



2006 PSC PROCUREMENT POLICY SURVEY
Troubling Trends
IN FEDERAL PROCUREMENT

PSC
PROFESSIONAL SERVICES COUNCIL

Grant Thornton 

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Founded in 1972, PSC is the most respected industry voice and leader on legislative and regulatory policy issues on Capitol Hill and throughout the federal agencies. On behalf of its members, PSC helps shape public policy; leads strategic coalitions; builds consensus between government and industry; offers networking and peer information-sharing opportunities; and serves as a vital information resource to members, government, the news media and the public.

PSC's more than 200 member companies represent small, medium and large businesses that provide the full range of services to all federal agencies, including information technology, engineering, logistics, operations and maintenance, consulting, international development, scientific, environmental services and more.

PSC's mission is simple and focused: To be the leading advocate and resource for the federal government professional and technical services industry. Visit PSC at www.pscouncil.org.

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Executive Summary

Federal procurement is under a more powerful microscope than ever before. This tension is heightened by a clear sense of the large and growing chasm between the acquisition and oversight communities — they simply do not see things the same way. This frustration is markedly stronger in 2006 than in the 2002 and 2004 PSC procurement policy surveys — a troubling trend.

In spring 2006, representatives from Professional Services Council (PSC) member firms conducted in-person interviews with federal officials about their views on procurement policy and practices. The interviewees included senior procurement executives, front-line contracting professionals and congressional staff. PSC member company Grant Thornton compiled the results of the surveys and worked with PSC to report and analyze them.

As of July 2006, the 109th Congress has held more than twice as many hearings on acquisition as the 108th Congress did, many of them partisan and contentious. Respondents to the 2006 Professional Services Council survey said that pressures from oversight organizations are creating a palpable tension and frustration among even the most seasoned procurement professionals.

Respondents said that the acquisition community feels squeezed by conflicting and disconnected initiatives (such as

Lines of Business) and administration priorities that face harsh political opposition (such as competitive sourcing). The initiatives are good ideas, said respondents, but much harder and more expensive to implement than imagined. Respondents continue to be concerned about the current and future state of the federal acquisition workforce, which is overworked by detail and unable to plan strategically, undertrained, aging and ready to retire.

In 2004, we asked whether interviewees felt that progress was being made toward a long-stated goal of making the acquisition community true “business advisors” to their government colleagues. What we got back was the sense that they had made limited, yet still inadequate, progress. This year, the survey suggests that we might be witnessing a tangible degree of backsliding; that the workforce, from the front line to the front office, feels more put upon and detached from the mainstream business leadership of their agencies. They are spending more time on mundane activi-

ties, with little focus on strategic thinking, planning and postaward monitoring. Given the quality and criticality of the acquisition workforce and its mission to the core functioning of our government at all levels, that is a sobering message that should be taken very seriously.

Despite many of the (largely unsupported) allegations of procurement irregularities arising out of the Global War on Terror and natural disasters such as Hurricane Katrina, when one objectively considers the scope and breadth of work being performed by the federal acquisition community, the procurement system functions remarkably well. Similarly, the federal acquisition leadership and front-line workforce continue to demonstrate a remarkable degree of tenacity and commitment to mission success. That trend, at least, remains positive. However, taken as a whole, the 2006 survey suggests strongly that the environment is tougher and more unforgiving than at any other time in recent history. And that should trouble us all.

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METHODOLOGY

Every two years since 2002, the Professional Services Council (PSC) and member company Grant Thornton have conducted a survey on procurement policy in the federal government. Our goal is to learn first-hand from senior government officials and practitioners about critical procurement challenges faced by federal acquisition professionals. In spring 2006, professionals from 23 PSC member firms conducted in-person interviews with 37 federal officials, including senior procurement executives, front-line contracting professionals and congressional staff. For a list of interviewees and interviewers, please see pages 23 and 24, respectively, of this report.

We guaranteed the anonymity of our survey participants and so do not attribute quotations or other responses to specific people. In the text of this report, we indicate where we include the viewpoint of the survey sponsors PSC and Grant Thornton. Any analysis or interpretation in this report reflects the views solely of the sponsors.

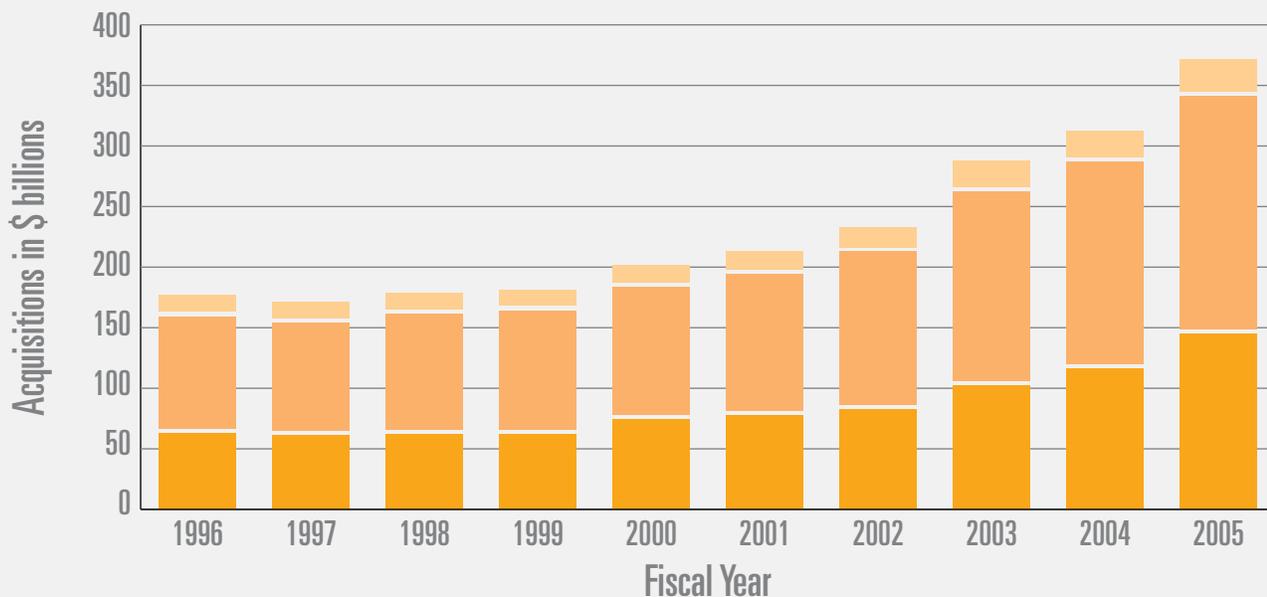
Introduction

The United States federal government is the world's largest buyer. In fiscal year (FY) 2005, it bought goods and services costing more than \$374 billion, equaling more than 45 percent of the national government's annual discretionary budget. Because of this, acquisition and procurement must be core functions and core competencies of the federal government. Unfortunately, there are troubling trends in federal acquisition that, if they persist, would mean a decline in the government's ability to be the wisest possible buyer of goods and services.

BY THE NUMBERS: THE FEDERAL ACQUISITION ENVIRONMENT

FIGURE 1

Goods, services and real estate/construction purchases by the U.S. federal government, FYs 1996–2005



Source: Federal Procurement Data System

Goods Services Real Estate or Construction

Federal acquisition rose rapidly over the past decade, both in total value and in the mean or average value of an acquisition transaction. Figure 1 shows the rapid rise in federal acquisition in the post-9/11 era. In FY 2000, federal agencies bought \$179 billion in goods and services; this amount rose 109 percent to \$374 billion in FY 2005. Figure 1 also shows the amounts spent on goods (physical products, commodities and utilities), services (professional and nonprofessional) and real estate or construction.

The annual number of acquisition transactions rose from about 9 million in 1996 to 11 million in 2005, not counting micro-purchases. The mean or average value of a transaction was \$22,000 in 1996, but jumped about 45 percent to \$32,000 in FY 2005. The trend toward larger individual transactions may indicate an increase in the complexity of government purchases. Trends in government procurement of *services* are quite different. Task-order buying, typically through multiple award contract vehicles, has increased dramatically, and thus the number of services contract actions have also grown significantly, while the mean value of services contract actions has dropped.

This workload increase has come at a time that has also seen a decline in the number of acquisition professionals and an increase in tools – particularly technology-based tools – that can help facilitate processes and ease workload. Yet, while it is not clear whether the workforce is fully accessing and utilizing those tools, it is obvious that even at the task-order level, the complexity of government requirements is growing. Also, because services now account for well over half of all government acquisition (75 percent in civilian agencies), the need to focus on this vital workforce remains equally clear.

The Department of Defense (DoD) and the Military Departments account for 70 percent of all government procurement and are responsible for most of the increase in acquisition spending since FY 2001.



Explanations for the increase include the conflicts in Iraq and Afghanistan and other support for the Global War on Terror. Disasters such as Hurricane Katrina have added to the acquisition costs of the civilian departments.

Services acquisitions are among the most rapidly rising acquisition category in the federal government. With the increased spending in defense, DoD has also increased its use of contractors, including those providing technical support to contracting functions, according to the government Accountability Office (GAO). Monitoring and managing services contracts are different from overseeing purchases of goods, and they require different skills among government contract and program professionals. Figure 1 on the previous page shows that the contract services growth trend started about FY 1996 at \$106 billion and increased to about \$169 billion in FY 2004. The first major growth spurt in FY 2000 was caused by spending to meet the Year 2000 (Y2K) challenge, a problem with computer program design that could

cause some date-related processing to operate incorrectly for dates and times on and after January 1, 2000. The second and continuing rapid rise in acquisition in this period was a result of the attacks on September 11, 2001, and the subsequent Global War on Terror.

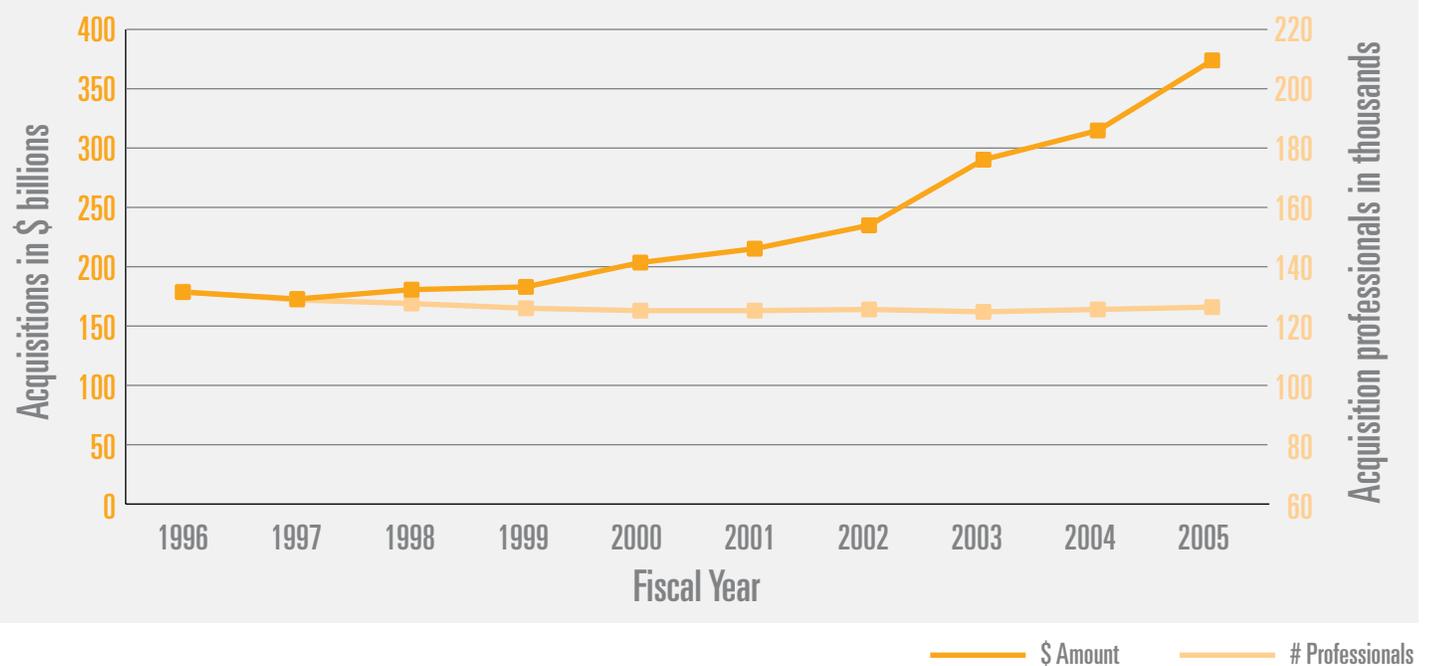
Administrative and management services made up about \$42 billion (25 percent) of professional services contracts in FY 2004, and they have been increasing at a 9 percent compound annual growth rate (CAGR) since 1995. This growth may seem high, but not when compared with the 14 percent CAGR of information and communications services. Recent data from the federal Procurement Data System (FPDS) suggests, however, that the growth in professional services contracting has surpassed that of information services as government information technology (IT) spending has flattened.

General Environment

Our first question in the 2006 PSC procurement survey asked participants to tell us the top three concerns or challenges they face related to federal acquisition. Most concerns that they mentioned fell into three categories: the acquisition workforce, politics and oversight organizations.

FIGURE 2

Federal acquisition amounts and numbers of acquisition professionals, FYs 1996–2005





WORKFORCE

More than two-thirds of the respondents mentioned their workforce as a top concern. They said that their people are overworked, spend most of the time in mundane activities (such as processing funding actions) and many lack the technical skills needed for managing complex contract vehicles. Many top- and mid-level acquisition professionals are ready to retire, which will create gaps in the career pipeline. Compared with our 2004 survey, fewer executives were optimistic about elevating their roles to business advisor with a seat at the top executive table. The respondents also said that training is a solution to many problems.

Overworked workforce.

Many respondents complained that their staffs were overworked. It is a fact that the federal acquisition workforce is not growing very much, even though its workload has increased by more than half in the past seven years. Figure 2 on the previous page shows acquisition workforce trends from FY 1996 through FY 2005.

As may be seen in Figure 2, at the end of FY 1996, 139,051 federal employees had occupation classifications related

to acquisition and procurement, while federal acquisition totaled \$177 billion. At year's end FY 2005, acquisition totaled \$374 billion, a 108 percent increase over FY 1996, yet the number of acquisition professionals was 125,779, a 10 percent decline. The number of contract specialists (GS-1102) dropped from 28,648 to 27,589 during the same period, a 3.7 percent decline.

A gap in the pipeline.

In the acquisition profession, there is a career path or pipeline that starts with new employees in lower levels, many of whom will rise to the middle ranks and a few to senior management positions. Midcareerists are critical to the pipeline because they train and mentor new employees and replace senior managers who leave.

In 2004, the average age of employees in the GS-1102 series of acquisition personnel was 46.8 years, about 13 percent of whom were eligible to retire in 2005 and 54 percent by 2015. Senior positions in acquisition are likely to have managers older than that, so that a surge of retirements (expected to peak in 2008–9) would undoubtedly drain knowledge and experience from the federal acquisition workforce.

According to several respondents, it takes up to 10 years to learn the skills needed to do the acquisition job right. They said that while there are many senior and some new employees in the workforce, there is a disturbing scarcity of acquisition professionals in the middle grades. Too many of these midcareerists are either retiring or leaving for some other reason, leaving a critical gap in the career pipeline.

Hard to hire and retain in the middle ranks.

One solution to the midrank gap would be to hire new middle management acquisition personnel from outside an agency. However, doing this is difficult because federal hiring qualifications for those in the middle tend to preclude people who lack government acquisition experience. As a result, said one respondent, federal agencies tend to recycle the same pool of already-employed acquisition personnel and, at times, promote people before they are ready.

In our opinion, it is likely that the federal government will continue to struggle to adequately increase its internal acquisition workforce, given the broad challenges of federal personnel recruitment and retention. Some agencies have responded by hiring contractors to support their contracting officers' growing mission needs. That is also a trend likely to continue.

Training, always more training.

Almost all respondents believed that acquisition personnel desperately need more and better training. Better training would include instruction in how to execute new contract initiatives and appropriate ways to use innovative techniques. Yet, is training the only answer? For example, a respondent pointed out that one of the reasons for overwork is that contracting officers spend their time on mundane issues and activities, instead of working on more complicated contracts and problems. This was attributed to lack of improvements in the way the work is being done. Another respondent said that acquisition professionals are being "... trained in a 1980s model – teaching rules instead of how to think."



We believe that training is an important part of what must be a larger effort to improve acquisition processes and to apply better human capital strategies. But it is clearly not the holy grail. Moreover, in addition to improving what the respondents cited as inadequate training, the interviews also suggest that significant gaps remain in strategic planning around, and training of, acquisition personnel, particularly in the civilian agencies. This would include a broader and more focused recognition of the importance of sophisticated program management skills and interdisciplinary management teams – a concept currently seen generally only in DoD weapons systems programs.

POLITICS

Many respondents expressed concern and frustration with the politics of acquisition, which they believe interferes with the sound operation of the procurement process. They included actions by the Congress and the administration in their concerns. Respondents with congressional experience commented that when it comes to acquisitions, the relationship between agencies and the Capitol has become strained. For example, by July 2006, the 109th Congress had held nearly a hundred House and Senate hearings on contracting- and acquisition-related issues, twice as many as the 108th Congress did. These hearings included both standing committees or subcommittees and party-affiliated organizations. Survey participants said that these hearings are much more contentious than in the past.

In general, survey participants said that instead of a healthy, flexible regulatory framework for acquisition, Congress has built a constantly changing maze of rules that bewilder buyers and sellers

alike. Respondents felt shackled by the many laws promulgated by legislators to solve “problems” they identify in the acquisition system. In reality, said some, what the Congress treats as systemic problems needing new regulations are in reality aberrations.

In the long term, the constantly changing rules and oft-conflicting interests slow down procurement initiatives or distract the workforce from serving agency missions, said respondents, causing problems in responding quickly to natural disasters, overseas conflicts and other emergencies. Acquisition officials are too often caught between the flexibilities allowed by acquisition regulations and the motivations that drive much of the oversight community (which we discuss in the next section). Good examples of this quandary are the recent debacles over contracting issues involving the war in Iraq and Hurricane Katrina. In these cases, the acquisition community has been mission-focused, while the oversight community indulges in what survey respondents call excessive “second-guessing.”

In addition, some respondents said that Congress does not get the information it needs to make sound decisions about procurement policy or individual acquisitions. For example, they said that the Hill takes as gospel the audit reports from the Government Accountability Office (GAO), Inspectors General (IGs) and other organizations within the audit community, when sometimes the auditors have little or no expertise in either acquisition or the technical area of a procurement. This is less of a problem with GAO, said respondents, because it is larger and has more resources, but a growing problem in the IG community.

Governmentwide acquisition policy and initiatives also spring from the Office of Management and Budget (OMB). As discussed later in this report, most respondents said that although most OMB policies and programs are good ideas, they are hard to implement. This is especially true because many of the initiatives are unfunded and sometimes conflict with earlier priorities, policies and procedures.

DISCONNECTS WITH THE OVERSIGHT COMMUNITY

At this point and forward in the survey, respondents pointed to disconnects between the acquisition community and the oversight community as a major cause of problems. The oversight community includes IG offices, GAO, the Defense Contract Audit Agency, other federal audit agencies, and congressional staffs and committees.

For example, nearly all survey respondents said that the acquisition and oversight communities do not share the same views on appropriate roles and responsibilities. Survey participants said that the oversight community is ready, after the fact, to criticize contracting officers for using procedures clearly allowed under acquisition regulations, but not entirely accepted within the oversight community. This is especially true in disasters such as Hurricane Katrina, where auditors are often focused on traditional acquisition and audit guidance, rather than on the realities of the missions and whether the agency got the job done.

On the other hand, said respondents, auditors are seldom available to help plan an acquisition, which could likely prevent problems later. About one-third of survey participants said that areas that might benefit from auditors’ preaward attention include considering what is being bought and why the acquisition is being undertaken, reviewing solicitations, evaluating sole-source buys and analyzing cost proposal components such as pricing and labor mix.

Too much after-the-fact oversight lowers acquisition staff morale and hinders recruitment, according to respondents. Said one, “Why would anyone want to go into federal acquisition with all these layers of oversight, each checking to see what you have done wrong?” Especially if, said respondents, the auditors focus on the wrong areas for the wrong reasons. (We include a discussion of this issue in the next section on Transparency and Accountability.)

Transparency AND Accountability

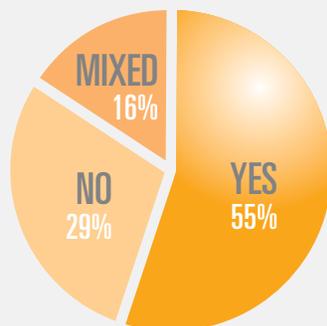
Transparency and accountability are bywords for good government and are promoted by the federal government at home and abroad. For the acquisition community, transparency means appropriate disclosure of information about government contracts. Accountability means holding contractors, program managers and contracting officers responsible for the acquisition process and the outcome of a contract.

ATTITUDE TOWARD INNOVATION AND CREATIVITY

"You have to be innovative to overcome the challenges faced by today's acquisition workforce," said a survey respondent. As may be seen in Figure 3, just over half of respondents gave an unequivocal "yes" when asked whether they believed that they and their workforce felt encouraged and supported to pursue innovation and creativity. Sixteen percent had mixed perceptions about this, while another 29 percent were definite in their "no" answers.

FIGURE 3

Feel encouraged and supported to pursue innovation and strategic thinking?



Asked how their agencies encouraged innovation and creativity, respondents' answers included:

- giving awards and incentives for innovation
- making contracting officers and contracting officers' representatives responsible for outcomes
- more focus on defined standards for success and fewer restrictions on how to do the work
- giving acquisition professionals time for more complex tasks
- added emphasis on strategic thinking

There are other, unofficial awards for innovation, but some reflect cynicism. For example, one respondent said, "We give out a giraffe award to people who stick their necks out the most with new ideas or concepts."

We also asked about the barriers to innovation and creativity. Several respondents said that innovation takes time and training, resources that their

“IF WE FOCUS ON THE AGENCY MISSION, THEN WE HAVE TO INNOVATE. BUT GAO’S AND CONGRESS’ FOCUS IS ON BEING RIGOROUS. SO, THE WORKFORCE IS GETTING PRESSURE FROM ALL AREAS TO BE INNOVATIVE, BUT THEN IS BEING HELD TO A DIFFERENT STANDARD WHEN PROBLEMS ARISE.” — SURVEY RESPONDENT

personnel lack because of too much work. Others felt that although innovation was encouraged at their agencies, it was not supported by oversight organizations and congressional committees.

As a result, said respondents, the acquisition community is risk-averse. Some said that acquisition personnel are reluctant to change their old ways, so they agree in principle with a new idea, but find reasons why it cannot be done. One reason, said a respondent, is that “the acquisition community is afraid to get ‘out of the box.’ The more senior the contracting officer, the less likely they are to innovate.”

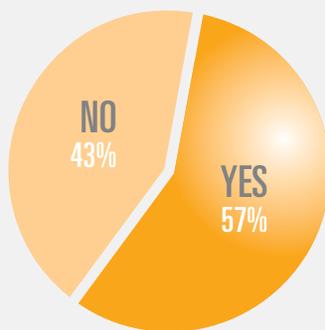
IS FEDERAL CONTRACTING TRANSPARENT ENOUGH?

“How much more transparent can we be?” exclaimed one survey respondent when we asked whether federal contracting needed to be more transparent. Acquisition personnel often complain about always being under the microscope of oversight organizations and public advocates. Yet, as can be seen in Figure 4, well over half the respondents to our survey said that federal contracting should be even more transparent.

However, their idea of “transparency” is tied to the buyer/seller relationship and to building partnerships, not to the excessive intrusion and reporting requirements they see others proposing. Among respondents calling for more transparency, some would like earlier publicity about planned acquisitions and encourage government-vendor discussions before issuing a solicitation.

FIGURE 4

Does contracting need more transparency?



This would help improve the quality of solicitations, especially in technical areas in which the government lacks expertise. It would also encourage both government and industry to be more accountable for successful performance.

Multivendor contracts

Several survey participants singled out multivendor contract vehicles as needing more transparency. They suggest that the government do more advertising of task orders both before and after they are awarded.

Transparency by industry. Respondents also urged disclosing more preaward information on subcontracting to help companies find opportunities for teaming arrangements. This would be healthy for small businesses wanting to break into government contracting. Other participants said that companies should be more open in monitoring their postaward performance.

Posting contracts on the Internet

Most respondents were against posting vendor contracts on the Internet, a move promoted by some to increase transparency. Several thought that existing Internet-access databases were sufficient. Others said that more posting would be expensive, time-consuming and in some cases could compromise security.

However, one respondent said that his agency saves time and money by making its vendors post their contracts on their own public Web sites. This has reduced Freedom of Information Act (FOIA) requests and those the agency receives are more targeted. Vendors make FOIA requests for copies of their competitors’ proposals; agencies must delete confidential information a company does not want revealed. Having vendors do this themselves before posting a contract reduces costs to the government, according to this respondent.

Is more pre- or post-award auditing needed?

Enough is enough, said two-thirds of the respondents when asked whether they thought that government needed more preaward auditing of solicitations; an equal fraction said no to more postaward audits. Pointing out a disconnect between acquisition policy and auditing, one department-level acquisition leader said, “Audits only look at narrow legal and regulatory issues, or what is ‘required,’ while we look at the broader issues of fairness and competition.”

Those against more audits think that too much of current auditing is motivated by politics. Some said that lacking expertise itself, Congress thinks that GAO and IGs are objective and always right. “In a way, Congress is contracting out its responsibility to the IGs and GAO,” said a respondent. Others said that IGs and GAO are inserting themselves into the preaward decision-making process, but without being held accountable and (especially with IGs) without the requisite expertise. Further, they reflected that some IGs want to audit preaward information in a postaward environment and reopen contracts, a move that would increase uncertainty and risk for industry in the acquisition process.

Government Initiatives

In this section, we report the responses of survey participants concerning performance-based acquisition, strategic sourcing, Lines of Business initiatives and competitive sourcing.

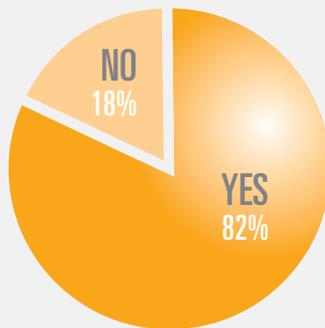
PERFORMANCE-BASED ACQUISITION

Traditionally, government contracting practice is to describe how a contractor is to do a task and the amount of resources (time and money) allowed for the work. A performance-based acquisition (PBA) is structured around the results to be achieved. In the federal government, PBAs include a performance-based work statement (PWS), measurable performance standards and performance incentives, where appropriate. PBA has been around since the 1990s and has been promoted as a best practice for federal contracting.

We asked survey participants if they believe that when done right, PBAs drive higher proficiency and performance, compared with traditional contracting methods. As can be seen in Figure 5, of those who replied, more than four in five said “yes.” Some said that as much as 30 percent of their departments’ contracts and 50 percent of their service

FIGURE 5

Done right, is performance-based acquisition better than traditional contracting?



contracts are performance-based. We had a strong sense that most respondents believe that PBAs could do much to enhance federal procurement.

However, many who said “yes” to the benefits of PBA emphasized “when it is done right.” Even though PBA has been part of federal acquisition policy and practice since the 1990s, it has yet to become widespread throughout the government.

Why is this so? Time, training and disconnects may be the culprits, respondents said.

- PBAs require more time upfront for preparing statements of objectives or PWSs and for setting up methods to ensure that the government can correct problems after contract award. Time is sorely lacking in the acquisition workforce.
- PBAs also require technical and contracting expertise to develop performance measures and manage risk.
- PBAs require a dedicated postaward effort to ensure performance, which is difficult in an environment that concentrates on awarding contracts, not monitoring them.



- PBAs require more interaction and planning among contracting officers and the program managers who are the customers of contractors.
- The roles of everyone involved in PBA must be more clearly defined.
- Some program officers do not want to accept responsibility for the results of PBAs.
- Government sometimes is unable to ensure a steady flow of funds to contractors, creating uncertainties about contractors' abilities to deliver promised levels of performance.
- Oversight organizations do not approach PBAs based on the results of contracts, but instead on how they conform to traditional contracting rules and regulations.

Our survey participants did not want to see more quotas for numbers or amounts of PBAs in their agencies. Instead, they would like more collaboration among interest groups in enhancing PBA methods and policies and more training for those involved in PBAs. Limiting PBA training to contracting personnel would be a mistake because customers, program managers, contractors and auditors need it, too. Some respondents said that the PBA movement in government needs more case studies and examples of best practices.

STRATEGIC SOURCING

Strategic sourcing is the process of analyzing and applying an organization's spending and requirements information to be more effective and efficient in buying commodities. Almost all of our respondents whose agencies and depart-

ments purchase commodities said they engaged in strategic sourcing. Among the goods strategically sourced, participants mentioned:

- cell phones
- cellular service
- copiers
- furniture
- information technology (hardware and software)
- laboratory supplies
- medical supplies
- office supplies
- raw materials
- uniforms
- weapons
- wireless communications equipment

There is growing concern within industry that applying strategic sourcing to services assumes that, to a degree, services are commodities. This is inconsistent with industry business models and practices. Yet, several respondents said that strategic sourcing might apply to at least some of the following types of services:

- administrative services
- delivery service
- food service
- IT support functions (data centers, seat management, help desk)
- logistics functions
- medical services
- military base support
- program management support
- recycling of electronics
- relocation services
- security
- supply chain management
- travel

Some respondents worried about the effect of strategic sourcing on local and small businesses, which find it hard to compete with the economies of scale offered by large companies. They think that the socioeconomic policies that are a part of the federal acquisition system are overlooked in strategic sourcing initiatives that focus solely on the bottom line.

Indeed, several participants urged the government and agencies not to make strategic sourcing a narrow pursuit of lowest price. Price, they said, should be only one component. A better goal would be to become a good buyer, which requires analysis and planning. For example, said one, "Do we know how many cell phones are out there? How they are purchased? Whether they are appropriate? How are we tracking that inventory? All of these things should be considered in pursuing a strategic sourcing initiative."

LINES OF BUSINESS

For the past five years, federal agencies have worked on performance improvement related to the President's Management Agenda (PMA) and more recently on the Lines of Business (LoB) initiative, both managed by OMB. Part of the LoB initiative is to move common, noncore agency- and department-level support functions to shared services arrangements called Shared Services Centers (SSCs, formerly called "Centers of Excellence"). Services now targeted by the LoB effort include financial, grants and human resources management, federal health architecture, IT security, IT infrastructure, geospatial and budgeting.

Shared services arrangements are nothing new in the federal government; it has many years of experience with cross-servicing, federal franchising, contracting-out, and application service providers. What is new is the intensity of the pressure on agencies to migrate support services to designated SSCs or become one themselves.

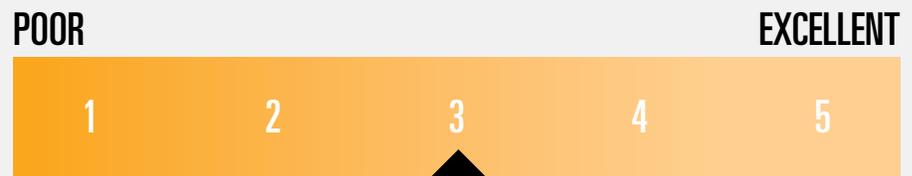
Indeed, most respondents seem to support the SSC concept and the LoB initiative. Many see it as a long-term way to achieve major savings. However, several urged care when working on some of the issues involved. For example, some respondents said that their agencies worry that SSCs will not be able to handle their unique requirements. Another worry concerns becoming just one more customer of an outside shared services provider, which some think might mean losing control over quality and performance.

Respondents also said that in the minds of many, strategic sourcing and LoBs become mixed up with competitive sourcing (the next topic of our survey), creating much confusion. Together, said survey participants, the improvement efforts proposed in these initiatives are proving too much of a burden.



FIGURE 6

Is competitive sourcing a good management tool for your agency?



COMPETITIVE SOURCING

Competitive sourcing is a federal management initiative that started during President Dwight D. Eisenhower’s administration in 1955. Its goal is to make the provision of government services more market-based. Competitive sourcing is outlined in OMB Circular A-76, *Performance of Commercial Activities*, in which a service now done by government employees may be subject to public-private competition. OMB made important changes to A-76 procedures in May 2003 that affect how agencies operate their competitive sourcing programs.

Asked to grade competitive sourcing as a management tool for their organizations, survey respondents gave it 3.0 on a scale of 1 to 5, as seen in Figure 6. Like the LoBs and strategic sourcing, we sensed that participants support the concept of competitive sourcing more than its actual practice.

One interviewee responded that the services best suited for competitive sourcing are “those things found in the yellow pages.” In general, respondents thought that competitive sourcing is best suited to IT support, mailing, printing, janitorial services, and base support – the basic services needed to keep an organization running. This is especially true when a function can be separated into distinct parts, where introducing new technology will bring efficiencies and where industry has something to contribute. It is less suitable for mission-critical processes, operations that are heavily process-

oriented, higher-order contract functions, and when there are only a small number of people using a service or they are scattered. In addition, activities such as managing the performance of contractors should be kept in-house.

It should come as no surprise that competitive sourcing had its share of critics among our respondents. Criticisms include that:

- The A-76 process frightens the workforce and impedes the ability to get the job done during this long, involved process.
- Early during the current administration, OMB set the wrong tone for competition, such as setting quotas for the A-76 process.
- Competitive sourcing is subject to political manipulation by Congress.
- Poor understanding of the process itself and of the desired outcome reduces performance and return on investment.
- When the focus is on cost, both government and contractors are encouraged to “buy-in” to a too-low price, resulting in poor performance. Said one respondent, “‘Low Cost/Technically Acceptable,’ which is the selection point for much of competitive sourcing, is like going back to the Stone Age.”



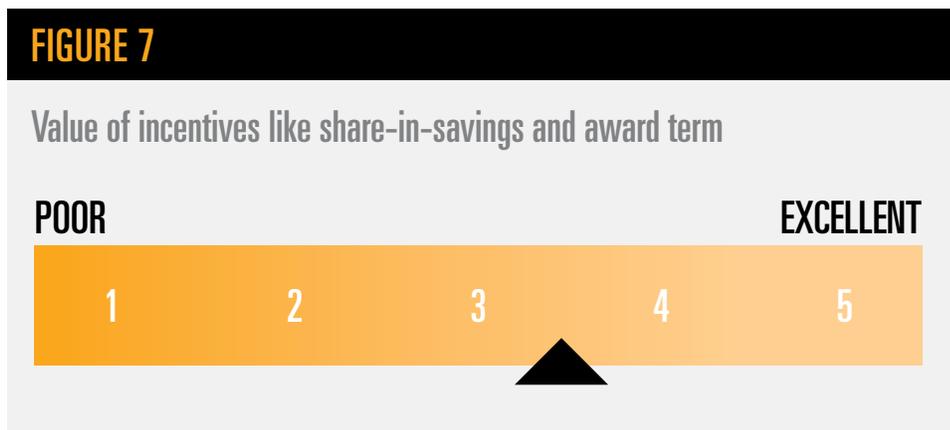
Policy Changes

In this section, we report on respondents' opinions concerning current or proposed federal acquisition policy initiatives. These include contract incentives, small business and socioeconomic programs, cascading procurement, interagency contract vehicles, lead systems integrator strategies, security clearances and foreign suppliers.

CONTRACT INCENTIVES

We asked respondents their opinions about nontraditional contract incentives, including share-in-savings (SIS) and award term arrangements. In SIS, a contractor finances the work and then shares in the savings achieved with an agency partner. In award term arrangements, the length of a contract's term is linked to a contractor's performance. The award term gives a contractor that performs well a legal *entitlement* to a contract extension. This is different from the more common practice of the government awarding option periods at its sole discretion.

Those familiar with contract incentives were, on average, positive about these methods, as may be seen in Figure 7. However, as with the broader issue of performance-based acquisition, several respondents think they are good in theory, but are not being done correctly throughout government. According to survey participants, SIS incentives are the most difficult because the Congress



does not know how to oversee them; they often involve funds from different appropriation accounts; and the government often lacks the baseline data needed to establish performance measures and results and is poor at keeping the type of records needed for calculating savings or monitoring performance. Respondents contend that industry is hesitant to take the risks involved in such incentive techniques.

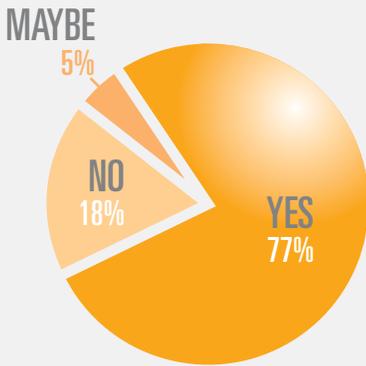
In general, though, respondents were positive about the use of incentives to promote better performance. They think that government should find the appropriate situations and business models for contract performance incentives, including using them in time-and-materials contracts.

SMALL BUSINESS

Federal government policy is to provide opportunities in its acquisitions to target groups such as small business, veteran-owned small business, service-disabled veteran-owned small business, HUBZone small business, small disadvantaged businesses and women-owned small business concerns. The U.S. Small Business Administration (SBA) works with the acquisition community to enable contracts for supplies and services for these socioeconomic categories.

FIGURE 8

Revise small business preference programs?



Asked if they saw a need to revise small business preference programs in federal procurement, three out of four people who responded said “yes,” as seen in Figure 8. They said that the following issues need to be addressed in these programs:

- No one knows the priority order of the different target groups. For example, should small disadvantaged businesses receive more or less preference than service-disabled veteran-owned businesses?
- There are problems with how agencies get credit for working with some socioeconomic groups.
- More effort is needed to involve small businesses in emergency acquisitions such as those for natural disasters and war.

- Government initiatives such as strategic sourcing, discussed earlier in this section, may make it more difficult to involve small businesses.
- There is some concern that not enough has been done to implement the women-owned small business program.
- Respondents said that misuse of these programs is frequent. Examples given include large businesses that give their small business subcontractors little or no work and small business prime contractors that simply pass work on to large business subcontractors.

Respondents also recommended that the way the government measures the success of socioeconomic programs needs to be changed to something better than simply the number of contracts and the amounts awarded to the target groups. There was also concern about what happens once the government helps a small business become successful.

Once the businesses exceed by a small amount the maximum allowed by SBA size standards, they are treated as “other than small” and must compete with large businesses. Respondents tended to agree that SBA should certify special emphasis businesses, but some did not think that SBA should be a party to the actual acquisitions.

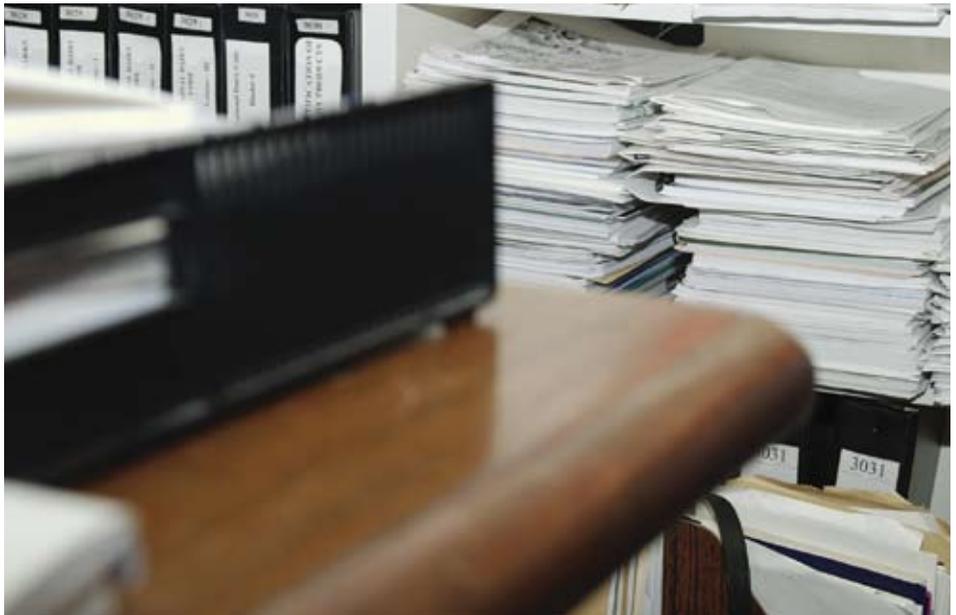
Cascading or tiered procurement

In a cascading or tiered procurement, all offerors submit their proposals at the same time, but the agency’s evaluation process is tiered by socioeconomic category. For example, an agency might evaluate proposals from HUBZone firms first, 8(a) firms next, and so on. When the agency identifies a winner, the selection process ends without evaluating the proposals from subsequent tiers.

Less than one-third of respondents were familiar with cascading, but almost no one who was familiar with it liked it. “Cascading is a cheap way to get around market research,” said one. “Helping small businesses takes a commitment, not an artificial process.” Another said that all parties involved – small and large businesses and Congress itself – complain about the process.

INTERAGENCY CONTRACT VEHICLES

Interagency contract vehicles allow agencies other than the one awarding the original contract to purchase goods or services from that contract. The GSA Federal Supply Schedule falls under this category. In the early years of the current administration, many agencies developed their own interagency vehicles to reduce administrative expenses and to secure more control over the acquisition process.





A little over half of respondents who discussed interagency contract vehicles said they are using them more today than three years ago. About three out of four said that such vehicles are necessary and appropriate and that they shorten the procurement cycle. “You still need acquisition planning, though,” said a survey participant. “You still need to ensure that there is a business case.”

On the other hand, several respondents said they were moving away from interagency contracting because, said one, “... the other agencies are not as concerned about our welfare as we are. It is a ‘loss-of-control’ issue.” Others said that interagency contracting has been abused, in some cases to hide money, and that the practice makes Congress nervous because oversight is more difficult. However, some respondents said that the FAR provides for ample oversight.

Several noted the proliferation of multi-contractor awards by different agencies, creating confusion and a good deal of overlap. The problem, they said, is that this overlap causes extra and unnecessary work for both contractors and the acquisition workforce, which is ultimately

costly to taxpayers. One respondent said that agencies should be required to make a strong business case for establishing their own multicontractor awards and interagency contract vehicles when there already are many existing arrangements that could be used instead.

LEAD SYSTEMS INTEGRATOR STRATEGIES

Lead systems integrator (LSI) contracting strategies are for multifaceted programs with many different systems and contractors. Examples include complex and interrelated weapons or information systems. In the federal government’s approach, an LSI – most often a contractor, not a government manager – supervises the work of other contractors and in general manages the effort.

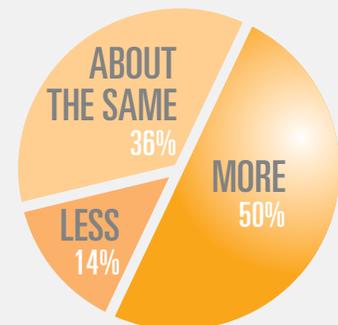
Benefits of the LSI method are said to include use of best commercial practices and access to technical management experts not found in government. Many respondents felt that for very large/complex projects, the LSI was a “necessary evil” and that they wish the government had the technical expertise to do LSI work itself.

As shown in Figure 9, half of those who discussed LSIs said that this procurement practice will increase over the next five years, while one-third expected it to remain at about the same level as now. Respondents said that the advantages of using LSIs included easier accountability (because “... there is only one neck to grab”), it allows the private sector to leverage both expertise and efficiencies, and contractors are better able to work together. In addition, said one, the LSI concept enables agencies to embrace performance-based acquisition.

Disadvantages, said respondents, include that LSI strategies may make it difficult to avoid conflicts of interest and that LSIs want to keep as much work as possible in-house, which stifles competition. Accountability also is a concern, said a participant, if an LSI is not held responsible for the work of other contractors. One respondent related a situation where, under an LSI arrangement, the government was held accountable when “... one member of the contractor team was late supplying long-lead items to another member.” Other participants said that LSIs provide yet another layer of profit for the private sector. One respondent was concerned that the United States may lose firms that engage in research and manufacture because they will find it more profitable to be integrators rather than doers.

FIGURE 9

Will there be more or less use of the lead systems integrator approach in the next five years?



Some fear that using LSIs may lead government to forgo the option of acquiring in-house the technical and management expertise needed to run complex, multicontractor projects and programs. They said that running program offices is – or should be – a core capability of government.

Both supporters and detractors said that the effective use of LSI strategies requires government to be more sophisticated in writing requirements, estimating risk and managing and monitoring performance. Finally, they caution against contractor LSIs making decisions that are inherently governmental in nature.

SECURITY CLEARANCES

Intensified security is the post-9/11 norm, and everyone appreciates the need for it. However, tighter security clearance measures have taken their toll on government contracting, according to survey participants.

FIGURE 10

Is the security clearance process better or worse?

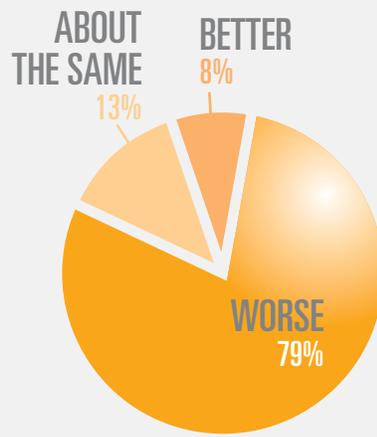


Figure 10 shows that about four out of five respondents who commented on security clearances think that the process for them has become worse. “It is killing us,” said one participant. “We cannot get the clearances we need.” Another reported waiting for 15 months for clearances. As the problem continues, job candidates take other jobs. Most respondents think that federal security clearance processes are broken. Respondents think that the process would be helped if agencies would accept each other’s clearances. For example, a participant told of his agency’s attempt to hire someone from another agency with the same department, only to find that a new security clearance was needed, which greatly delayed the hiring process.



Common identification standard (HSPD-12)

Homeland Security Presidential Directive (HSPD) 12, "Policy for a Common Identification Standard for Federal Employees and Contractors," was signed by President Bush in August 2004. It calls for a federal standard for secure and reliable forms of identification for federal and contract workers who need regular access to government facilities.

"HSPD-12 is killing us," said one survey participant. However, he and others said that the HSPD-12 process is not the problem, but rather how that process is executed, which right now is grossly mismanaged, slow, confusing and expensive. Some of their comments include:

- "No one has the money to properly implement HSPD-12."
- "We have been asked to write security policy that does not make sense."
- "No one will transfer security clearances, and HSPD-12 makes it worse."
- "HSPD-12 will slow the hiring process, and we will enter staff bidding wars."

Clearly, respondents think that the administration has to find a way to do the mission without being bogged down by security. Respondents urge the administration to consider that one size does not fit all when it comes to security. Instead, agencies should be able to tailor security to their respective missions. In addition, some would like to use a tiered approach to installing HSPD-12-related technology.

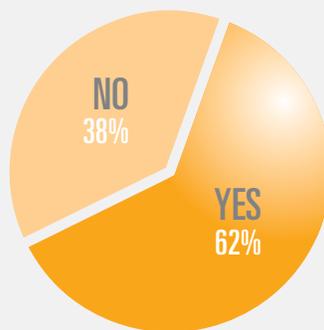
WORKING WITH FOREIGN SUPPLIERS

Offshoring

Offshoring is the practice of moving work outside the United States to take advantage of lower prices, availability of scarce skills or other benefits associated with foreign goods and services.

FIGURE 11

Should there be restrictions on offshoring government service work?



About half of the respondents who addressed offshoring said their service contractors had moved some jobs offshore as a way of reducing costs. However, no one had specific examples. It was more a feeling that some corporate administrative/support work was being done offshore, but nothing directly related to the specific requirements of a federal contract. As may be seen in Figure 11, almost two in three believe that there should be restrictions on this practice and that those restrictions were already in place. Those who think that there should be no restrictions point out that the United States is part of a global economy and that, now or later, the government's purchasing policies must adjust to that. For example, one said, "With the North American Free Trade Agreement (NAFTA), what is domestic?"

Foreign-owned suppliers

Asked whether they experienced pressure or sensitivities from within their agencies to restrict work to U.S.-owned firms, about half who answered said they had. Reasons included considerations for the U.S. industrial base, reluctance to look at foreign weapons systems, dependence on foreign firms for components and concerns about foreign accounting systems. Most think more controls are needed on foreign-owned or -based companies that do security-related work for the U.S. government.

Industry/ Government Partnership

Buyer/seller partnerships are essential for successful long-term relationships in contracting. In the following section, respondents share their views on improving the contractor/client partnership between industry and government.

FIGURE 12

Real partnership possible between public and private sector?

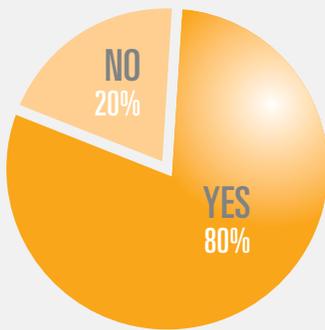


Figure 12 shows one of the hopeful findings in our survey. Four out of five survey participants, who are all government officials and mostly acquisition executives, said that real partnership is possible between the public and private sectors. Partnership begins with trust, and below are some of the ideas that respondents have for how industry can enhance the confidence of government. Comments of those who did not believe a true partnership was possible reflected on the conflicting motivations of the sectors. As one respondent noted, "Industry is motivated to enhance the return on investment to stockholders. Government's motivation is to enhance its return to taxpayers. Both cannot be done simultaneously." Another respondent noted that partnerships were viable when things went well, but were lost when difficulties arose and blame was assigned.

COMMUNICATIONS

More roundtables, seminars and other formal discussions would enhance communication among industry, acquisition professionals and program managers, said some respondents. This includes industry town halls for educating the government workforce, government/industry forums and joint training on issues and processes. In particular, contractors and their government customers need a safe, nonthreatening venue for dialog, such as the NASA procurement roundtable model.

Regarding ongoing communications, respondents called for candor, honesty, accuracy and openness from contractors. Said one respondent, "Contractors need to show that they know how to 'walk in the shoes' of the government and that they understand the challenges faced by government." Another said that industry needs to give government more candid feedback on the requirements of a planned solicitation – are they appropriate and is the government buying the right things?

PERFORMANCE

Sound contractor performance is a cornerstone of a partnership between government and industry, said respondents. Contractors need to deliver on their promises, not “low-ball” their bids, understand and follow the federal procurement process, and be more responsive. They should not waste time on one-size-fits-all solutions and instead do the homework needed for creative, tailored solutions. Finally, contractors need to spend more time tracking their own performance and that of their sub-contractors. Some respondents said that government’s role in performance is to make contractors behave appropriately and that there is need for better contract administration by both the public and private sectors.

CONGRESSIONAL ACTION

Congress and oversight organizations loom large behind any attempts to improve industry and government partnership. Said a respondent, “Congress needs to stop trying to legislate solutions for problems caused by a few bad apples in the procurement barrel, because those will only make things worse.” Both contractors and acquisition officials need to do a better job of educating Congress about acquisition issues. More “good news” stories about procurement would help – and they are out there. Indeed, perhaps what is most lacking is a true sense of perspective by Congress, because 99 percent of government buying is successful.

Creating better partnerships is important because the federal government may be entering times of tighter budgets while using more contractors for professional services and support work. Success over the next several years will depend on industry and government being on the same team with the same game plan.



“CONGRESS NEEDS TO STOP TRYING TO LEGISLATE SOLUTIONS FOR PROBLEMS CAUSED BY A FEW BAD APPLES IN THE PROCUREMENT BARREL, BECAUSE THOSE WILL ONLY MAKE THINGS WORSE.” – SURVEY RESPONDENT

Conclusion

It is no surprise that federal procurement is under a more powerful microscope than ever before. As the respondents to the 2006 survey made clear, congressional and agency leadership attention to procurement makes eminent sense, given the centrality of acquisition to the functioning of the government.

Despite the highly publicized allegations (many blown out of context) generated by that intense oversight, the federal acquisition system functions remarkably well. Similarly, the federal acquisition leadership and front-line workforce continue to demonstrate a remarkable degree of tenacity and commitment to mission suc-

cess. Considering the scope and breadth of work of the acquisition community, most recently in supporting dangerous and dynamic overseas missions or emergency relief in the wake of the worst domestic natural disaster in decades, we think that federal procurement officials deserve a "Well done!"

Unfortunately, as reflected in the interviews for this survey, the pressures are growing, and the acquisition environment is becoming increasingly untenable. As noted, the 109th Congress conducted over a hundred hearings on acquisition-related issues — more than one for every week it was in session. The hearings have been more contentious and partisan, and the procurement environment has become more politically charged than at any time in recent memory. Creativity and innovation wither in the face of such discord.

In this edgy environment, the acquisition community cannot "heal itself." Congress, the administration, agency leaders, oversight organizations, acquisition professionals and industry must collaborate to find effective solutions. Otherwise, like today's security clearance process, the business of federal buying for government will become a chokepoint instead of a vehicle for effective government.



2006 PSC PROCUREMENT POLICY SURVEY QUESTIONNAIRE

General Environment

1. Please list the top three concerns or challenges you face related to federal acquisition. (This could be policy, execution, workforce – whatever they believe are their three biggest challenges.)

Transparency and Accountability

2. Do you believe that you and your workforce feel encouraged and supported to pursue innovation and strategic thinking in acquisition? YES or NO

If no, what is the main reason?

3. Do you believe there is a need for more transparency surrounding government contracting? YES or NO

If no, go to question five.

If yes, do you support posting entire contracts on publicly available websites? YES or NO

How else could we achieve that transparency?

4. Do you believe that the acquisition community and the oversight/audit community have common perceptions on issues associated with transparency in government contracting? YES or NO

If no, could you give an example or two?

5. Do you believe there are a need for more auditing – pre-award and/or post-award – of government contracts?

| | |
|------------|-----------|
| Pre-award | YES or NO |
| Post-award | YES or NO |

Business Models

6. Performance Incentives:

Are you familiar with or involved in your agency's use of incentives such as Share-in-Savings and Award Term? YES or NO

On a scale of 1 to 5, with 5 being excellent and 1 being poor, how would you rate the value of these incentives?

If you believe they are valuable, what one thing would you do to further their use?

7. Performance-Based Acquisition:

Are you familiar with or been involved in any performance-based acquisitions (PBAs)? YES or NO

Do you believe that when done right, PBAs drive higher proficiency and performance compared with traditional contracting methods? YES or NO

If yes, what, if anything, have you done to encourage the use of PBAs in your agency?

To what extent have you or your workforce taken advantage of PBA training? Have other than contracting people taken this training?

What do you think are the one or two biggest barriers to more effective use of PBAs?

8. Cascading Procurements:

Have you or your agency used "cascading" or "tiered" procurement strategies, where all segments of the business community are asked to submit proposals, but the evaluation is conducted in segment order (e.g., 8(a) first, women-owned second, etc.)? YES or NO

If yes, do you think such strategies are effective procurement approaches? YES or NO

9. Small Business:

Have you noticed any difference in the numbers of small, medium and large businesses competing for your work? YES or NO

Do you believe there is a need to revise small business preference programs in federal procurement? YES or NO

If yes, how should they be revised?

10. Strategic Sourcing

What are your agency's Strategic Sourcing initiatives? (If unknown, go to question 11.)

Do you believe the initiative should eventually evolve to include the acquisition of services beyond the most basic types (e.g., repair of commoditized equipment such as laptops)? YES or NO

If yes, give examples.

11. Lines of Business:

Are you familiar with your agency's initiatives in response to OMB's Lines of Business initiatives? YES or NO

If no, go to question 12.

If yes, what actions has your agency taken?

Will these changes aid or inhibit your agency's ability to accomplish its mission?

12. Competitive Sourcing:

Using the same scale where 5 is excellent and 1 is poor, how would you rate Competitive Sourcing as an effective management tool for your agency? (If you are not aware of your agency's initiative, go to question 13.)

What functions are the most suitable and least suitable for Competitive Sourcing?

What would you cite as the one or two biggest problems related to your agency's Competitive Sourcing program?

13. Interagency Contracting

Are you using interagency contract vehicles more today than you were three years ago? YES or NO

Does your agency subject interagency contract vehicles to special oversight and/or justifications? YES or NO

If yes, do you think they are necessary and appropriate?

To what extent are agency-specific contracts replacing the current inter-agency contracts for meeting your agency's needs?

Do you believe that there are other functional areas, not presently covered by GWACs, where they would be appropriate?

14. Role of Contractors/LSIs

Are you familiar with Lead Systems Integrator (LSI) strategies? YES or NO

If no, skip to question 15.

If yes, do you think we will see more or less use of the LSI approach in the next five years?

Are there any specific advantages or disadvantages for the government associated with LSIs?

Security Clearances

15. Is the process for obtaining security clearances better or worse?

16. What impacts have you experienced as a result of HSPD-12 implementation?

Globalization

17. Have any of your services contractors moved work offshore as a means of reducing costs? YES or NO

Should there be restrictions on the so-called "offshoring" of government services work? YES or NO

18. Have you experienced any pressures or sensitivities within your agency to restrict work to U.S.-owned firms? YES or NO

Do you believe more controls are needed when it comes to the performance by foreign-owned or -based companies of security-related U.S. government work? YES or NO

If yes, do you have specific suggestions?

Restoring Trust

19. What do you believe industry can do to enhance trust of and credibility in the procurement process, beginning with developing the acquisition strategy through contract administration?

20. Do you believe that real partnership is possible between the public and private sectors? YES or NO

If yes, name one thing you believe needs to happen to help facilitate such an outcome.

2006 PROCUREMENT POLICY SURVEY INTERVIEWEES

Lisa Akers

Director
Federal Systems Integration and
Management Center
General Services Administration

Annie Andrews

Assistant Director
OSD Housing and Competitive Sourcing
Office, Office of the Under Secretary of
Defense (Installations & Environment)

Tina Ballard

*Deputy Assistant Secretary for Policy
and Procurement*
United States Army

John Brosnan

Professional Staff Member
House Government Reform Committee

Robert Burton

*Associate Administrator for
Acquisition Policy*
Office of Federal Procurement Policy

Dom Cipicchio

Deputy Director for Policy
Defense Procurement and
Acquisition Policy
Department of Defense

Major Clark

*Assistant Chief Counsel for
Procurement Policy*
Office of Advocacy
Small Business Administration

Scott Cragg

Associate Deputy Assistant Secretary
IT Enterprise Architecture Management
Department of Veterans Affairs

Judy Davis

Director
Office of Acquisition Management
Environmental Protection Agency

David Drabkin

Acting Director for Acquisition Operations
Integrated Technology Services
General Services Administration

Elaine Duke

Chief Procurement Officer
Department of Homeland Security

Joe Federline

Chief
Division of Property, Acquisition and
Headquarters Services
Bureau of Land Management
Department of Interior

Efrain Fernandez

*Associate Deputy Assistant Secretary
for Acquisitions*
Department of Veterans Affairs

Greg Giddens

Director
Secure Border Initiative
Department of Homeland Security

Jeff Green

Counsel
House Armed Services Committee

Bill Greenwalt

*Deputy Under Secretary of Defense
Industrial Policy*
Department of Defense

Mark Hoyland

Director
Marine Corps Systems Command
Acquisition Center for Support Services
United States Marine Corps

Scottie Knott

Deputy Director
Logistics Operations
Defense Logistics Agency

Mark Krzysko

*Assistant Deputy Under Secretary
of Defense*
Strategic Sourcing and Acquisition
Processes
Department of Defense

David Litman

Senior Procurement Executive
Department of Transportation

Carol Lowman

Director
Army Contracting Agency
Southern Region

Jay Maroney

Counsel
Senate Homeland Security and
Governmental Affairs Committee

Marilyn Marton

Director
Office of Small and Disadvantaged
Business Utilization
U.S. Agency for International
Development

Bob Nemetz

Principal Deputy Director
Acquisition Resources & Analysis
Department of Defense

Joanie Newhart

Chief
Procurement and Contracting
Securities and Exchange Commission

Ron Poussard

Combat and Mission Support PEO
United States Air Force

Jerry Punderson

Director
Undersea Systems Contracts Division
Naval Sea Systems Command

Corey Rindner

Procurement Executive
Department of State

Michael Sade

Director and Procurement Executive
Office of Acquisition Management
Department of Commerce

Sandra Sieber

Director
Army Contracting Agency

Debra Sonderman

Director
Office of Acquisition and Property
Management
Senior Procurement Executive
Department of Interior

David Sutfin

Assistant Director
Acquisition Services Directorate
National Business Center
Department of Interior

Marty Wagner

Acting Deputy Commissioner
Federal Acquisition Service
General Services Administration

Roger Waldron

Acting Deputy Chief Acquisition Officer
General Services Administration

Mike Walsh

Director
Office of Acquisition and Assistance
U.S. Agency for International
Development

Stephen Ward

Chief of Staff
The Honorable Jeff Bingaman
U.S. Senate

Charlie Williams

*Deputy Assistant Secretary
for Contracting*
Assistant Secretary for Acquisition
United States Air Force

Marc Weisman

Director
Office of Acquisition Management
and Policy
Department of Health and
Human Services

2006 PROCUREMENT POLICY SURVEY INTERVIEWERS**Abt Associates, Inc.**

Judie Mopsik
Mark Tremblay

Accenture

Michael Del-Colle
Ally Heim

ARINC, Inc.

Glenn Baer

BAE Systems

Jackie Everett

Booz Allen Hamilton

Ron Cheshire
Rich Fisne
Jan Gardill
Joan Wolfle

The Boeing Company

Karen Wilson

Computer Sciences Corporation

Mike Love

CACI International Inc.

Stan Forbes

Development Alternatives, Inc.

Diane Whitmoyer

Grant Thornton LLP

Mary Jo Ammon
Scott Cameron
Ramon Contreras
Anna Danegger
George DelPrete
Kathryn East
Joe Gurney
Duane Jenkins
Joann Kansier
Ward Melhuish
Colleen Miller
Diane Shute
Ramsay Tanham
Paul Trampert

IBM Corporation

Neil Horikoshi
Sue Horton

INDUS Corporation

Mike Mullen
Wes Teague

JBS International, Inc.

Gail Bassin

Lockheed Martin Corporation

Dan Matthews
Ben Romero
Nancy Ziuzin Schlegel
Jennifer Warren

MasiMax Resources, Inc.

Marilyn Massey-Ball

Professional Services Council

Alan Chvotkin
Michele Kaplan
Carrie Lake
Jeremy Madson
Ashley Samelson
Stan Soloway
Anaïs Sori

QUADELTA, Inc.

Michael Schall

RGS Associates, Inc.

Dyson Richards

SAIC

Amy Childers
Terry Chisholm

SRA International, Inc.

John Cousins
Anne Donohue
Beth McGroder
Jean Price
Mary Ellen Ressler
Kirk Swann
Christopher Toven

Stanley Associates, Inc.

Pat Flannery
Tom Fradette
Eric Wolking

Vanguard Research, Inc.

William Joransen

Ventura Corporation

Jeff Smith
Todd Tapp

ADDITIONAL INFORMATION

If you would like more copies of this survey or an opportunity to hear more about its content and the challenges facing the federal acquisition community, please contact the Professional Services Council or Grant Thornton at the addresses below:

Professional Services Council

2101 Wilson Boulevard, Suite 750
Arlington, VA 22201
Telephone: (703) 875-8059
Web Site: www.pscouncil.org
E-Mail: lake@pscouncil.org

Grant Thornton LLP

333 John Carlyle Street, Suite 500
Alexandria, VA 22314
Telephone: (703) 837-4400
Web Site: www.grantthornton/publicsector

SURVEY CONTRIBUTORS

Professional Services Council

Stan Z. Soloway, President
Alan Chvotkin, Senior Vice President
and Counsel
Carrie S. Lake, Communications Director
Jeremy Madson, Special Assistant
Ashley Samelson

Grant Thornton LLP

Diane Shute, Partner
Joann Kansier, Project Director
Elizabeth Browning
Steven Clyburn
Damien Enderle



2101 Wilson Boulevard, Suite 750
Arlington, VA 22201
Telephone: (703) 875-8059

www.pscouncil.org



333 John Carlyle Street, Suite 500
Alexandria, VA 22314
Telephone: (703) 837-4400

www.grantthornton/publicsector