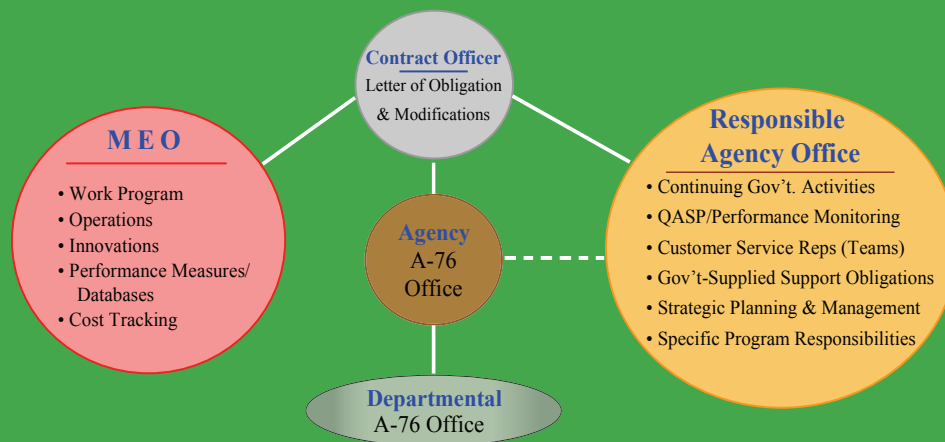


NEW TOOLS FOR IMPLEMENTING “MOST EFFICIENT ORGANIZATIONS” (MEOs) IN THE FEDERAL GOVERNMENT

WASHINGTON, DC
FEBRUARY 6, 2006



SYMPOSIUM PROCEEDINGS

SHARING IDEAS ABOUT:

- Performance Tracking
- MEO Independence and Flexibility
- Cost Saving Issues
- Communications, Change-Management and Organizational Dynamics
- Letter-of-Obligation Modifications
- Impacts on Federal Careers



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February 6, 2006

**IMPLEMENTING “MOST EFFICIENT
ORGANIZATIONS” (MEOS) IN THE
FEDERAL GOVERNMENT**

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The views expressed in this report are those of the Symposium participants. They do not necessarily reflect the views of the Academy Panel or the Academy as an institution.

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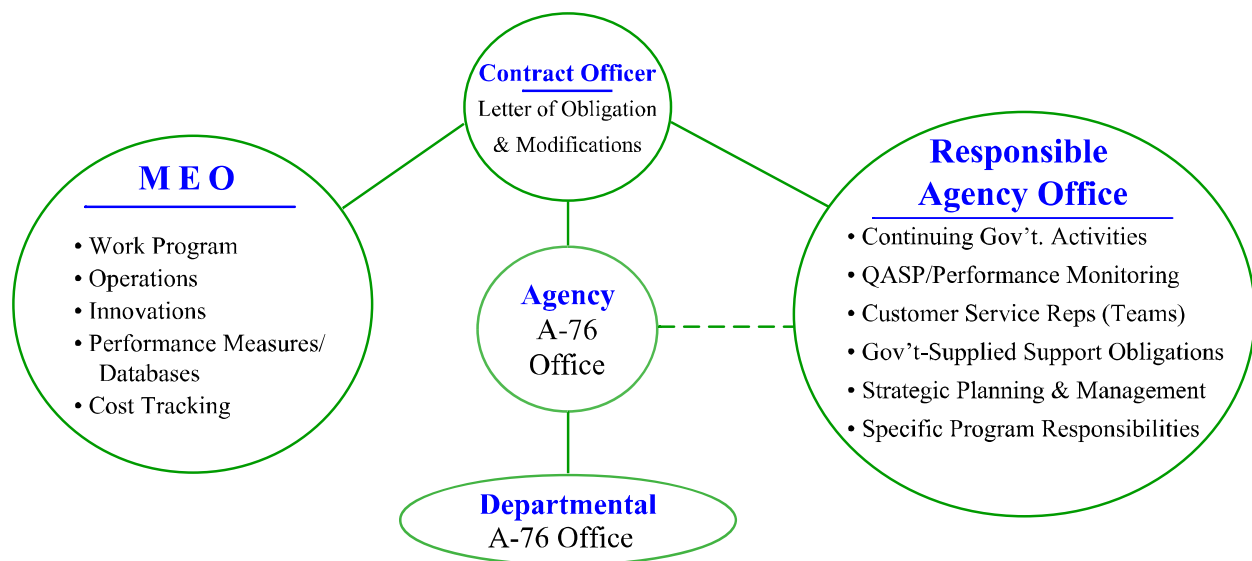
PREFACE

The Panel is pleased to present this record of the proceedings of the Symposium on Implementing “Most Efficient Organizations” (MEOs) in the Federal Government. MEOs are the separate organizations within an agency that the agency is required to establish when it wins a competition with the private sector to perform a function the agency was previously doing. This bidding process is called “competitive sourcing,” and it is conducted in accordance with Circular A-76 issued by the U.S. Office of Management and Budget and in accordance with the Federal Activities Inventory Reform Act. Under the President’s Management Agenda, very large proportions of federal employees in most agencies are subject to this process—on the order of 50-75 percent of all the employees in many agencies. And up to now, the agencies have been winning the awards 80-90 percent of the time. As a result, many new MEOs can be expected to be established over the coming decade.

The MEO is performance-based. That is, it must perform the work promised in the agency’s winning bid, and achieve the specific levels of service for the price (cost) it committed to in its competitive bid. Most of the bids are based on administrative consolidations, process reengineering, and new degrees of automation—and they promise very substantial savings, particularly in personnel reductions.

The MEO results from an “acquisition” process that is conducted under the Federal Acquisition Regulations (FAR), and it is governed—and its success is tracked—under the terms of a Letter of Obligation (LOO) that is similar to a contract. Any deviations from the LOO are allowed only in accordance with official modifications of the LOO approved by the contracting officer (CO) responsible for the individual LOO. And, the LOO modification is roughly equivalent to a contract modification.

The agency and/or its department must have a central office responsible for all the competitive sourcing studies, awards, and tracking/reporting processes required by the OMB Circular. The following chart depicts these general relationships.



These relationships are not as simple as shown in the chart, of course. And they have not been established either completely or has a matter of settled practice. Outside the U.S. Department of Defense, where competitive sourcing has been practiced in approximately its present form for about a decade, the A-76 process is still too new to have generated all the answers that government practitioners need when the government bid wins and they have to implement their MEO.

Thus, the purpose of this Symposium was to get some of the leading MEO practitioners together to work through the practical questions they are encountering, and look for answers that can be shared with the growing government-wide A-76 community.

The Panel thanks all the Symposium participants for their contributions to this purpose. We hope the results of the Symposium will be helpful to the whole government in making the competitive sourcing initiative of the President's Management Agenda a success.

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ACRONYMS

A-76	U.S. Office of Management and Budget Circular A-76, Competitive Sourcing
CFO	Chief Financial Officer
CO	Contract Officer
DAU	Defense Acquisition University
DoD	U.S. Department of Defense
DOE	U.S. Department of Energy
DOT	U.S. Department of Transportation
FAIR Act	Federal Activities Inventory Reform Act
FAR	Federal Acquisition Regulations
FS	USDA Forest Service
GAO	U.S. Government Accountability Office
GFE	Government Furnished Equipment
HR	Human Resources
ISO	Information Solutions Organization, the USDA
LOO	Letter of Obligation
MEO	Most Efficient Organization
OMB	U.S. Office of Management and Budget
PMA	President's Management Agenda
PRS	Performance Requirements Summary
PWS	Performance Work Statements
QAR	Qualified Adjustment Request
QASP	Quality Assurance Surveillance Plan
SLA	Service Level Agreements
USDA	U.S. Department of Agriculture

MORNING PLENARY SESSION

ACADEMY WELCOME

Franklin S. Reeder—Chairman of the Academy Panel to Assess the Forest Service Information Solutions Organization and Secretary of the Board of Directors—welcomed the 50 Symposium participants. He explained that the Academy consists of a body of some 500 elected Fellows who are senior practitioners in government at all levels—federal, state and local—as well as prominent academics in the fields of public management and administration. The Academy is chartered by Congress to advise and assist governments.

The bulk of the Academy’s work is done at the request of Congress or federal agencies. Academy studies are prepared by highly professional staff teams especially assembled for each study and guided by an expert panel of Fellows (and sometimes other experts) especially appointed for each study. I am proud to chair the Panel that is hosting this Symposium for the Forest Service.

This Symposium is designed to help the Academy assess the first-year performance of the Forest Service’s “most efficient organization” (MEO) created as a result of the awarding of a competitive sourcing to provide IT infrastructure. This particular MEO is called the Information Solutions Organization (ISO).

As the study team and panel began to evaluate the ISO, it became apparent that, while much is written about how one conducts a competitive sourcing study and award process, there is much less literature or collected experience on what happens once the government wins and an MEO must be established. It further occurred to us that there had to be a few people around who had done this, so we have invited many of them to this workshop. We hope this will provide an opportunity to learn from you some of the ways that you have been addressing the questions that we see the Forest Service now addressing across the many issues—like finance and budgeting, human capital, and acquisition—that change materially when the MEO is established.

So our hope today is that we can collect some of the experiences that you are willing to share with us, some of the lessons you have learned, and perhaps some of the innovative practices that have come out of your work—so that we can, in turn, share them not only with the Forest Service but also with many other federal agencies. Without compromising confidences, the Academy will publish the proceedings of today’s Symposium as a contribution to the intellectual capital that exists in this area. So, thank you all for being here today.

With that, I will turn it over to **Bruce McDowell**, our project director of this Forest Service study.

Thanks, Frank. Let me add my thanks to all of you for being here. Now, it is my pleasure to introduce **Jacqueline Myers**, Deputy Associate Chief of the Forest Service. This project is under her area of responsibility and she wants to welcome you on behalf of the Forest Service

and to recognize the Forest Service people who are here in the room. They are our clients for this study and the reason for this Symposium.

FOREST SERVICE WELCOME

MYERS: Thanks Bruce and welcome to all of you. In all my twenty-nine years of Federal Service, this has been one of the most challenging assignments I've had. This IT infrastructure study is just one of the three large administrative reform initiatives, and the only one under the A-76 Competitive Sourcing process. The others are an agency-wide finance and budget reorganization and an agency-wide human resource initiative. So we have been quite busy and quite challenged in trying to make these business process improvements that we know are being necessary for the agency to address some of our efficiency and effectiveness issues.

Today is actually the first birthday of our A-76 initiative and our team here—Jack Arthur, Joan Golden, Grant Dekker, Tom Fitzpatrick, and Carl Culham—has done an outstanding job of facilitating the agency getting as far as we have. We have a lot to celebrate and we are very proud, but it has not been without significant challenge and drama.

This organizational change, and especially the change to a contract-like relationship with our own internal employees, has been very difficult. Our management tends to continue to operate in the way that it has been accustomed to, instead of following the new vision of trying to let the new process play out as if it were a contract. The HR flexibilities or inflexibilities that are involved in that process have been a significant challenge to us—our labor-management relations, our partnership with the union. We have an excellent partnership with our union, but when we went to this new contract-like operating environment, we thought we would still be able to focus on the skill mixes we needed to do the job. However, our union negotiations got us into competition based on service computation [seniority] dates that did not always allow us to focus on the skills people need on the job.

We also had some significant budget issues: How do you make this kind of business change in the typical budget environment and deal with the flexibilities that are necessary with changing budgets, and changing program directions?

Another area that I'm interested in getting feedback on is customer service and customer satisfaction. Quite frankly, I'm not sure we will ever find a satisfied customer in this change. When you make changes as significant as these, employees are understandably displeased. We have disrupted their comfortable ways of doing business. When you change leadership structures, everyday managers' decision space changes. The type of things that employees have been able to weigh in on significantly in the past—such as what equipment to buy, when to buy, and what kind to buy—are now made at a much higher level in the organization, for the good of the organization. Nobody disagrees with that (it's as natural as a fly on the apple pie). But quite frankly, it all sounds good until you tell me I can't buy what I want to buy, when I want to buy it. This has been a challenge to us, and we are working our way through it.

Employee morale is another important issue we have to resolve. I would like to know how you do it. What have been some of your experiences with dealing with employees once they have become a part of the MEO? We are finding that those employees are concerned; they feel somewhat disassociated from the organization. They are not part of a Forest anymore, or they are not part of a business unit that they have been accustomed to being a part of. They now belong to a separate entity that's on its own. How do you ensure that they feel included in the organization?

So, I'm looking forward to a dialogue with all of you around those issues.

What have been some of your experiences around the capacity for change? We also did a lot of work to strengthen our capacity for change. We did a lot of change-management training. But, quite frankly, it was not enough. It was not sufficient to institutionalize those changes. It was not sufficient to help us do a really thorough job. But it was as much as we could do with the time and resources we had.

INTRODUCTION TO THE ISSUES

MCDOWELL: Thanks, Jacque. That was a terrific introduction to the issues. Working with the Forest Service since has helped us identify these issues, and we have been writing them down as specifically as we can. And it occurred to us, as Frank said in his opening remarks, that there must be a lot of you out there who are having the same experiences, and maybe you have some answers to the kinds of questions that these issues raise.

Al Burman of Jefferson Consulting has been working with us to identify other agencies with such experience and has arranged for us, an opening address by Matt Blum, who is in charge of competitive sourcing at OMB. Matt has been very supportive of this effort. He put us in touch with some of the other leading agencies. We invited 9 agencies and about 20 people; we ended up with 17 agencies and 55 people asking to come today. Word of the symposium spread rapidly. We are pleased to see this response, and thank Matt for his help in achieving it.

Views from the Office of Management and Budget

BLUM: Today's symposium on MEO implementation is very timely. I applaud the Forest Service for working with the Academy to set up this conference.

Some of you may have seen OMB's February 2nd press release on the President's Management Agenda (PMA). It says: "Federal employees are improving the way their agencies work. They are clearly defining what their management practices should be and the benefits that should result from these new practices, and then they are being held accountable for achieving them. With clarity and transparency, you get accountability, and with accountability, you get results." I think this quote gets at the essence of what we seek to achieve by identifying best practices for the implementation of MEOs that have been selected through public-private competition.

Many of our federal employees have successfully used the competitive sourcing process to develop most efficient organizations (MEOs) that offer new and better ways of delivering service to our taxpayers -- through process reengineering, more effective staffing plans, better leveraging of technology, operational consolidations, and other improvements. In fact, over the last 3 years, agencies have completed over 1,000 competitions involving approximately 40,000 FTEs. The number of FTEs competed under standard competitions (where agencies create MEOs) is about 32,000, or 80 percent of that total. And, the government provider has been selected to perform work amounting to just over 80 percent of the FTEs competed. However you slice it, we now have tens of thousands of FTEs that are part of reorganization plans to increase efficiency. Our challenge is to identify promising practices for the timely and effective implementation of these MEOs.

I am pleased to tell you that agencies are taking steps to hold themselves accountable for results. A number of agencies have established, or are establishing, internal processes to independently validate results from completed competitions. For example, OPM's Office of Inspector General is reviewing MEO implementations -- looking, for example, at whether actual costs were within the agency cost estimate, and whether the letter of obligation is being adequately administered. Treasury assigns implementation responsibilities to a number of different offices. For instance, the Deputy Chief Financial Officer validates that the MEO is a properly established organization while its Budget Office compares projected costs to actual costs. SSA's Office of Competitive Sourcing monitors the quality of performance and performance costs. At HHS, this review is performed by an independent contractor.

These examples suggest that there is not likely to be a one-size-fits all approach to implementation. Rather, there are likely to be multiple strategies for achieving the improvements put in motion by competition. We must therefore approach implementation issues with an open mind, and take a balanced and reasoned fashion in doing so. Where practices work well, we should emulate them; where they fall short, we need to have the conviction to change them.

Not that long ago, the Forest Service showed its conviction to change the way it planned and executed competitions. In 2003, the Forest Service conducted more than 160 competitions, of which about half involved three or fewer FTEs. Few, if any, competitions involved the development of MEOs. Not surprisingly, the agency's efforts resulted in negative savings. To its credit, the Forest Service recognized this weakness and shifted its focus to larger, more strategically grouped studies, including the service-wide competition for IT support whose implementation is the focus of today's discussion. Thanks to this dramatic shift in thinking, the Forest Service now has the opportunity to save tens of millions of dollars over the coming years as they implement their MEO and take advantage of new processes, customer-focused performance standards, and leveraged purchases for consolidated operations.

As we work on strategies, we must recognize that actual savings will not be realized overnight. Actual savings are likely to be *smaller* in the near term and *greater* in the out years of implementation. In particular, near term savings are likely to be offset by investment costs, such as transition costs and capital expenditures. In addition, some letters of obligation with MEOs or contracts may not call for full performance until the second or third year of implementation, so

the opportunity to achieve the full benefit of new efficiencies may not be realized in the early stages of implementation. To help manage expectations, OMB now requires agencies to identify cost projections for each performance period throughout the duration of the contract or letter of obligation. Identifying estimated costs of the selected service provider by performance period, rather than assuming costs are incurred evenly over each year of performance, should make it easier to determine if the provider is meeting its requirements.

Before concluding, I want to take a moment to emphasize that we cannot forget about work that is performed by contractors. Although our focus today is on effective MEO implementation, it is just as important that we effectively administer our contracts so good results are achieved when work is converted to private sector performance.

The long-term viability of competitive sourcing rests in the effective implementation of our competitions. The stakes are high: agencies project more than \$5.5 billion in savings in the coming years and these figures should grow as more competitions are completed. We must make good on these promises and show tangible results.

Thank you again for inviting me to join in this important discussion.

Purpose of the Symposium

MCDOWELL: When the Forest Service came to the Academy for help, they asked us not only to assess the first-year performance of the ISO, but also to help ensure that this first year would be a success. Bringing them the experiences of other agencies is one way we are doing that.

Everyone is still searching for answers to fundamental questions. Is the MEO a contractor? Of course it is, but GAO says it is not. Is it a regular federal agency ...of course not, and the proof is, it lives and dies under a Contract Officer. Its basic underlying regimen is the Federal Acquisition Regulations (FAR), but it must also comply with all the regular federal HR, budget, procurement, and other regulations. So, it's betwixt and between. You may ask "which is it?" And the answer is its both.

Have we ever seen both before? We've seen one and we've seen the other. And some of us who have been managing for a time have gotten pretty good at managing contracts. But I bet there is not a single person in the federal government yet that is really good at managing an MEO—this new hybrid. We are still inventing how to do it. I hope you get the idea; a lot of unanswered questions have been generated by this new situation.

I see an analogy between an MEO and a heart transplant. Initially persons who had heart transplants did not live long. But now this operation is very common. Most patients survive and live normal lives for many years. What happened between then and now? A learning process occurred, and anti-rejection drugs were discovered. What we are looking for today at this Symposium is an "anti-rejection drug" that can be used to make sure that all of the MEOs throughout the government will have long and prosperous lives after they are transplanted into their agency.

Each of you is here today for the intellectual capital you bring, not for your official positions. If you say something really juicy that we would like to quote, we will ask your permission. We will not attribute anything to you or your agency as a consequence of these conversations, so we hope you will be very open and frank with us. We will publish the proceedings; and want them to be as useful as possible to everyone in the government.

With that in mind, we especially invited four types of people that are key to getting the MEO up and running: the Contract Officer, MEO Director, Director or representative of the continuing governmental activity, and the A-76 office in the agency or department. If we don't hear the views of all four, we will be missing a big chunk of what's supposed to be going on. So, we hope we will get all those views today.

The A-76 offices in at least three agencies have issued guidelines for setting up and running the MEO that is required when the government wins an A-76 competition. The Forest Service was out in front of its MEOs with some guidance on this, and we also found that DOT and DOE have developed similar after-award guides as their MEOs developed. We have copies of these guides for you today, as well as copies of several other documents we hope you will find helpful. (See Appendix C for list of handouts.)

So, we want to give you quick presentations on these three sets of guidelines. Let's begin with Mr. O'Brien from the U.S. Department of Energy.

Comments on the Department of Energy MEO Guide

DOE put out a guidebook and has implemented three MEOs. One was three years ago, so we have considerable experience. One of our basic principles is to require a womb-to-tomb audit of everything you have done after the first year to validate that it is within your scope, that you are following the LOO, what problems you have had and so on. Our guidebook evolved out of these audits.

We started with a brief guidebook and gradually expanded it to one so big that I fear no one is reading it anymore. I hope we can get it back to ten pages; and put all the rest in annexes.

We found that we needed two separate guidelines: One to implement an MEO if it is a single organization, with a single function and a single location—a much simpler situation. But, another set of guidelines for agency-wide MEOs. Most of our A-76 studies reach across the entire department, because we have only 15,000 feds, but we have 120,000 contractors. So, in order to get the efficiencies we need from the A-76 program, most of the six studies we have completed had to reach across this whole spectrum of people. For example, we are struggling mightily to implement an A-76 study of HR that covers 21 organizations, 16 geographic locations, and 23 separate appropriations. It is not obvious exactly how we are going to do that. So, our guidelines are split now. The single organization, single function one is very straightforward; there is an agreed-to way of doing it. But in the second version, we have a draft out and there is no unanimity within the Budget community on that at all.

The second area that we needed to address in our guidelines was how to enforce the LOO. When we did our first guide two years ago, the contracting officer said “I want to take the LOO and strip everything out of it that does not specifically apply if a contractor won. But, the operational guy said, “What do you mean? I don’t know what that is. Excuse me, I’m not going to sign that. I want you to have a couple paragraphs in there saying what I need to do.” So we went through a negotiation process. I’m not sure we got it right, but it’s in there, in our guidelines.

So, our guidelines are based on our two and a half years of experience, three MEOs, fully implemented, and 2 of the 3 have finished their first year. That’s when we issued our more detailed guidance.

We still struggle with the same issues that everybody has: How do you do funding from multiple organizations? How do you make sure that the MEO gets the people that you put in the bid? And, how do you change the LOO? Our largest study was based on one type of IT system, but then the system changed and we struggled mightily to reflect the changes.

Finally, because we are already about 93 percent contracted out, we have a mix of federal positions and contracts and contractor positions in our A-76 studies, and we have some difficulty in adjusting our LOO to reflect that. For example, in our IT study, we had 642 FTEs and about 1700 contractor positions. So, how do you structure the LOO? Are those contracts a subcontractor? How do you address that in the procurement shop?

We have tried to address that in our guidelines, but we are not there yet. We have a fairly good body of specific problems, but not a fairly specific body of solutions in our guidelines.

Of our three MEOs, the major one, financial services, has 150-some FTEs and about 25 contractors. Our logistics study was for a single site in Albuquerque that had about 177 FTEs and no contractors in it. The third one was the IT study, had over 600 FTEs, plus somewhere between 1300 and 1800 contractor positions.

We are now in the midst of implementing our 166-person HR study, and we have a 250-person logistics study that we are also in the process of implementing, plus a couple small ones for civil rights review and a graphics composer. We went from an old COBOL system to an Oracle system, but couldn’t deliver the Oracle system on time. So that permeated all the answers we had.

Comments on the Department of Transportation MEO Guide

Robert Knauer (DOT) began by saying that he has been conducting public-private competitions since 1984, and has been on all sides of the issue. We found that when you sit as a contracting officer and a program officer, as a management analyst and as a trainer, you tend to look at things a little differently than if you always just sit in one particular position. The first thing that I realized when I came from Labor to Transportation was that we needed a post-competition accountability guidebook. So, I worked with Ann Benson of Quasars, Inc. to put together a detailed guidebook. It’s about 50 pages long. It contains checklists and just about every kind of template that you would possibly need to do an assessment.

We kept it generic (not specific to DOT) because we wanted to make it available to everybody. It speaks directly to the OMB Circular attachment pertaining to post-competition accountability. We broke down the Circular's six basic criteria that have to be met, into five basic phases: Phase 1, conducting the competition; Phase 2 implementing the performance decision; Phase 3, monitoring performance; Phase 4 post-competition review, and; Phase 5, Independent Verification and Validation, (IV and V). Keeping it simple and providing templates and checklists, it becomes a tool that can be used by internal control divisions, the IG, or anybody who wants to use it. We believe it's a fairly thorough document. At least, it gives you a starting place as an agency, and it alerts you to what you should be looking for in meeting all the criteria called for under the Circular. And it is posted at the DOT Office of Competitive Sourcing website.

It's also important in the post-competition accountability process to have directives and guides in place. Consistency throughout the entire program is really important, because I hear so much about how everyone does something a little bit differently. IRS also follows this approach effectively.

It's essential that we get everyone on the same wavelength, try to have consistency in the manner in which we do funding and handle contracts, because it all falls under the FAR. Even if it's "not a contract," as some like to say, it is an agreement, which is one of the three elements under the FAR. And, it's not much different than an inter-agency support agreement on a reimbursable basis, or a working capital fund agreement. Most government people know how to handle these procedures because they have been around for 40 years.

We need to get to a point where the assistant secretaries and CFOs in the agencies and departments come to grips with the reality of this MEO mechanism and begin treating it as a standard methodology that allows the flexibility that MEO managers need. We also need better training for all of our contracting officers who have not worked on this process yet.

This all comes right back to the initial communication and training, which is often lacking. That's why there is such a great misunderstanding between unions, agency leadership and employees themselves as to what the outcomes should be. If we get to more consistency, having guides and templates out there, and do a better job of training, we will all be better off in the long-run.

Comments on the Forest Service MEO Guide

FITZPATRICK (Forest Service): The Forest Service recognized the need to provide detailed guidance for implementing MEOs early. Although many of the basic tools have been around for 40 years, this is new territory for many of us at the table today. Our guidebook is also available electronically. The title is "Implementing the Agency Service Provider Organization."

Those of us who are now grappling with the issues we are talking about today realize that the task is not only implementation, it's also tracking, and accountability, and reporting. From a competitive sourcing program officer perspective, it is also a requirement to track those that are

not the agency service provider, if a contractor should win. One of the things that I want to emphasize in my brief remarks is that competitive sourcing is essentially a management initiative. It's owned by management; it therefore has the accountability of management. So, to frame the challenges that we have identified over the last few years, we need to think as agency managers, rather than simply as competitive sourcing people or contracting people. To be successful, you need a collaborative approach and a holistic solution.

We have worked diligently on performance tracking not just for competitive sourcing, but also for other activities that are very similar in terms of organizational change. We are trying to develop meaningful measures that provide better accountability. And, when we are dealing with accountability, we are also dealing with cultural challenges, depending upon the nature of the organization you're with and its chain of command.

When we set up the ISO, we may have been too one-dimensional. We provided for the CGA, and the ISO individually, and then said, "Good luck, we hope it works out for you." Could we have done more collectively to involve leadership, budget, and HR all together? We did not plan for enough funding to implement the ISO. It's a huge undertaking on the front end cost; and we still need to address that.

The cost and savings issues presented another challenge. At the outset, we faced the need to make sure that we knew what we had—the baseline costs—and making sure that they were being measured in accordance with all the OMB requirements—as well as with good common sense. We needed this baseline to help us deal with the savings issues in a consistent, reliable and accurate fashion and to compare costs with performance.

Our CO on the ISO has a huge responsibility. As we discuss how the ISO has been implemented, invariably new requirements come up. And we must decide when the LOO must be modified, and the broader implications for the whole agency, not just for the benefit of the ISO.

Our competitive sourcing office needs to be engaged early in this process, not to dictate how it should come out, but so that we can more accurately predict impacts for Green Plan purposes, inventory purposes, savings purposes, and so on. Again, it gets down to coordination. To be successful in that, we found that we needed better communications—not a communications study, I just mean better communicating and more information.

Change-management and organizational dynamics are two other areas that we need to keep working on. They are also cornerstones of a successful effort; if they are lacking, failure can be expected.

I encourage everyone to read our guidebook, and I welcome any and all comments on it.

DISCUSSION OF MEO GUIDES

KAMENSKY: In the Clinton Administration, there was an effort to explore and create performance-based organizations. They were somewhat like an MEO. But, one of the dynamics

in their success was that they had to create MOUs with HR, Budget and Finance to ensure that they were going to be delivering the expected levels of service to their clients or customers. Is there some sort of agreement that is structured for MEOs so that they can get the right services from HR or Budget or Finance or Contracting?

FITZPATRICK: The short answer is, no. I invite all the other Forest Service delegates to address that. It's an excellent idea and that's what I am advocating. Am I off-base on that Jacques?

MYERS: No we don't currently have those agreements in place. But, when the MEOs are developed we have essential support groups represented on those teams to provide that in a less formal way.

Another Question?

SPEAKER: I have more of a comment. At the Treasury Department we have five MEOs operating in three different Bureaus and my take on the first three, is that two of them are at the IRS and they are very complicated; 350-450 FTE, multi-disciplinary, and located all across the country. Two of them are for engraving and printing and they only involve 20-40 people in a single office for elevator repairs. Another is for maintenance; that's 60 FTE and they are forklift operators. Our sense is that, if you put out detailed guidance that tries to cover that kind of variety, you are asking for trouble. So, I agree with what the Energy Department is saying about having to use separate standards for the one-office traditional MEO study, and different standards for the complicated ones.

IRS addressed this by setting minimal standards; you must be able to show you can do the following things... The IRS obviously needs to show it in more detail because they have a higher accountability threshold than the elevator operators and forklift operators.

At Treasury, we have involved our CFOs and require them to sign off on all the numbers we use. We are also setting up break-even analysis, using the actual budget numbers.

Finally, we do view all this as a management initiative; that's why we have our Human Capital officers, Budget officers, and our CFOs involved. We don't view this as procurement; as a matter of fact, our senior procurement executive has already said that he is a player in this, but he is not responsible. That goes to show the diversity of what's going on, and what we are struggling with.

MCDOWELL: Any other questions?

BLUM: I would like to follow up on Treasury's comment about involving its CFOs and using actual budget numbers. The Circular requires agencies to adjust their costs for changes in scope, inflation, and wage rates. This is not an easy task and I am glad it is one of the topics for exploration today. In the meantime, we applaud Treasury and other agencies for thinking about the difference between the estimated cost of MEO performance derived from the Circular's costing principles for purposes of the competition and the actual cost of performance by the MEO for a specific performance period. These differences need to be considered so agencies

can separate MEO performance efficiencies or inefficiencies from differences in cost that simply reflect assumptions made during competition (e.g., an agency is experiencing slightly higher costs because the Circular assumes in the competition that all labor costs are at the GS Step 5 level and employees are actually getting paid at slightly higher levels).

IRS: One of the things we have done is to look at two numbers. One is economic savings using a business case analysis to set a baseline, and then measure your savings against that—assuming that if the budget stayed the same for the entire period of time, every year you would see those savings.

The other set of numbers is budgetary savings; that is, in year one you may have a large savings. OMB takes that money from you, so the next year you are going to have a smaller savings because you can't continue to have those savings year after year, if those dollars are taken from you.

These are very different ways of looking at savings. One keeps on giving, while the other, dries up quickly.

BLUM: Circular A-11 told agencies to identify how savings will be used and how they are reflected in the agency's proposed budget (see section 31.10 of Circular A-11). This gives OMB and the agencies the opportunity to discuss how savings are to be used and to potentially redirect them to higher program priorities consistent with applicable appropriations requirements. In other words, I don't think this instruction is telling agencies that OMB is going to take their savings, but it does put agencies on notice that they must be able to explain how savings will be used as they materialize. (As I noted earlier, we recognize that savings probably will not materialize overnight for a number of reasons.) If an agency has questions about this requirement, they should call their OMB contact.

REVIEW OF THE ISSUES POSED TO THE BREAKOUT GROUPS

MCDOWELL: In a few minutes, we are going to ask you to choose the breakout groups you want to participate in. There are six issues to choose from, and three time periods. So you may each join a dialogue on three of the issues. Before you make your choices, though, I thought it would be good to brief you on the issues and make sure you agree that those issues are the right ones. So I have asked Al Burman to talk just a little bit about the issue paper we sent out ahead of time—and it's also in the materials you received this morning at your place.

BURMAN: Thanks, Bruce. I hope that most of you have had a chance to take a look at the issues. We've had two Academy Panel meetings now where we've been discussing a number of these issues. Just to give you a little bit of background on the findings they have been running into—complaints about the lack of flexibility when the procurement, budget and HR shops put the MEO in place; the initial lack of guidance on post-competition accountability processes—so we were delighted to find the three agency guides you have just heard about. The Panel has also noticed the difficulty in accurately tracing savings; the lack of front-end planning on the transition process; and the need for control and regularity from the government compared to the

MEO's need for agility and flexibility. So, the overall issue becomes—How do you make things kinds of things happen? Then there's the whole question about communications—getting the word out—and what the role of leadership is in doing that.

The purpose of these breakout sessions today is really to arrive at lessons learned and best practices for carrying out the MEO implementation process. In the documents you have, we've identified a list of questions in each of these areas, but that was really just our first cut, our brainstorming about of what we think are important. We expect that once you get in your small groups, you're going to look at them, flesh them out, and perhaps expand them or provide other kinds of questions we've missed.

Let me just highlight a few of the questions we suggested in the paper. On Performance Tracking and Accountability, everybody has stressed the need for documenting MEO performance—both during the transition period as well as after implementation—and many agencies say they rely on just a few indicators to measure success. We think a couple questions are pretty critical in that area: Are certain post-competition accountability methods particularly useful for assessing MEO performance? And, what process should be followed for making changes to the original set of performance measures? That's something the Forest Service is going through right now. And it triggers the question, who needs to be involved in the change process?

On the MEO Independence and Flexibility session, “What happens if the MEO doesn't get the amount of money it was promised? And, how does that relate to how the MEO operates? What flexibilities does the MEO need to adjust to funding shortages, and what flexibilities are needed to address other areas such as budgeting, procurement, and HR efficiencies.”

On Cost Savings and Finance issues, we posed questions about establishing the baselines you start with, and the tracking question becomes critical. We hope you will come up with some best practices for monitoring costs throughout the implementation process, so that you can address issues in real time and not just at the end of the year. That would be very useful. So you can see how you fared in living under planned-for cost ceilings—how has that worked out? What have you done to try to adjust to make that work well?

With regard to Communications, Change Management, and Organizational Dynamics, one of the things we've learned in this process is the need to make sure that somebody has identified the key person responsible for getting the word out and ensuring agency buy-in. How is that working, and who are you using to do that? And, at the same time, what information should be provided to help program support functions such as HR, procurement, and budgeting, to anticipate and address potential problems before it is too late to avoid problems? How do you get a collaborative process going to bring all of these groups together and get the right word out?

With regard to modifying the Letter of Obligation: Is the LOO a contract and how do you make it work? We've run into a number of questions about how to make changes.

The final issue is the whole question of federal careers. Are those people who are in an MEO different from other federal employees, and if so, how are they different and what happens to their careers as a result of their being in an MEO?

So, those are the kinds of questions we thought we could all benefit from considering in today's small-group discussions.

MCDOWELL: The question for us now in the next five minutes is: Do we have the right six issues? Is there anything big we've missed that you can't stuff in under one of the six? Okay, hearing no debate, we have our six issues.

Each person, then, selected three groups to attend and the numbers in each group were totaled. Some of the larger groups were divided into two sections to keep them of manageable size—and rooms were assigned.

MCDOWELL: In each of these small-group sessions, you will have some Academy resources.

We have also provided breakout instructions to each of you. When you go to your small breakout groups, an Academy leader will convene the group, go through the self-introductions briefly, and lead you to elect a chairperson from within the group as well as a recorder/reporter who's going to make sure that all of your key discussion points get up on flipcharts so you can come back to report in the afternoon plenary at 3:45.

When you come back, we're going to expect just a five minute verbal report from each groups. That will leave some time for Q&A, and 15-20 minutes at the end to pull out themes and prioritize what seems to come out as most important.

BREAKOUT GROUP SUMMARIES

PERFORMANCE TRACKING

Session Chair: Bob Knauer, Department of Transportation

Participants: Jack Arthur (Forest Service), Jim Bersch (IRS), Mathew Blum (OMB), Fred Chatterton (OPM), Carl Culham (Forest Service), Thomas Fitzpatrick (Forest Service), Catherine Flethcer (SBA), Roger Garland (SBA), Dr. Hermann Habermann (Census), William Keisler (DOL), Ava Lee (USDA), Robert Miller (DOJ), Denny O'Brien (DOE), Judy Smith (USDA), Jim Sullivan (Treasury)

Staff: Charles Hulick; Jose Uribe

Issue Definition

In its project work on MEO implementation, Academy staff had previously noted the requirement for early identification of the proper measures to be used to assess MEO performance, and the difficulties in monitoring and documenting this performance. All agencies interviewed have stressed the importance of carefully and fully documenting MEO performance, both during the transition period and after implementation. In addition, they point out that the Letter of Obligation administration processes and cost and savings data should be equally well documented. This approach is certainly consistent with a performance-based contracting philosophy that stresses measuring results as being absolutely critical to the success of this technique. One point that many agencies have made is that they rely on a limited number of key indicators as measures of success. Too many measures can turn into an administrative nightmare.

Questions Posed by the Academy

- *Are certain post-competition accountability methods particularly useful for assessing MEO performance?*
- *Are there checklists and templates available that provide useful guidelines?*
- *What options exist for carrying out these assessments, and what documentation needs to be maintained by the MEO?*
- *What roles should various program staff perform to assess the level of customer satisfaction with the MEO's performance?*
- *What process should be followed for making necessary changes to the original set of performance measures?*
- *Who needs to be involved in this change process?*

Session Summary

Breakout participants agreed that there are abundant methodologies to accomplish MEO performance tracking, but cautioned that consistency in tools and approach over the entire MEO performance period was important. While the MEO is not under a formal contract, the group felt that the performance measures should be viewed as if they were deliverables under a contract. Early adoption of the measuring tools was urged, along with the proper training for those who will actually be involved in the process. The group recognized that performance tracking templates are available, but not posted for all to access via the Internet. The issue of performance tracking standards across government was raised, with the thought that independent assessor organizations should all be operating from a similar set of standards, regardless of the organization. In addition, there should be a continuous process of feedback from all stakeholders during the performance period, using consistent methods and data to meet the needs of managers and evaluators.

Additional comments dealt with the need to find a connecting mechanism to bridge the gap between the performance tracking mechanics and the agency management culture, to help the process to become ingrained. In addition, the rules about firewalls in the bid and award process can have the effect of leaving everyone in the dark, with no real feeling of ownership. This must be overcome quickly by top line officers making clear to everyone that the new MEO group is now an integral part of the entire organization.

Direct responses to the six performance tracking questions follow:

Question 1: Are certain post-competition accountability methods particularly useful for assessing MEO performance?

- The use of the Quality Assurance Surveillance Plan (QASP) requires considerable upfront training and continuing resources. It can be facilitated by use of a checklist.
- There is a definite need for an independent assessment of performance, a validation of reported results.
- It is essential to develop the performance tracking methodologies in advance.
- As a minimum, there should be quarterly reviews of performance by both the COR and COTR.
- Existing performance reporting systems should be used to the maximum, and it is useful to train and place your staff as early as possible.
- Use of performance Service Level Agreements (SLAs) assists in clarifying exactly what is important to the organization, and should be a part of the upfront communication program.
- A clear statement of MEO ownership by the organization, right from the beginning, is an important element. Too often, no one wants to admit ownership.

Question 2: Are there checklists and templates available that provide useful guidelines?

- Yes, but they are not available to everyone. Use of the Defense Acquisition University (DAU) web page is recommended, with the caveat that currently it is password protected.

SHARE A-76 is another useful web resource and it is open to all, once a password is obtained.

- It would be useful if someone would identify and collect the various agency guides now being used.

Question 3: What options exist for carrying out MEO performance assessments, and what documentation needs to be maintained by the MEO?

- Agencies have found that an advance review in preparation for the first year assessment should include both cost and performance elements, particularly FTE levels.
- Agencies should not shrink from investing the necessary time and effort needed to develop a good Performance Work Statement (PWS); it is an investment that will pay future dividends.
- Documentation related to performance assessment should be similar to that of a contract.

Question 4: What roles should various program staff perform to assess the level of customer satisfaction with the MEO's performance?

- There will be both internal and external staffs involved; some agencies utilize customer relations staff within the MEO, while others place this staff in the host or parent organization.
- There should be an HR person on the SSEB (Source Selection Evaluation Board).

Question 5: What process should be followed for making changes to the original set of performance measures?

- Changes should be handled the same as FAR/Regular contracts.
- Approved changes should then be reviewed by the CFO for budget impacts.
- Some changes will be necessitated by errors or omissions in the original Performance Work Statement (PWS).

Question 6: Who needs to be involved?

- While it is important that everyone be involved, key individuals include:
 - Contracting Officer
 - CFO
 - Agency Leadership
 - MEO Lead
 - Union
 - Stakeholders
 - Customers

Performance Tracking

- Many methodologies; need basic standards for measuring
- Need consistency on the “before” and “after”—across the full performance period
- Consider performance measures as deliverables under the LOO
- Early action needed to establish tools for assessing performance; training needed for measurement and evaluation staff
- Templates are available but not posted
- What is measured should be similar to contracts; need consistent standards for outside “assessors” to use
- Need continuous feedback from stakeholders on methods and data desired in tracking performance

MEO INDEPENDENCE AND FLEXIBILITY: Group #1

Session Chair: Jim Bersch, Internal Revenue Service

Recorder: Janet Peterson, Department of Housing and Development

Participants: Wade Butler (SBA), Carl Culham (FS), Grant Dekker (FS), Kathy Flethcer (SBA), Rebecca Kelley (NIH), Bill Lucyshyn (University of Maryland), Jean Pao (HUD), Linda Tracy (HUD), Richard Zeutenhorst (DOL).

Staff: Dr. Allan Burman, Jennifer Palazzolo

Issue Definition

Agencies interviewed by the Academy staff have identified many challenges in ensuring that the MEO has the necessary means to nimbly and responsively manage its operations within a fixed budget, while still complying with established and changing agency and government-wide HR, procurement, and budgeting regulations and policies—including mid-year course corrections. The MEO is also dependent on Congressional funding—specifically, the availability of a sufficient amount of appropriated funds for the MEO to meet staffing and resource requirements developed in the agency tender. Funding delays have also complicated the implementation process by necessitating modifications to the Letter of Obligation. This has a negative impact on the MEO’s ability to meet performance standards, on the breadth and scope of its requirements, and on the quality of service it provides to its customers.

Questions Posed by the Academy

- *What flexibilities does the MEO need to adjust to funding shortages?*
- *How can such flexibilities be obtained?*
- *What flexibilities are needed to address other areas such as budgeting, procurement and HR?*
- *Have agencies already developed approaches for acquiring these flexibilities?*
- *Has this process been documented and best practices identified?*
- *What is the role of the “Residual Organization” or “Continuing Government Activity” in this process?*

Session Summary:

Agencies discussed the use of using a cost center in place of a working capital fund to ensure that money for the MEO stays within the MEO as opposed to being intermingled with other funds where they could be pulled away to support other requirements. Agencies face the ongoing challenge of requesting additional funding to perform work based on a SOW containing outdated data or data found to be inaccurate by the time of the MEO is being implemented. This lack of funding has a direct impact on the MEO’s ability to meet required performance standards and necessitates a modification to the Letter of Obligation (LOO). In addition, the time taken to review the request for additional funding has led to delays that further hindered performance, particularly when the request does not align with the budget cycle. The group believed that, if a contractor were placed in the same situation, then either the agency would have to respond in a timely manner to provide the funds or the contractor would have the option of stopping work or reducing its level of effort. In the case of MEOs facing the same situation, however, the agency expects the MEO to keep working because it is still seen as a government entity operating in the same shared culture and organization as the rest of the agency. The group concluded that the cycle time for processing modifications to the LOO needs to be shortened so that the MEO can effectively deal with resource or staffing issues.

One approach for handling changes to the LOO more expeditiously is what the IRS refers to as the Qualified Adjustment Request (QAR) process. When the MEO prepares its tender, the methodology used in the bid process requires that staffing costs be computed at an average grade level as opposed to pricing the staff according to the actual budgeted costs for each individual. However, for budgeting purposes, the actual costs of staff resources must be used. Therefore, if staff tend to be at much higher grade step levels than those required to be used for the bid, then the actual costs for supporting these positions will also be greater than those originally estimated. The QAR accounts for this difference and allows for an adjustment in funding for all affected positions. The QAR provides a good mechanism for both recognizing this requirement and seeing that it will be met in a timely fashion.

Agencies expressed the view that the overarching challenge for the MEO was to have the ability to shift its funding freely to ramp up or down its staffing and resources. The agencies

acknowledged the need to “think outside of the box” to meet shifts in workload as, for example, by hiring a subcontractor to perform additional work if staffing levels were inadequate to get the work accomplished, or to have flexibility in adjusting staffing numbers and grade levels to see that the job gets done. OPM also cited the ability to use quick-hire practices to bring qualified candidates on board more rapidly than by following normal OPM hiring methods.

Government furnished equipment (GFE) has also become an issue in instances where the equipment has not been readily available for use by the MEO or its customers. The MEO has to deal with this problem by buying the resources itself, with the expectation that it will have to then charge these costs back to the government and wait for repayment. The process requires approval and is slow. One agency recommended that the MEOs should be given the flexibility early in the bidding process to determine how to best manage GFEs to avoid these types of setbacks. One way of dealing with the problem, for example, is for the MEO to propose its own facility and equipment in the agency tender, thereby directly assuming responsibility for rent and real estate costs without depending on GFE.

Providing flexibility and independence to the MEO should place it on a more similar playing field to that of a contractor, particularly in terms of moving resources and staff based on the funding awarded and without excessive interference from the agency. The agency and MEO need to establish a process and timeline for reviewing and modifying LOOs. Built into this process, perhaps in the pre-planning stages, there needs to be a strategy for utilizing GFE and charge-backs. A QAR type process is also needed to address funding requests, so that the budget office can accurately account for changes within their system, and the MEO can maintain its promised level of performance in a timely manner.

MEO Independence and Flexibility—Group 1

- Move \$’s to “no-year account” to protect them
- Hiring MEO staff—adjustments needed, due to PWS corrections, etc.
- Moving \$ within the MEO: need flexibility
- Cost center creation; avoid intermingling funds with rest of organization
- Let MEO charge-back costs of “additional” work (beyond original Letter of Obligation scope)
- OPM rules are flexible, allow alternative to “rule of 3” restrictions

MEO INDEPENDENCE AND FLEXIBILITY: Group #2

Session Chair: Patrick Goray, Department of Housing and Urban Development

Recorder: Ann Benson, Quasars, Inc.

Participants: Steven Apicella (DOE), Joan Golden (USDA/FS), Patrick Goray (HUD), John Kamensky (IBM), Rob Mekelburg (NIH), Doug Nash (FS), Bruce Tarsia (DOL), Jennifer Tress (Jefferson Consulting Group).

Staff: Bruce McDowell; Peta-Gaye Bookall

Issue Definition

Agencies interviewed by the Academy staff have identified many challenges in ensuring that the MEO has the necessary means to nimbly and responsively manage its operations within a fixed budget, while still complying with established and changing agency and government-wide HR, procurement, and budgeting regulations and policies—including mid-year course corrections. The MEO is also dependent on Congressional funding—specifically, the availability of a sufficient amount of appropriated funds for the MEO to meet staffing and resource requirements developed in the agency tender. Funding delays have also complicated the implementation process by necessitating modifications to the Letter of Obligation (LOO). This has a negative impact on the MEO’s ability to meet performance standards, on maintaining the intended breadth and scope of its requirements, and on the quality of service it provides to its customers.

Questions Posed by the Academy

- *What flexibilities does the MEO need to adjust to funding shortages?*
- *How can such flexibilities be obtained?*
- *What flexibilities are needed to address other areas such as budgeting, procurement and HR?*
- *Have agencies already developed approaches for acquiring these flexibilities?*
- *Has this process been documented and best practices identified?*
- *What is the role of the “Residual Organization” or “Continuing Government Activity” in this process?*

Session Summary

The group agreed that MEO independence and flexibility is connected to funding and whether it is considered to be like a contractor or not? In effect, the MEO is a business operating within a government entity; as such it should be given some of the flexibilities typically exercised by private sector organizations. Lack of proper communication with, recognition by, and cooperation from the support services in the agency (Human Resources, Budget and Acquisition) also limits the MEO’s flexibility and independence. These issues can be eased somewhat by

formulating a PWS and LOO up front that allow the MEO to make modifications easily and quickly as its work progresses.

In regard to the MEO's flexibility with funding, the group asked the following: Where is the money coming from—a single source, or must it be collected from multiple agencies, appropriations, or other sources? Should savings lapse, or can they be fenced off within the MEO to be re-used within the MEO? In response to these questions:

- funding should ideally be laid out before MEO implementation and put into a working capital fund to secure the MEO's financial needs
- fencing the budget does not necessarily provide flexibility
- since cost adjustments are not accepted in the LOO and PWS (except by formal LOO modifications for limited purposes), MEOs are not allowed to re-use savings.

It was noted that bids for the MEO often are awarded on the basis of lowest-cost and not best-value, which may jeopardize the MEO's ability to perform at the expected level in light of the cost restrictions and the tendency for the MEO to evolve throughout the study. MEO performance is also limited by a host of other uncontrollable factors.

The PWS and LOO are both imposed on the MEO, making the MEO feel “stuck.” Too often, these documents are not “sufficiently scrutinized” before the final draft is produced. This lapse tends to create disconnects among the PWS, MEO, agency budget, and agency goals. The group suggested that drafts of the PWS be reviewed and commented on by all parties involved in the MEO implementation much earlier and much more seriously—while changes are still easy to make. After the MEO bid, the MEO will find it much more difficult to build in contingency clauses that will allow the MEO to adjust the budget, recruitment and retention programs, and make proposals to take on new business by responding to customer requests above the LOO limits.

In order to achieve the goals of increased flexibility and independence, the group agreed that there needs to be one or more Memorandums of Understanding (MOUs) and improved levels of communication between the MEO and all levels of management. In particular, the LOO – currently signed only by the Agency Tender Official (ATO) who does not have the authority to change, adjust or hold necessary people accountable—should be signed by all levels of management, stating their commitment and timeframes for granting the MEO the support services it needs to operate efficiently within the agency, e.g. HR needs to hire X amount of people in X timeframe, and the “how” should be laid out before implementation to ensure the activity is achievable.

MEO Independence and Flexibility—Group 2

- Leadership must understand A-76 implications
- Share understanding among all levels
- Identify and commit funding and FTEs upfront
- Service providers (e.g. HR, Procurement) need to facilitate flexibility and rapid response
- Encourage flexibilities and encourage entrepreneurial spirit
- Allow MEO to be dynamic, grow like private sector firms
- Agency-wide steering committee needed:
 - ✓ provide checks and balances between PWS and MEO;
 - ✓ promote information sharing
 - ✓ offset undesirable effects of firewall barriers

COSTS AND SAVINGS ISSUES

Session Chair: Ann Benson, Quasars, Inc.

Participants: Jack Arthur (Forest Service), Jim Bersch (IRS), Mathew Blum (OMB), Fred Chatterton (OPM), Carl Culham (Forest Service), Thomas Fitzpatrick (Forest Service), Joan Golden (Forest Service), Pat Goray (HUD), William Keisler (DOL), Rebecca Kelly (NIH), Robert Miller (DOJ), Denny O'Brien (DOE), Jim Sullivan (Treasury),

Staff: Charles Hulick; Jose Uribe

Issue Definition:

Forest Service staff and other agency staff interviewed have pointed out the complications involved in shifting from assessing costs in a competitive sourcing bidding process to tracking costs and savings during actual implementation. Generic or average costs are used as part of the COMPARE process to ensure a level playing field for both government and contractor bidders, while budgeted costs must be used for the ensuing functioning activity, whether the activity is

run by the MEO or a contractor. A number of issues arise in implementing this accounting shift, and particularly in establishing the baseline that must then be used to estimate subsequent savings.

Questions Posed by the Academy

- *Are there existing templates that an agency can follow to ensure that all appropriate costs are fully considered?*
- *How are changes in costs documented?*
- *Are there some best practices in monitoring costs throughout the implementation process so that issues can be addressed in real time and not just at the end of the year?*
- *What procedures are followed in approving changes in costs and savings?*
- *Who are the key players involved in this process, and what are their roles and responsibilities?*
- *How closely should the MEO be held to the cost savings associated with their initial bid?*
- *How have other agencies fared in living under their planned-for cost ceilings?*

Session Summary

The group elected to deal with the issue of MEO Cost Savings on their own, rather than work through each of the suggested questions. The discussion involved input from all participants, and concluded that there is no consensus on how to balance the differing approaches of the COMPARE model (with its generic or average costs) with the need to introduce the agency's actual figures into the process. Some agencies take their actual figures and translate them into COMPARE, while others translate COMPARE into a budget document and then match these figures with actual agency figures. Overhead was often mentioned as an example of the gap between COMPARE (which uses a 12% rate) and agency actual overhead rates (estimated by some at 35% to 40%). The group did, however, agree that to really measure cost savings, actual figures should be used to give a "true" picture of costs.

On the question of how to document cost changes, the group felt that, while the MEO is not a contract, the documentation should be handled as if it were, making appropriate use of contract modification-type instruments reflecting needed adjustments in the cost ceilings. The agency tender official (ATO) should include the tracking of costs as part of his or her duties. All agreed that it is critical to get to an "apples to apples" comparison of bid and actual cost figures. The issue of aligning the budget year with the MEO performance year was raised, and it was suggested that the use of a "phantom" quarter to get the two in alignment would be one way to solve this problem.

Additional issues raised included:

- the lack of an overall activity-based costing (ABC) system within government, with the use of cost centers as an alternative for tracking costs
- the need to keep track of retained pay during implementation, since there could be a substantial spread between the GS pay level in the bid and the actual pay levels of individuals in this category
- a need for agencies to exercise a hard hiring freeze –otherwise you will never be able to answer the question of “Where did the FTEs go?”

On the issue of government furnished contracts, two issues were raised. First, many reported that backup service contracts had been increased substantially, with the effect of diminishing actual savings, Second, it was noted that there is no incentive for the MEO service provider to manage those contracts as is, but if the money were instead provided, the service provider would view the situation quite differently, trying to maximize output for each dollar spent.

The group felt that the purpose of cost tracking on MEO implementation should be to manage the whole organization and not just to focus on MEO savings. It does little good to take credit for MEO savings at the expense of higher costs within the entire organization.

Cost Savings

- **No consensus among agencies on matching COMPARE with agency budgets**
 - ✓ Basic Costs calculated in COMPARE
 - ✓ Some agencies translate their budget into COMPARE
 - ✓ Some translate COMPARE into budget document, then compare with agency “actuals”
- **Consensus: that to be effective, must have “actuals” since COMPARE figures may be over or under your actual amounts**
- **How to document cost changes?**
 - ✓ Document all changes with LOO modifications
 - ✓ Part of Agency Tender Official (ATO) role would be to track costs
- **Need Apples to Apples comparison**
 - ✓ Baseline done in COMPARE
 - ✓ Agency “Actuals” show the differences with COMPARE
- **Proposal Discussed: Use “phantom quarter” to align performance year with budget year—to reduce confusion and extra work**

COMMUNICATION, CHANGE-MANAGEMENT, AND ORGANIZATIONAL DYNAMICS

Session Chair: Rob Mekelburg, National Institutes of Health

Recorder: Jennifer Tress, Jefferson Consulting Group

Participants: Steve Apicella (DOE), Peta-Gaye Bookall (NAPA), Wade Butler (SBA), Grant Dekker (Forest Service), Catherine Flethcer (SBA), Pat Goray (HUD), Bruce McDowell (NAPA), Jean Pao (HUD), Bruce Tarsia (DOL), Fred Tombar (HUD), Richard Zeutenhorst (DOL).

Staff: Dr. Allan Burman, Jennifer Palazzolo

Issue Definition

Moving to an MEO operation constitutes a major change in how any agency conducts its business. All of the agencies undergoing this process have noted the difficulties inherent in effecting this new way of doing business and particularly of effectively communicating these new circumstances to agency staff. One set of questions involves who should be responsible for getting the word out, and another involves how to ensure that agency buy-in is obtained.

When the agency announces an A-76 competition, attrition often occurs, which places an additional burden on the MEO to ensure that it can provide the staff and service in accordance with the technical approach detailed in its tender. Recognition of these potential problems and early planning on how to address them is important to any successful implementation process.

Questions Posed by the Academy

- *Are models available of effective communications strategies or plans that agencies have used to prepare staff for transitioning to an MEO?*
- *What information should be provided to key program support functions—such as HR, procurement and budgeting—to anticipate and address potential problems?*
- *What is the appropriate role for the agency Competitive Sourcing staff throughout this transition and implementation process?*

Session Summary:

Communications Strategies

The group discussed various types of communications strategies, as well as plans that they have used to prepare staff for a competition and then throughout the whole transition phase. For the Department of Energy, these included a quarterly newsletter, intranet postings, and use of “DOE-CAST” for department-wide announcements. The Forest Service provided a “Guide to Services”

to help manage expectations about the level of service that employees would receive from the MEO in providing its IT infrastructure support. The agency stated that one lesson learned from its experience would have been to develop a “Customer Bill of Rights” to prepare and inform customers about how services would change from what they have been receiving. Another agency established a practice of meeting with its staff every five weeks with a union representative for an “all hands” meeting.

All of the agencies recognized the challenge in effectively communicating with the workforce affected by the study, both immediately after an announcement had been made and throughout the award and implementation processes. Natural attrition occurs throughout this period, and for those employees who remain there may also be the possibility of the agency’s using a Reduction in Force or layoff.

- The Forest Service noted that in some instances during the competitive sourcing process, and as a result of attrition and buyouts, those employees that remained had opportunities available that would not have otherwise been there for them. These opportunities included such things as moving into a new grade level or a new field of interest.
- HHS stated that it does not plan to RIF any employees as a result of an A-76 competition, thereby guaranteeing a government position for every Federal employee affected by a competitive sourcing initiative, regardless of the final outcome of the competition.
- The IRS has developed and provides all affected employees a Career Transition Toolkit on a CD.

Change Management and Organizational Dynamics

The group noted that agencies needed continuity in communications and responsibilities among the various key stakeholders throughout the competitive sourcing process, and in particular, through the MEO implementation. All stakeholders (e.g., HR, procurement, budget, and the competitive sourcing staff) need to stay involved in maintaining operations and ownership. At the very least, there needs to be a broker to work between the agency and the MEO throughout implementation, along with someone experienced in change-management and in managing customer expectations.

Some of the agencies used a Steering Group to review potential studies and define general policy, but most agreed that this Group was not involved in the same manner for implementation. Instead, one agency referred to its use of an HR transition team. The challenges for many of these agencies remain the same. They include moving the organization from decentralized to centralized operations, managing customer expectations, maintaining communication with affected employees, and integrating them into a new organization all at the same time.

The group also expressed uncertainty about how the centralization of business functions aligned with OMB’s strategy to move to new centralized “lines of business” operations will affect MEOs, and whether agencies that have shifted to centralized operations via competitive sourcing are in jeopardy of being changed once again as a result of these other broader initiatives.

Communications, Change-Management, and Organizational Dynamics

- Examples of Communication Models
 - ✓ Websites
 - ✓ Quarterly publications
 - ✓ All-hands meetings (including Unions)
 - ✓ HR office example of letter provided to all employees – language meant to be helpful, but made employees fearful of RIF
 - ✓ IRS: Use of a career transition toolkit
 - ✓ NIH: Transition Center
 - ✓ DOE: “DOE Cast” as far or as wide as needed (email) used for announcements
- Need guidebook defining roles and responsibilities
 - ✓ DOE’s post-competition guidebook and others available on the web
- How to intersect with Line of Business (LOB) and Centers of Excellence initiatives?
- Mindful of centralized impact on customer service
- Need leadership support

LETTER OF OBLIGATION (LOO) MODIFICATIONS

Session Chair: Jim Sullivan, Treasury

Participants: Jack Arthur (Forest Service), Jim Bersch (IRS), Mathew Blum (OMB), Fred Chatterton (OPM), Carl Culham (Forest Service), Thomas Fitzpatrick (Forest Service), William Keisler (DOL), Rebecca Kelly (NIH), Ava Lee (USDA), Robert Miller (DOJ), Denny O’Brien (DOE), Judy Smith (USDA)

Staff: Charles Hulick; Jose Uribe

Issue Definition

The extent to which the LOO should be treated as a contract creates a number of issues, particularly regarding the willingness of agencies to permit changes from the original MEO bid as well as the process to be followed in making these changes. For those items included in the LOO, many agencies have expressed the need for a rigorous documented process to be followed in making any changes.

However, in addition to these process questions, there are additional complications. One is the question of how support contractors should be treated when they play a major role in the MEO bid and then changes in their contracts are needed after the MEO is implemented.

Another issue involves the willingness of agency staff to fully carry out all of the requirements of treating the MEO as if it were a contractor. For example, if the MEO should be consistently underperforming, then the contracting officer has the authority to issue the equivalent of a “cure notice.” A cure notice is a letter that a contracting officer sends to a contractor to notify the firm that it is not performing adequately and that its contract is at risk of being terminated unless the problems are corrected. This notice then becomes a permanent file on record, and it would likely have an impact during a re-competition when a source selection board must evaluate past performance. The cure notice, then, has a potential strongly negative effect on the federal career prospects of those federal staff supporting the MEO.

Questions Posed by the Academy

- *Should the LOO be treated the same as if it were a contract?*
- *Are guidelines available for effecting changes in the LOO along the lines of change-management procedures used in contracting activities?*
- *Who should be involved in making the changes?*
- *On what basis should initially bid performance measures be allowed to be modified?*

Session Summary

The group quickly agreed that the subject of Letter of Obligation modifications can generate confusion, because the LOO is a new type of document, and few persons have experience with it. The debate over whether the LOO is a contract or not drew out several views: some agencies view it as a contract-like document, some as an agreement, some as an agency Memorandum of Understanding, and some as a high profile management initiative. All agreed that, in view of the wide range of opinions, more formal guidance would be useful.

As to modifications to the LOO, many reported that they handled these much as they would a contract modification—at least in terms of documentation and procedures. However, at least one

participant reported the parent agency simply did not know how to proceed with a requested modification, with the result that no action was taken for a lengthy period.

Discussion of the disparity between a contractor's actions in such a situation versus an agency MEO, concluded that a contractor would not hesitate to immediately outline work elements that would not be accomplished during the delays of a lengthy modification approval process. An agency MEO, however, is not quite so free to "push back" in such a situation. The principle that should be followed here, however, is that a legitimate need to adjust resources in a LOO should be met by either approving it and ramping up accordingly, or by de-scoping the work in the event of disapproval.

While there are differences between an MEO and a contractor, the group agreed that it is important for the MEO and the agency to reach a timely resolution to problems that everyone can agree on, similar in spirit to a contract. It is useful to carefully identify, in advance, the specific dependencies that are essential for the MEO to perform, and to achieve the desired levels of service, from support groups. This facilitates the choice later between maintaining service levels with the necessary resources, or lowering the service levels accordingly.

LOO Modifications

- Establishing a LOO is new territory
 - ✓ Who has responsibility within the agency?
 - ✓ Education and awareness – guidance needed?
- There is debate on the reasons why a LOO isn't a contract
- What are the questions around this?
- When should/can LOO's be modified?
- Not sure of many things:
 - ✓ Where are the root problems in operating under a LOO?
 - ✓ Example: a contractor can push back, an MEO can't; no effective advocate for MEO under LOO
 - ✓ Example: MEO has "dependencies" in terms of agency support; if those are cut, MEO must either de-scope work or obtain additional resources
 - ✓ No level playing field? Lack of agency experience in proposal writing, etc.
- Uncomfortable environment for dealing with a LOO vs. a contract

IMPACTS ON FEDERAL CAREERS

Session Chair: Richard Zeutenhorst, Department of Labor

Recorder: Jennifer Tress, Jefferson Consulting Group

Participants: Grant Dekker (USDA/FS), Joan Golden (USDA/FS), Pat Goray (HUD), Jean Pao (HUD), Bruce Tarsia (Bureau of Labor Statistics), Fred Tombar (HUD)

Staff: Bruce McDowell, Peta-Gaye Bookall

Issue Definition

The genesis of Competitive Sourcing is the FAIR Act inventory of all the employees. This Act requires that all employees' jobs be classed as either "inherently governmental" or "commercial type." Inherently governmental jobs (and the employees that hold them) must be performed by government employees, while commercial type jobs must be competed against the private sector. The classification creates two separate classes of federal employees: (1) those with permanent jobs and good prospects for career development, and (2) those with temporary jobs that must be competed and then re-competed again at least every five years, creating highly uncertain career paths. So the commercial-type jobs become a commodity rather than a career which to take pride in.

While most federal employees, including MEO employees, are subject to essentially the same Office of Personnel Management policies and procedures, those serving in an MEO, particularly because of its quasi-contract status, may also be subject to more precise and constantly monitored and measured performance requirements. Similar requirements have seldom been as rigorously delineated for offices that are not MEOs. Moreover, given the newness of these MEO offices, there is considerable uncertainty about the long-term impact on those in this Federal status who are also being tasked to operate in a more demanding, higher-stress performance-based environment than agency colleagues not serving in an MEO.

Questions Posed by the Academy

- *Are there real differences between MEO and other Federal employees with regard to recruitment, hiring, promotion and termination requirements?*
- *Should MEO personnel be treated differently from other Federal employees?*
- *What is the likely impact of serving in an MEO on an individual's Federal career?*

Session Summary

Participants agreed that overall, the implementation of A-76 reduces job security and has complicated the way in which employees are recruited, hired, promoted and treated within the agencies. In fact, tensions between MEO employees and non-MEO employees have led to a

visible divide in some agencies, even though they are working next to each other. The group viewed this tension as leading to differential treatment of MEO employees who are considered to be “second class citizens” of the agency. Training funds dedicated to MEO staff sometimes breed resentment among non-MEO staff. Some MEO employees feel unfairly targeted for dead-end “expendable” positions.

The fact that MEO employees may feel they are being held more accountable than their non-MEO counterparts, places greater pressure on them to perform. Though this pressure may add anxiety to their performance on the job, breakout participants viewed this high level of accountability as a means to market the MEO as a highly productive, performance-based organization that non-MEO employees should aspire to. Promoting the MEO this way may also dispel the stigmas attached to being a part of the MEO, defuse the two-class image within the agency, and improve the recruitment and retention of talent at the agency.

The group agreed that the MEO’s quasi-contract status—combining governmental and commercial elements of job security, with expendability and a sense of having “term appointments”—of MEO employees is confusing and has contributed to stress and attrition at agencies undergoing studies. The confusing state of the MEO, also affects recruitment of the second generation of MEO employees, potential applicants and existing MEO employees alike, as individuals are turned off by the uncertainty inherently associated with being a MEO employee. Some MEOs have experienced considerable attrition both before and after being established. In the interest of retaining existing MEO staff, the group suggested that, if the MEO is performing well and within the proposed costs at the end of the five-year term of the LOO agreement, the MEO should be allowed to continue its work without new competition.

Taking into consideration the “second class citizen image,” uncertainty, stress, recruitment, and retention issues associated with the MEO, the group raised the question – What is the incentive to work in an MEO? They concluded that successful marketing of the MEO to employees will require leadership to present the MEO as an entity that creates promotion opportunities. Leadership will need to institute a cultural shift, that will, instill the MEO discipline and accountability principles across the organization in addition to offering other more traditional means of attracting employees to the MEO—so MEO experience will be recognized to be useful somewhere in the agency. The group also agreed that the MEO needs to: receive special flexibilities from OMB, OPM and other governing bodies; have less constraints on shifting their resources within their overall ceilings; be allowed to grow like a company in response to increasing demands, with the ability to take on new business; reward high performers; not have to re-compete if the MEO is performing well; and not be forced to hire or retain poor performers. With proper care and attention, MEOs could even become known as elite units.

Impacts on Federal Careers

- Until A-76 matures, there will be differences between MEO and non-MEO employees
- Inherently government employees are career; “commercial type” employees thought of as commodity
- MEO has a stigma—temporary unit?
- MEO is a more performance based organization than non-MEO’s, could be positive model for other units of government
- Becoming a performance based organization—something to aspire to?
- How do you hire for a MEO?—need to offset the issue of when it can be competed again (may be as often as annually)
- Build incentives into working for an MEO—pay, training, and career development

AFTERNOON PLENARY SESSION

REPORT-BACKS FROM BREAKOUT GROUPS

The two breakout groups on Communications and Change Management were both fairly small, so they were combined into one group. The two groups assigned to discuss modifying the LOO also combined. So, we have seven report backs instead of nine—one on LOO modifications, one on performance tracking, one on costs and savings, one on communications, change-management and organizational dynamics, one on federal career impacts, and two on MEO independence and flexibility.

Performance Tracking

Our group answered each question in the issue paper. *Are certain post-competition accountability methods particularly useful for assessing MEO performance?* The answer is, of course we don't have these methodologies down pat yet. We agreed on the need for:

- A quality assurance surveillance plan
- a well-written, concise performance work statement
- a correlated performance requirements summary (PRS)
- tracking of the costs
- checklists
- many kinds of other methodologies.

Those are the basics that we would consistently use over and over for assessing whether an MEO is performing in accordance with the original solicitation and the PWS. The problem is that there are so many different approaches, and we need to get consistency. Those things should be written into our contracts—or rather, agreements—as deliverables. We should know these kinds of things. It's up to each business manager, each MEO manager, each agency tender official if they're still in place, to be capturing that kind of information. It's up to the contracting officer and the COTR to be feeding the right types of reports, and talking among the people they need to be talking to—the CFO and others—as to how they're doing and what their needs are. So, I think the tools are in place for assessing.

What's not in place is probably training and a thorough understanding of how to assess post-competition accountability of the MEO. Some of us have already developed some guides and we all agreed to post them at the Share A-76 website as well as at the DAU Community of Practice website, so that some of the better practices or at least what's out there will be known and can be looked at and can be edited or changed to suit your needs. But ultimately it comes down to each agency doing what is right for it.

Are there checklists and templates available? There are, but they're not posted. We need to do a better job of posting them and communicating that they are available.

What options exist for carrying out these assessments, and what documentation needs to be maintained by the MEO? There was a lot of discussion about this, but ultimately we should be looking at things as we would in government contracting, because agreements also fall under the FAR¹. We're looking at accomplishment of mission, accomplishment of task, per the PWS, per the QASP, per the PRS. We have to document performance indicators just like contractors do.

We didn't hit on this a lot in the discussion, but ultimately they are like deliverables. We have contractors issue deliverables for reports that tell us what's being performed; the same thing would be true in earned value management. We need to know what's being done and whether it is meeting the specifications, is it meeting the performance requirements in the PWS. The documentation usually is there, but we just need to do a better job of knowing what needs to be provided to independent assessors—be they Inspectors General personnel, internal review and internal control personnel, or any other internal or external forces—so they can know what they should be assessing in accordance with the agreement, the LOO, and the MEO.

What role should various program staff perform to assess the level of customer satisfaction? This was pretty much a no-brainer, in that we have to look at who the stakeholders are, our customers, and the leadership of the organization. What is it we're supposed to be doing? Are we doing the job, and getting feedback? Ultimately it comes down to what feedback works for the agency, what feedback provides the most value-added for the least amount of money and will get the job done? Some agencies that have good IT support contracts and strong management systems would certainly use some kind of electronic reporting mechanism for customer satisfaction surveys. Others might use simple customer complaint forms that are validated by somebody such as a COTR, and other types of customer survey assessment tools. There are many different tools at commercial organizations that government organizations can also use. It's just a matter of knowing what's out there and posting more and more of it to these same community-of-practice websites.

What process should be followed for making changes to the original set of performance measures? The process should be similar to making whatever changes would be necessary in any contract. If we find that the performance is not what we think it should be, if the performance measures are not appropriate, anybody can change that. We can change anything at anytime if it's agreeable. The main question is who are the parties that will have to agree? And who should they be? Obviously some of the key parties should be the contracting officer, the program manager, MEO manager, certain leadership that oversees that function that's been put in place with the MEO—just like a contract—and the CFO, and all others who have something to do with that organization to make it better. We all agreed that you don't just say that we're not going to change something if there's a need to change. We are going to change as long as it's for a purpose, as long as it can be resourced, as long as it helps us meet our mission.

Finally, who needs to be involved in the change process? I just mentioned pretty much all the same people who would be involved.

¹ Federal Acquisition Regulation

MEO Independence and Flexibility

We re-worded the first question a little bit: *What flexibility does the MEO need?*

Flexibility should include the ability to move the dollars to no-year dollars. What that would do is allow the MEOs, if they have excess dollars in Year 1 to move them over to Year 2, to continue making improvements within the MEO that they may need. As it is now, you're stuck at the end of the first year. If you have savings you can't utilize them next year to make more improvements, which may still create more savings. So you have lost a flexibility there, that could be a big help to you.

Flexibility in the hiring of MEO staff. Some of the organizations think that if you bid specific grades in the COMPARE document, you can't adjust that. But that flexibility is very important. Maybe it's more a question of educating people to understand that this flexibility is already there.

Flexibility to move dollars within the MEO. In other words, instead of being tied strictly to the COMPARE bid, that if you need labor dollars to be able to accomplish it vs. IT dollars vs. some other kind of dollars that you may have been able to save, the ability to move them around within the scope of services and the same dollar ceiling may be crucial to success.

Creating a cost center could help to create the ability to manage all your dollars without intermingling them with other parts of the organization or agency.

Flexibility is also needed in the original performance work statements (PWS), not just in the MEO. Instead of having things government furnished, make them optional or have an outside vendor provide them. That allows flexibility for any part of the MEO to come up with the best solution. They may have a better solution than what the government has provided, giving them a better chance to move forward with different things.

Flexibility is also needed to do additional work if people ask, and be able to charge back the cost of performing that work, maybe through contract mods.

NIH encountered a question about flexibility and the interpretation of OPM rules when they had to hire a lot of people quickly, bringing in 40, 50, 60 people at a time. They ran into what is called the "Rule of 3." It was unbelievably restrictive. That was what our HR office told us we had to do, but we went out and did a little homework and found that there is something called category rating. It's on OPM's website. I never heard of it before and apparently nobody in the NIH HR office had heard of it before either. We just implemented that this month and are about to get our first cert from it. It, fundamentally, gives you a single search from which you can interview anybody and you can hire anybody, at any level. So, you don't have to go impossibly 2 by 2 or 3 by 2 and all that. It's a flexibility that we think is really going to help us a lot.

The second break-out group that looked at this issue started with the concept that, in order for the process to work best, it's really important for the agency leadership to thoroughly understand the A-76 process and its implications for impacting the whole organization. That needs to start with the top level of the organization be shared at all levels of the organization from top to bottom. And the status of the A-76 process needs to be continually communicated to staff at all

levels. Those who are potentially impacted, and even those that aren't, for the best results to be achieved.

The funding commitment needs to be identified upfront, when the decisions are made to compete a particular A-76 activity. Not only the funding, but also the FTEs, so whether or not the agency is successful with the MEO or a service provider is successful, the source of funding is there. Without the funding identified, success is going to be problematic.

A component of a smooth implementation is to make sure that all the service providers have knowledge of what is involved with the A-76 proposals and understand their role in the process—specifically HR's involvement and procurement's involvement—to make sure that they can help rather than hinder. This is especially important if the agency is just getting started with A-76's, so it is all new to them. They will need to know that it's going to impact the services that are going to be required to provide to support the A-76 process and the MEO. The Federal government and agencies themselves need ways of achieving all the hiring, firing, and sub-contracting needed to achieve performance requirements quickly and with an entrepreneurial spirit. It's a big change in how traditional government entities do business, so whatever flexibilities exist need to be shared widely.

The fire walls that limit information sharing—even when deciding what should be put up for A-76 competitive process—should be rethought. While there is a reason that you can't share information between the PWS and MEO bidding teams, there still is a need for some sort of steering committee, where somebody can apply some checks and balances on both of the teams to make sure that the PWS team is proposing something that is within the mission of the agency and the MEO proposes something that is within keeping with whatever the agency is doing. At least, the draft PWS statements should be posted for review and comment, and everyone should take them very seriously at this early stage to get the best results.

Cost and Savings Issues

A lot of agencies are doing things very differently, and there is no consensus about the best way to do it. I'll share a few ways that we talked about:

- Costs are calculated for comparison purposes in COMPARE and that does not provide the information needed to manage the organization and understand what the true cost savings are. Therefore, some agencies were translating their Actuals into COMPARE for comparison purposes. DOT has a well developed process. We're looking for a best practice that takes the COMPARE figures from the winning MEO bid and translates it into a budget document that the MEO is held to. Some that translated their COMPARE figures into Actuals then just track Actuals. But for reporting purposes and for purposes of meeting the 647 Report requirements for consistency (so OMB can aggregate savings by all agencies) COMPARE is still needed. It is important that everyone understand these differences.
- Understanding how to document changes in costs requires going back to modifying the LOO. These modifications must be made in writing.

- Based on the agency tender, the MEO should be tracking its costs like any business would. Those numbers would allow you to identify any problems if you were going off-track with your costs. You would know that before an auditor came in, and before you had to go to the budget process.
- Consistency was the most important thing—Apples to Apples. If you are going to report savings, you need to make sure that you are tracking costs from your MEO baseline bid to your actual savings using the same costing methodology.

We also talked about performance years that don't align with the government fiscal year. Everybody was having this same difficulty. Some proposed using a phantom quarter or something and get the MEO performance years to line up with the budget year just for simplification.

Two additional cost issues were raised during this part of the Plenary Session. The first dealt with cost savings stretching out because of implementation issues related to the parent organization—such as, adapting to what is necessary and/or technology improvements that were supposed to happen in Year 2, but now will happen in Year 3. Or, maybe the savings are real, but now they are in Year 6 or 7 vs. Years 4 or 5, this will put them out in time past the term of the MEO.

The second new issue was retained pay. Retained pay actually goes on forever, but the official “grade retention” rule allows only two years—another one of these HR things that always seems to trip us up. This happens when position descriptions (PD) were changed in the MEO proposal, but because folks actually in the jobs are on retained pay, you're not going to have the savings you thought you were going to have. The circular excludes retained pay costs, whereas the revised supplemental handbook treats it differently. It is obviously an actual current cost, but the savings may not be realized for several years, as attrition gradually replaces those folks who encumber the new PD's.

Communication, Change-Management and Organizational Dynamics

We talked mainly about communication strategies that various agencies have used with their staff for transitioning to an MEO. Besides the initial letter that goes out to every person who is involved in the study, agencies have utilized websites, quarterly publications, and frequent “all-hands” staff meetings that include union representation. However, Human Resource folks are typically not meeting with individuals.

There are also other types of communications strategies that have helped people get accustomed to the fact the MEO exists and is here to stay. The IRS uses a career transition toolkit. The NIH has a Transition Center that employees can go to for help with resume-writing and looking for jobs, this was set up because there is no RIF authority in HHS—people are guaranteed a job somewhere in the government. The Department of Energy has something called DOECAST, which is an Internet-based messaging system capable of reaching all employees and contractors, or subsets of them. Generally, multiple tools are generally used.

There is a need for a guidebook that articulates responsibilities and different roles, such as the role of HR, and the role of competitive sourcing staff in these studies. We also worried about the impact of Centers of Excellence on A-76 studies. Using these Centers could supersede A-76 results, despite substantial sunk-cost investments in them. And we also talked about going from a decentralized management of support operations to centralized management—and the loss of personal touch in the process. So, it becomes a different way of doing business that requires effective communication from leadership to let folks know that the MEO will bring a new operating environment.

LOO Modifications

Getting modifications to the LOO is so new that even the practitioners themselves aren't really sure what the questions are, or who has responsibility for answering them. Maybe there just needs to be better communications. Maybe top management isn't quite aware of what a LOO is, and what they can and can't do. Maybe the guidance from OMB needs to be strengthened. We wound up with more questions than answers. We never answered whether or not the LOO should be treated the same as if it were a contract.

The reasons why you would treat it as a contract seemed balanced by the reasons why it was not a contract. It comes down to questions about who should be involved in making changes—management across the board, top management, CFOs, Human Capital people, and/or others. What is the relative accuracy and importance of the initial bid performance measures vs. outside events that intervened, such as Katrina. Modifying the LOOs, it's such a new area that even the practitioners are not sure how to answer those questions.

In some ways, the answers seem simple. If the situation changes, the guide you're operating under (the LOO) needs to change. Do it quickly, responsibly, resiliently and move on. And if the MEO were a private contractor, it might work that way because a contractor can push back. But, an MEO cannot necessarily push back.

So in a sense there is no effective advocate for the MEO.

Top management and OMB may need to get involved more to make this work better. MEOs may be responding in a traditional organizational way because they are looked on by government employees in the traditional organizational way, rather than as a contractor. They don't yet have an advocate to help them behave as a contractor; instead, they have many advocates to keep them acting like government employees.

If a MEO went forward with a modification asking for 100 FTE and was given 38, what's its recourse? That is a fundamental problem. The MEO really does not have any recourse. If the agency chooses to not give us money, the MEO can't cut services without cutting its throat? The example of incident command is even worse. When the emergency occurs, you must respond.

No one representing the executive branch or the legislative branch or the judicial branch will argue that the LOO has any teeth. And there is no such thing as an outstanding MEO manager in the government yet. MEOs are still too new.

So this goes back to the basic concept of competitive sourcing, which is to bring in competition to create a market-based activity—and if there is a market demand, you meet the market demand. How can you do that without making the equivalent LOO changes?

With Congress and the Administration to answer to, the MEO is not exactly in the market place like the private sector contractor would be.

Nevertheless the LOO does have many aspects of a contract in that, you have requirements and you expect the team to live by those requirements—and if this does not work, there are things you can do. Having federal employees that are experienced proposal writers, is one of the things, plus we can use all kinds of review teams before we submit complicated bids to help make sure they are workable

Although we have an 80 percent win rate, a lot of contractors either don't bid on A-76 jobs or submit very poor proposals because there is little or no money in it for them, and lost of risk. If MEO proposals get larger and better structured, there might be greater contractor interest. Some outsourcing cases have really motivated the people who are on MEO studies to put together exceptionally competitive proposals to prove that government workers could do this work even more cheaply than the contractors that we have working in another area of our programs.

Impacts on Federal Careers

Until the A-76 process matures, the differences between MEO and non-MEO employees are likely to need special attention. They can be significant and, because they are still new, there is substantial uncertainty about how they should be handled. Like other major changes in the workplace—more women and minorities, more contractors, and more alternative worksites—acceptable accommodations are likely to be found.

Right now, the concept that employees who hold “commercial-type” jobs are a commodity rather than career public service positions, presents a challenge to recruitment and retention of the best employees. Special steps are needed now to fill positions with highly qualified people. Pay incentives, training and career development features should be considered.

And for the long-run, build on the reality that the MEOs are more performance-based than many other federal offices. They could become infectious—spreading high-performance expectations across the government's whole work environment. They could set the tone for what other offices aspire to be. Maybe this could diminish the stigma attached to “commodity” jobs.

There is no doubt that the A-76 is stressing the career service. This is more than a simple perception; it has specific consequences for many individuals. The trick will be to build on the positive features of high performance and improved accountability, while accommodating legitimate career aspirations.

PRIORITIZING THE ISSUES

MCDOWELL: You have heard the reports on all six issues. I am giving you each one vote. Please vote for the issue you think needs the most work out of these six areas. I will read down the lists and we'll count your votes. You just heard discussion of each one, so you have in mind a fairly fresh idea of what's going on in each issue area. So this procedure will prioritize the list. Then we can discuss the results, after we see what we get.

OK, here's the order of priority:

1. Cost and Savings (8)
2. LOO Modifications (7)
3. MEO Independence and Flexibility (6)
4. Communication, Change-Management, and Organizational Dynamics (2)
5. Performance Tracking (1)
6. Impacts on Federal Careers (0)

Nobody is concerned about their careers! That's good, right? Let's discuss all this—everyone first pitch-in, and we will take it all down without any attribution.

I think its right that Cost and LOO modifications came up as number 1 and 2. Nobody cares about a MOD if it does not cost money, so the issue with the MODs is the impact on cost and the management of it. Those two issues often come up together in our discussions, so some of us voted for one and some of us for the other.

I did not vote for the federal careers one because it depends on how you are managing the LOO. If you manage it in a way that there's an incentive for the MEO to perform in a certain way, then it is a good place to work. So the career issue is auxiliary to the basic problem, which is how you really want to manage the MEO and get the cost savings out of it.

Having sat in the sessions for the three that got the most votes, it was interesting to me to hear some of the same issues coming up in the context of all those discussions. Those top three really have a lot of inter-relation, which is probably why they did come out on top. [Editor: Those three breakout groups also had the largest attendance.]

What I thought was most interesting was how often the need for senior leadership needing to be educated came up, and that there needs to be better communication with the contracting officer, the HR person, and the MEO Team Lead to make sure that all these people are the same page.

It seems we have a lot of smart people, who can figure out how to make this work even if it's different from agency to agency—but they are running up against brick walls when you try to do something. That's why I voted for the change-management one. Maybe there needs to be more work in that area, because it's a culture change—that's what this is all about.

Are we saying that, there's been a real change in the way that we do things, but the only people who know that are in the MEOs?

I think a lot of times, what you see, are folks who are staffed to do this, this becomes a 'hey, you' job, and there's not a lot of folks that are totally dedicated to the bigger idea. I know that in the DOL we are getting more HR buy-in and more experience in performing the jobs. But, I think every individual is different, and if you find people who care and that can make time, that's the big issue. When we assign HR people, do we know that they have the resources to actually do what's involved to put an MEO together? I don't know that we know the answer to that, because I don't know if we do enough in organizational readiness assessment to make sure that people are properly trained, that they have some baseline understanding of what we are trying to accomplish with A-76.

Does anybody disagree with the way the prioritization came out?

This order of priority might reflect today's audience, especially having federal careers come out with no votes, I think conversations with employees that are actually in MEOs might find considerably greater emphasis on this issue.

To say that nobody in this room is interested in the effect on federal careers could be misleading. It is a serious concern, especially in the start up and management of MEOs, and in the continuing morale of the staff. If I had been given a second vote, I would have put it here.

I agree, but if we don't succeed in our mission, caring about what happens to people won't make a bit of difference. Success will take care of people. And to the extent that I care first about cost and savings it is because we need that, reliable numbers. Then, to the extent that we can make the LOO work so that the MEO can be successful, people will be taken care of, ultimately.

CONCLUDING OBSERVATIONS

One of the common themes that came out of the groups was the uncertainty about how to do things in this environment. I think all of us have been in government long enough to know that people at any level are confronted with ambiguity or uncertainty—no procedures, not sure—the next step is... "Well let's think about it", "Let's work it out." But in the meantime somebody has got a job to do and it's very hard to get that job done. I think that if we can figure out a way, there could be some agreement about what's permitted. What are the procedures? How do you do these kinds of things? Or at least get the agencies themselves to start thinking that through—so at least there is some body of procedure, perhaps. To a degree it's a process issue. That might deal with some of the problems on getting things done.

But fundamentally, what is the incentive for my top management to care?

Performance, right? Ultimately, yes. But, that's hard for them to get right away.

Meanwhile, the MEO has the same people doing the same work they did before. What's new? What's the incentive for the top managers to get strongly behind this to make it work? What is missing is that nobody up top seems to want to do this. It has been imposed, it's the law, and we

have to do it. Is that enough incentive? What would excite my senior level managers so they would say “Yes! We really want to go out and do this A-76 right.”

I agree. If this had gone out to a contractor, there is already a structure in place and these issues would never cross the desk of an assistant secretary of management or the CFO. But for an MEO, there is no process in place. So, by default, we keep sending tough issues, with no precedents, to these top guys, and they turn around and run the other way. Their reaction, too often is, “Every time I see you, you have got some problem I can’t solve, and it doesn’t really rise to my level of interest.”

But maybe there is hope. When we first worked on the real good positive side of this, people looked at us like “I’m glad I’m not in there.” Then after a year or so, they started saying “Wow, you actually know what metrics are going into the output of your organization, and to what quality standard. Let’s take that technique to the rest of the Feds. I want to do that!”

Maybe that’s how we could sell it enough body of practice gets in place that says that there is something demonstrably more effective. But it’s a tough job to get there. And that’s the message that new people hear too often when they have just been appointed.

Making it easier for the top people would go a long way to make this work a lot better. If all they hear is ambiguity about what you can and can’t do, they won’t want to get involved. All those questions cause people to say “You take care of it.” And then, of course, you can’t take care of it, because you do not have authority to make that kind of a choice at a lower level.

OMB will soon be releasing its annual report on competitive sourcing. This report, the third annual report issued by OMB on the results of competitions conducted by PMA agencies, will identify three-year trends. It also will elaborate on the efforts agencies have taken to date to ensure competitions are implemented in a timely manner, tracked, and periodically validated. We hope agencies will use the report to compare notes, emulating good results and making changes where results fall short of expectations. We encourage you to review the report, which will be made available both on the OMB website (www.omb.gov) and at the homepage for the PMA, results.gov.

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LIST OF HANDOUTS

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February 6, 2006**

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