities identified on this chart are described in general terms, not by specific function code.
2. Determined based on number of FTEs in standard and streamlined competitions announced or completed in FY 2004.
3. "n/a" indicates not applicable since no competitions were reported.

Appendix C

Planned Competitions for FY 2005

Agency	Number of FTEs in Competitions Planned for Announcement ¹
Agriculture	1,043
Commerce	168
Defense	13,755
Education	250
Energy	200-400 ²
EPA	200
HHS	1,331
Homeland	1,397
HUD	80
Interior	693
Justice	284
Labor	339
State	229
DOT	111-151 ²
Treasury	1,907
VA ³	0
AID	0
Corps	490
GSA	654
NASA	440
NSF	20
OMB	2
OPM	74 ⁴
SBA	171
Smithsonian	0
SSA	330 ⁴
GOVERNMENTWIDE	24,288

Notes:

1. These figures are subject to adjustment based on result of agency analyses.
2. Where an agency identified a range of FTE, the average of the range was used to calculate the total government-wide FTE planned for competition in FY05.
3. Statutory restrictions limit VA's ability to conduct public-private competitions.
4. This number has been adjusted from the agency's individual 647 report estimate to reflect changes that have occurred since submission.

Appendix D

Performance Decisions

Agency	Provider Selected, Str/Std Competitions (Based on FTE Competed) ¹	
	In-House	Contractor
Agriculture	94%	6%
Commerce	100%	0%
Defense	90%	10%
Education	100%	0%
Energy	100%	0%
EPA	0%	100%
HHS	96%	4%
Homeland	100%	0%
HUD	n/a	n/a
Interior	100%	0%
Justice	55%	45%
Labor	88%	12%
State	87%	13%
DOT	100%	0%
Treasury	93%	7%
VA	n/a	n/a
AID	n/a	n/a
Corps	n/a	n/a
GSA	23%	77%
NASA ²	---	---
NSF	n/a	n/a
OMB	n/a	n/a
OPM	100%	0%
SBA	100%	0%
Smithsonian	n/a	n/a
SSA	88%	12%
GOVERNMENTWIDE	91%	9%

Note:

1. "n/a" indicates not applicable since no competitions were reported.
2. All NASA competitions completed in FY 2004 were science competitions awarded under a deviation to multiple providers in both the public and private sectors.

Incremental Cost of Conducting Competitions¹

Agency	Incremental Costs			Incremental Cost per FTE (Completed Competitions only)		
	Completed	Announced	Total	Streamlined	Standard	Average
Agriculture	\$5,301,000	\$739,000	\$6,040,000	\$1,530	\$3,659	\$3,565
Commerce	\$145,000	n/a	\$145,000	\$16,111	n/a	\$16,111
Defense ²	\$57,042,000	\$0	\$57,042,000	\$8,083	\$7,614	\$7,622
Education	\$516,000	n/a	\$516,000	\$0	\$2,345	\$2,243
Energy ²	\$1,216,000	\$0	\$1,216,000	\$8,132	\$4,096	\$5,477
EPA	\$0	\$318,000	\$318,000	\$0	n/a	\$0
HHS	\$2,919,000	\$2,437,000	\$5,356,000	\$5,718	\$2,370	\$4,077
Homeland	\$1,310,000	\$0	\$1,310,000	n/a	\$9,094	\$9,094
HUD	n/a	\$145,000	\$145,000	n/a	n/a	n/a
Interior	\$1,498,000	\$225,000	\$1,723,000	\$0	\$4,393	\$3,911
Justice	\$60,000	\$48,000	\$108,000	\$3,000	n/a	\$3,000
Labor	\$111,000	\$96,000	\$207,000	\$684	\$8,000	\$1,682
State	\$0	n/a	\$0	\$0	n/a	\$0
DOT	\$452,000	\$9,411,000	\$9,863,000	\$6,609	\$13,071	\$8,263
Treasury	\$1,868,000	\$1,697,000	\$3,565,000	\$5,100	\$2,216	\$2,251
VA	n/a	n/a	n/a	n/a	n/a	n/a
AID	n/a	n/a	n/a	n/a	n/a	n/a
Corps	n/a	\$0	\$0	n/a	n/a	n/a
GSA	\$599,000	\$213,000	\$812,000	\$2,072	\$9,188	\$3,344
NASA	\$0	\$3,388,000	\$3,388,000	n/a	\$0	\$0
NSF	n/a	n/a	n/a	n/a	n/a	n/a
OMB	n/a	n/a	n/a	n/a	n/a	n/a
OPM	\$337,000	\$334,000	\$671,000	\$2,050	n/a	\$2,050
SBA	\$0	\$0	\$0	\$0	n/a	\$0
Smithsonian	n/a	n/a	n/a	n/a	n/a	n/a
SSA	\$260,000	\$0	\$260,000	\$667	\$3,735	\$3,377
GOVERNMENTWIDE	\$73,634,000	\$19,051,000	\$92,685,000	\$4,159	\$6,036	\$5,856

Notes:

1. "n/a" indicates not applicable since no competitions were reported.

2. Cost figures reported by Defense and Energy include some costs associated with preliminary planning that were excluded by other agencies pursuant to OMB Memorandum # 05-01. DoD figures also include additional personnel cost that were excluded by other agencies pursuant to M # 05-01. Data on incremental costs was not available for a small segment of DoD's completed competitions.

Appendix F

Fixed Costs

Agency	Fixed Costs
Agriculture	\$1,580,000
Commerce	\$260,000
Defense	\$21,983,314
Education	\$300,000
Energy	\$1,003,000
EPA	\$690,000
HHS	\$1,485,415
Homeland	\$450,000
HUD	\$223,000
Interior	\$627,000
Justice	\$210,000
Labor	\$302,000
State	\$981,929
DOT	\$299,000
Treasury	\$3,207,266
VA	N/A ¹
AID	N/A ²
Corps	\$116,686
GSA	\$291,000
NASA	\$503,046
NSF	N/A ²
OMB	\$0
OPM	\$173,000
SBA	\$150,000
Smithsonian	N/A ²
SSA	\$926,000
GOVERNMENTWIDE	\$35,762,000

Notes:

1. Statutory restrictions limit VA's ability to conduct public-private competitions.
2. No competitions were conducted by these agencies in FY 2004.

Estimated Savings for Completed Streamlined and Standard Competitions¹

Agency	Anticipated Savings		Net Savings per FTE		Annualized Gross Savings			Average Annual Net Savings per FTE		
	Gross	Net	Streamlined	Standard	Streamlined	Standard	Total	Streamlined	Standard	Total
Agriculture	\$179,233,000	\$173,932,000	\$15,424	\$121,685	\$224,000	\$35,623,000	\$35,847,000	\$3,085	\$24,337	\$23,394
Commerce	\$617,000	\$472,000	\$52,444	n/a	\$123,000	n/a	\$123,000	\$10,489	n/a	\$10,489
Defense ²	\$797,821,000	\$740,779,000	\$164,744	\$97,901	\$4,182,000	\$145,786,000	\$149,968,000	\$32,949	\$18,304	\$18,541
Education	\$87,964,000	\$87,448,000	\$74,600	\$394,100	\$249,000	\$17,444,000	\$17,693,000	\$24,867	\$78,820	\$76,474
Energy	\$39,840,000	\$38,624,000	\$70,816	\$227,685	\$1,200,000	\$6,768,000	\$7,968,000	\$14,163	\$45,537	\$34,796
EPA	\$12,000	\$12,000	\$12,374	n/a	\$2,000	n/a	\$2,000	\$2,475	n/a	\$2,475
HHS ³	\$50,269,092	\$47,350,092	\$22,822	\$111,168	\$2,083,000	\$7,970,000	\$10,053,000	\$4,564	\$21,032	\$13,226
Homeland	\$12,319,000	\$11,009,000	n/a	\$76,452	n/a	\$2,464,000	\$2,464,000	n/a	\$15,290	\$15,290
HUD	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Interior	\$17,876,000	\$16,378,000	\$130,286	\$31,982	\$674,000	\$2,481,000	\$3,155,000	\$16,057	\$6,396	\$7,456
Justice	\$328,000	\$268,000	\$13,400	n/a	\$66,000	n/a	\$66,000	\$2,680	n/a	\$2,680
Labor	\$3,524,000	\$3,413,000	\$25,523	\$210,538	\$299,000	\$406,000	\$705,000	\$5,105	\$42,108	\$10,295
State	\$208,000	\$208,000	\$8,686	n/a	\$49,000	n/a	\$49,000	\$2,044	n/a	\$2,044
DOT	\$1,914,000	\$1,462,000	\$29,582	\$18,429	\$147,000	\$88,000	\$235,000	\$2,572	\$3,686	\$2,857
Treasury	\$219,735,000	\$217,867,000	\$54,900	\$265,022	\$120,000	\$43,827,000	\$43,947,000	\$10,980	\$56,372	\$52,498
VA	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
AID	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Corps	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
GSA	\$18,938,000	\$18,339,000	\$86,438	\$176,031	\$2,918,000	\$988,000	\$3,906,000	\$19,374	\$29,339	\$21,156
NASA	\$0	\$0	n/a	\$0	\$0	\$0	\$0	\$0	\$0	\$0
NSF	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
OMB	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
OPM	\$1,034,000	\$697,000	\$4,240	n/a	\$207,000	n/a	\$207,000	\$848	n/a	\$848
SBA	\$1,795,000	\$1,795,000	\$46,026	n/a	\$598,000	n/a	\$598,000	\$15,342	n/a	\$15,342
Smithsonian	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
SSA	\$36,239,000	\$35,979,000	\$96,556	\$516,324	\$175,000	\$7,073,000	\$7,248,000	\$19,311	\$103,265	\$93,452
GOVERNMENTWIDE	\$1,469,666,092	\$1,396,032,092			\$13,316,000	\$270,918,000	\$284,234,000	\$10,258	\$22,839	\$21,637

Note:

1. "n/a" indicates not applicable since no competitions were reported.

2. Data on estimated savings was not available for a small segment of DoD's completed competitions.

3. After submitting its FY 2004 competitive sourcing report to Congress, HHS recalculated baseline costs and revised the savings estimate for a streamlined competition conducted by the Substance Abuse and Mental Health Services Administration. The figures in this table (and other tables in the report) reflect the readjustment.