

# **Tying IT Together: Is GSA Providing Best Value to the Taxpayer?**

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for the United States Senate

Subcommittee on Federal Financial Management, Government Information,  
and International Security

Senator Tom Coburn, Chairman

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## Salutation

Mr. Chairman, thank you for this opportunity to appear before the Senate Subcommittee on Federal Financial Management, Government Information and International Security today to discuss the matter of interagency contracting fees, particularly those charged by the General Services Administration (GSA). My complete answer to your question is provided within this written version of my testimony. As the Prime Contractor of the Open Market Corridor (OMC), I believe that I can offer you a balanced and unique perspective on this issue. With me today is Mr. Matt Salmon, former U.S. Congressman from the state of Arizona, and Mr. Gary Green, my colleague at Networld Exchange.

## Introduction

- *The (GSA) Schedules Program has produced exceptionally high earnings....<sup>1</sup>*
- *“The fee charged by the Schedules Program has consistently generated revenue well in excess of costs. From fiscal year 1999 to 2001, the revenue generated by fees exceeded program costs by 53.8 percent, or \$151.3 million. Program customers are, in effect, being overcharged for the contract services they are buying. Nevertheless, program officials have not adjusted the fee.”<sup>2</sup>*
- *Significant inappropriate contracting practices and misuse of federal funds...<sup>3</sup>*
- *Fifty-eight percent of contracting actions reviewed awarded without adequate competition.<sup>4</sup>*
- *GSA Inspector General’s investigation shows \$37 million worth of contracting abuses in the Bremerton, Wash., office of FTS.<sup>5</sup>*
- *Head of the GSA emphasizes that FTS is “still fulfilling a vital service to government”, and that FTS purchased goods or services that agency customers “did need and want.”<sup>6</sup>*
- *“An endemic and epidemic pattern of gross mismanagement, failed oversight, a flawed rewards system, and potential malfeasance by some FTS managers and staff.”<sup>7</sup>*
- *Get It Right.*
- *Planned reorganization of GSA getting a strong push from Office of Management and Budget, and contractors want a voice in the effort.<sup>8</sup>*

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<sup>1</sup> Contract Management: Interagency Contract Program Fees Need More Oversight, GAO-02-734, United States General Accounting Office, Report to the Chairman and Ranking Minority Member, Committee on Governmental Affairs, U.S. Senate, July 2002, page 2

<sup>2</sup> GAO-02-734, page 11.

<sup>3</sup> “Contracting abuse, misuse of funds found at GSA unit”, Shane Harris, GovExec.com, Aug. 11, 2003.

<sup>4</sup> “Compendium of Audits of the Federal Technology Service Regional Client Support Centers”, US General Services Administration Office of the Inspector General, December 14, 2004, page 5

<sup>5</sup> “Private audit found contracting problems in D.C.-area GSA unit”, Shane Harris, GovExec.com, Feb. 6, 2004

<sup>6</sup> “GSA chief defends Federal Technology Service”, Shane Harris, GovExec.com, Dec. 2, 2003

<sup>7</sup> Letter dated Jan. 13, 2004 from Sen. Charles E. Grassley to GSA Administrator Stephen A. Perry

<sup>8</sup> “Contractors want voice in GSA restructuring”, Roseanne Gerin and Jason Miller, Washington Technology, April 4, 2005,

Statements like these, possibly sensational and maybe alarmist, fairly well sum up the situation for GSA as an organization through the last five years and up to the present day—at least in the eyes of the public. Statements like these are not difficult to find when searching for references to GSA and the fees the agency charges.

Although GSA/FTS fees may need examination and realignment, and although GSA is clearly under the gun for contracting improprieties, I believe the root of the problem is outside of GSA control. GSA is simply trying to service its customers in the best manner possible, as does any business entity that survives on its ability to provide value.

In my address here today, I intend to discuss not only the problems at GSA, but the larger issues in Federal Government procurement that created the environment for GSA's failures. Also, I intend to point the way toward solutions industry can provide to make government procurement more efficient, effective and accountable.

In your invitation to speak, you asked me to address this question: "Are the taxpayers getting their money's worth from GSA?" Networld believes this question has roots that push deep into the soil of government contracting, and may be summarized another way: "Does interagency contracting provide value to the taxpayer?" We believe the answers to both questions is "Yes"—that GSA will weather the current storm, and that interagency contracting will increase both in the number of orders and the overall dollar volume of transactions in the years to come. I will provide reasons for this belief later in the body of my testimony.

There are several factors all converging in the "Perfect Storm" gathering for your inquiry today, including:

- The GSA is under increasing Federal Government scrutiny, as seen in the "Compendium of Audits" and reports produced by the U.S. General Accounting Office (GAO). Other auditing agencies, including the GSA's own Office of Inspector General have produced reports shedding more light on your question. Many of these reports I have researched and cited in this testimony.
- A result of these multiple points of scrutiny and largely negative reports is that Congressional forces are moving GSA to consolidate operations as we speak.<sup>9</sup>
- There is a diminishing government acquisition workforce at a time when government spending is increasing to support the Global War on Terrorism and other ongoing U.S. military commitments around the world.
- For several years there has been a shift in Federal Government spending toward Information Technology, combined with varying levels of domain expertise among the key decision-makers.
- There is a general need for business transformation in the Federal Government, and the Department of Defense (DOD) in particular.

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<sup>9</sup> "The Davis Plan", Federal Computing Week, Jan. 24, 2005, <http://www.fcw.com/article87848>

Before I discuss these issues, however, I will take some time to address your primary question for me today.

### GSA Fees

GAO, in a July 2002 report titled: *Contract Management: Interagency Contract Program Fees Need More Oversight*, stated that “the (GSA) Schedules program has produced exceptionally high earnings, with revenues exceeding costs by more than 53 percent—for a total of \$151 million—during the 3-year period” between fiscal years 1999 and 2001.<sup>10</sup>

Later in the same report, GAO auditors state that “program customers are, in effect, being overcharged for the contract services they are buying. Nevertheless, program officials have not adjusted the fee.”<sup>11</sup>

The GSA Inspector General (GSA IG) reported in an audit document released in March 2005 that for every dollar Federal Technology Service (FTS) collects from customers, 95.6 percent goes to vendors for services provided. The remaining 4.4 percent covers FTS administrative/overhead expenses and IT Fund contributions.<sup>12</sup>

Also in the same report, the GSA IG indicates that FTS overhead growth requires further study. “FTS Corporate Overhead is listed at \$40.8, \$48.8 and \$66.3 million on its respective FY02, FY03, and FY04 Contribution Income Statements. This rapid growth is disproportionate with growth in business volume and should be assessed.”<sup>13</sup>

Below is a table excerpted from the same GSA IG report, showing the fee structure for FTS. It should be noted here that the surcharges shown do not include the Industrial Funding Fee (IFF), which is a fee GSA charges each vendor for each transaction, and is equal to .75 of a percent. One should bear in mind that many vendors are likely passing this fee on to the Government customer, which would boost the actual final costs to the Government customer.

**Table 1: GSA Fee Structure for FTS<sup>14</sup>**

FEDERAL TECHNOLOGY SERVICE (FTS) FEE STRUCTURE			
	Regional IT Solutions	National IT Solutions	
Type of Service	IT Solutions	IT Solutions	IT Solutions
Rate Type	Surcharge	Hourly by Grade	Surcharge
Rate Base	% of Total Acquisition	Labor Hours Provided	% of Total Acquisition
Rate Range	Commodities: 2 % to 4 %	GS-15 - \$166 GS-14 - \$147	Commodities: 2 % to 4 %

<sup>10</sup> GAO-02-734, Contract Management, page 2

<sup>11</sup> GAO-02-734, Contract Management, page 11

<sup>12</sup> Audit of FTS Working Capital/Reserve Fund Levels Report Number A040132/T/A/Z05012, March 28, 2005, U.S. General Services Administration Office of Inspector General, page 2

<sup>13</sup> Audit of FTS Working Capital/Reserve Fund Levels, page 6

<sup>14</sup> Audit of FTS Working Capital/Reserve Fund Levels, page A-1

	Services: 3 % to 5 %	GS-13 - \$140 GS-12 - \$132 GS-11- \$127 GS-09 - \$114 GS-07 - \$107 GS-03/06 - \$99	Services: 3 % to 5 %
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The next table shows GSA Actual Gross Margins for FY2003 and FY2004. It should be noted that of the 4 percent for FY2003 Actuals, \$252 million, or 72.9 percent, represents salaries or paid compensation to GSA personnel or for contractor-provided support services at GSA.<sup>15</sup>

The conclusion one might draw from these numbers is that GSA is using the fees and steadily higher revenue stream it is generating from them to become a bigger and more highly compensated organization, rather than a more efficient or effective organization.

**Table 2: GSA Actual Gross Margins FY03 and FY04**

FY 2003 ACTUAL		FY 2004 ACTUAL	
Dollars	% Total Revenue	Dollars	% Total Revenue
\$346 million	4	\$374 million	4.4

In fairness, we should note that GSA is not the only government agency conducting interagency contracting, or charging fees for these services. This is largely the result of several legislative reforms in the 1990s, including the Clinger-Cohen Act<sup>16</sup> and the Government Management Reform Act of 1994.<sup>17</sup>

The Clinger-Cohen Act authorized creation of Government Wide Acquisition Contracts (GWACs), “which are typically multiple-award contracts for information technology that allow an indefinite quantity of goods or services...to be furnished within a fixed period, with deliveries scheduled through orders with the contractor. The providing agency awards the contract, and other agencies order from it.”<sup>18</sup>

The Clinger-Cohen Act authorizes the Office of Management and Budget (OMB) to designate agency heads as executive agents for GWACs.<sup>19</sup>

“In recent years, federal agencies have been making a major shift in the way they procure many goods and services. Rather than spending a great deal of time and resources contracting for goods and services themselves, they are making greater use of existing contracts already awarded by other agencies. These contracts are designed to leverage the

<sup>15</sup> Audit of FTS Working Capital/Reserve Fund Levels, page A-2

<sup>16</sup> P.L. 104-106, Feb. 10, 1996

<sup>17</sup> P.L. 103-356, Sec. 403, Oct. 13, 1994

<sup>18</sup> GAO-02-734 Contract Management, page 4

<sup>19</sup> GAO-02-734 Contract Management, page 4

government’s aggregate buying power and provide a much-needed simplified method for procuring commonly used goods and services.”<sup>20</sup>

GSA has seen a nearly tenfold increase in interagency contract sales since 1992, pushing the total sales mark up to \$32 billion. Other agencies, such as the Department of the Treasury and the National Institutes of Health, also sponsor interagency contracts.<sup>21</sup>

Most of GSA’s other ID/IQ contract vehicles (e.g., ANSWER, Millenia, Millenia Lite, ACES, MOBIS) charge 1 percent.<sup>22</sup> Some other interagency contracts, and the agencies who manage them, are shown along with a range of fees in the following table:

**Table 3: Non-GSA Interagency Contracts**

AGENCY	CONTRACT	FEES
National Institutes of Health (NIH) <sup>23</sup>	CIO-SP2i	1%
NASA <sup>24</sup>	Scientific Engineering Workstation Procurement (SEWP) III	0% under \$2500 65% over \$2500 \$5000 maximum
Department of Interior <sup>25</sup>	GovWorks	4%

In a recent news report summarizing the GAO High-Risk Series published in January 2005, it was stated that “several agencies need to improve their contract management programs to ensure that they are getting best value for their costs,” including DOD, NASA and the Department of Energy (DOE).<sup>26</sup> “GAO officials singled out the Defense and Energy departments and NASA for special attention and contracting between agencies.”

It would appear then, that GSA does not stand alone its challenges related to interagency contracting and contract management in general. In fact, the GAO first listed DOE and NASA Contract Management as “high-risk” areas in 1990 and they remain on this list today.<sup>27</sup>

By way of background, GAO’s high-risk program “has increasingly focused on those major programs and operations that need urgent attention and transformation in order to ensure that our national government functions in the most economical, efficient, and effective manner possible.”<sup>28</sup>

<sup>20</sup> “High-Risk Series: An Update,” United States Government Accountability Office, January 2005, GAO-05-207, page 24

<sup>21</sup> GAO-05-207, High-Risk Series Update, page 24

<sup>22</sup> [http://www.treas.gov/offices/management/dcfo/procurement/training/gwacs\\_macs.pdf](http://www.treas.gov/offices/management/dcfo/procurement/training/gwacs_macs.pdf)

<sup>23</sup> [http://www.treas.gov/offices/management/dcfo/procurement/training/gwacs\\_macs.pdf](http://www.treas.gov/offices/management/dcfo/procurement/training/gwacs_macs.pdf)

<sup>24</sup> [http://www.treas.gov/offices/management/dcfo/procurement/training/gwacs\\_macs.pdf](http://www.treas.gov/offices/management/dcfo/procurement/training/gwacs_macs.pdf)

<sup>25</sup> <http://www.govworks.gov/client/faqs.asp>, FAQ #19

<sup>26</sup> “GAO finds contract risks,” Michael Hardy, Federal Computing Week, Jan. 27, 2005

<sup>27</sup> GAO-05-207, High-Risk Series Update, page 5

<sup>28</sup> GAO-05-207, High-Risk Series Update, page 1.

## GSA Contracting Challenges

GSA FTS is currently implementing the “Get It Right” program, which was instituted in July 2004 mainly due to a series of investigations that found a multitude of contracting improprieties, including procurement of building services, marine equipment and even counseling services using technology contracts.<sup>29</sup>

Abuses were found in regional FTS offices in Bremerton, WA., Kansas City, MO., and Atlanta, suggesting that “improper activities” were widespread within FTS.<sup>30</sup>

Quoting from a January 2004 letter from Senate Finance Committee Chairman Charles Grassley to GSA Administrator Stephen Perry, the three regional offices examined gave “every appearance of having run virtually unchecked and amuck, and have committed almost every conceivable contracting irregularity. Incredibly, many of these violations were neither one-time, nor isolated to just a single office. Instead, they seem to reflect an endemic and epidemic pattern of gross mismanagement, failed oversight, a flawed rewards system, and potential malfeasance by some FTS managers and staff.”<sup>31</sup>

Quoting now directly from GSA literature, the five major objectives of the “Get It Right” plan are to:<sup>32</sup>

- *Secure the best value for federal agencies and American taxpayers through an efficient and effective acquisition process, while ensuring full and open competition, and instilling integrity and transparency in the use of GSA contracting vehicles.*
- *Make acquisition policies, regulations and procedures clear and explicit.*
- *Improve education/training of the federal acquisition workforce on the proper use of GSA contracting vehicles and services.*
- *Ensure compliance with federal acquisition policies, regulations and procedures. Non-compliance is unacceptable!*
- *5. Communicate with the acquisition community, including agencies, industry partners, Office of Management and Budget (OMB), Congress, and other stakeholders, regarding the use of GSA contracting vehicles and services.*

Details of the abuses and failures that led to the “Get It Right” program are revealed in the “Compendium of Audits of the Federal Technology Service Regional Client Support Centers,” dated Dec. 14, 2004.

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<sup>29</sup> “Technology contract used to purchase interrogation work,” Shane Harris, GovExec.com, May 20, 2004

<sup>30</sup> “GSA inspector general reports on improper contracting activities,” Shane Harris, GovExec.com, Jan. 8, 2004

<sup>31</sup> Sen. Charles E. Grassley letter dated Jan. 13, 2004

<sup>32</sup> Federal Acquisition Excellence, “Get it Right: A Comprehensive, Governmentwide Approach,” presentation available for download at:

[http://www.gsa.gov/Portal/gsa/ep/contentView.do?contentId=17028&contentType=GSA\\_OVERVIEW](http://www.gsa.gov/Portal/gsa/ep/contentView.do?contentId=17028&contentType=GSA_OVERVIEW)



To summarize, the “Compendium of Audits” lists the following types (not a comprehensive list) of contracting improprieties in GSA’s Client Support Centers (CSCs).<sup>33</sup>

- Inadequate Competition
- Misuse of Contract Vehicle
- Improper Contracting Actions
- Frequent Use of Time and Materials Task Orders
- Inadequate Support for Fair and Reasonable Pricing

The details vary by CSC, but overall statistics<sup>34</sup> are as follows:

- Fifty-eight percent of the contracting actions reviewed were awarded without adequate competition.
- Eight contracts went to companies that did none or very little of the actual work performed.
- In two cases, Small Business authority was used improperly.
- Twenty task orders were awarded for services, equipment or materials that were out of scope.
- Several regions made awards based on ineffective statements of work.
- Nineteen task orders were awarded for construction, services, lease or acquisition of real property.
- Overall, CSCs used time and materials (T&M) type of orders rather than firm-fixed price (FFP) orders. FFP is the type preferred by Federal Acquisition Regulations (FAR).
- Sixty-four percent of the orders had absent or insufficient documentation that pricing was fair and reasonable.

## **Shrinking Acquisition Workforce & Rise of Interagency Contracting**

The Pentagon's acquisition workforce fell to about 135,000 in 2004 from more than 450,000 in 1990, according to a Pentagon report cited this month in *The Washington Post*.<sup>35</sup>

At the same time, nearly 40 percent of all federal workers will be eligible to retire this year, creating many new openings to fill across the Federal Government.<sup>36</sup>

“The Federal Government is facing several significant challenges when it comes to its acquisition workforce: the number of workers is declining, while the workload and the demand for more sophisticated technical, financial and management skills are increasing.

<sup>33</sup> “Compendium of Audits”, Dec. 14 2004, pages 5-8

<sup>34</sup> Compendium of Audits”, Dec. 14 2004, pages 5-8

<sup>35</sup> “New Pentagon Panel Reviews Acquisition”, Renae Merle, The Washington Post, Monday, July 18, 2005, page D01, <http://www.washingtonpost.com/wp-dyn/content/article/2005/07/17/AR2005071700717.html>

<sup>36</sup> “Competitive Sourcing: Conducting Public-Private Competition in a Reasoned and Responsible Manner”, Executive Office of the President Office of Management and Budget, July 2003, page 2

DOD's contracting workload, for example, has increased by about 12 percent in recent years, but the workforce available to perform that workload has been reduced by about half over the same period. Meanwhile, the Federal Government is implementing various ways of contracting, such as performance-based contracting methods, commercial-based pricing approaches, and the use of purchase cards."<sup>37</sup>

One extrapolates that, along with this loss of personnel in the workforce comes a general loss of institutional memory and contracting expertise.

Because of this shrinking Federal Government acquisition workforce, the need for shared contracting resources and interagency contracting will likely grow.

"Interagency contracting is being used more with regard to purchases of services, which have increased significantly over the past several years and now represent over half of federal contract spending."<sup>38</sup>

"Interagency contracts can leverage the government's buying power and provide a simplified and expedited method of procurement. But several factors can pose risks, including rapid growth of dollars involved combined with the limited expertise of some agencies in using these contracts and recent problems related to their management."<sup>39</sup>

These contract vehicles offer the benefits of improved efficiency and timeliness; however they need to be effectively managed."<sup>40</sup> High-risk factors for interagency contracts include:

- Attracting rapid growth of taxpayer dollars
- Being administered and used by some agencies that have limited expertise with interagency contracting methods
- Contribute to a more complex contracting environment in which accountability is not always clearly established

"In particular, to facilitate effective purchasing through interagency contracts, and to help ensure the best value of goods and services, agencies must clarify roles and responsibilities and adopt clear, consistent, and enforceable policies and processes that balance the need for customer service with the requirements of contract regulations."<sup>41</sup>

## **Increases in Government Spending**

Federal Government spending has increased from the year 2000 to 2005 approximately 30 percent. This is a figure we have calculated using public data provided through a website sponsored by TruthAndPolitics.org.<sup>42</sup> The data are from the [\*Public Budget\*](#)

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<sup>37</sup> "Acquisition Workforce: Status of Agency Efforts to Address Future Needs", United States General Accounting Office report GAO-03-55, page 3

<sup>38</sup> GAO-05-207, High-Risk Series Update, page 26

<sup>39</sup> GAO Highlights, "Highlights of GAO-05-207, a report to Congress on GAO's High-Risk Series."

<sup>40</sup> "High-Risk Series: An Update," United States Government Accountability Office, January 2005, GAO-05-207, page 25

<sup>41</sup> GAO-05-207, High-Risk Series Update, page 28

<sup>42</sup> <http://www.truthandpolitics.org/budget-numbers-intro.php>

[Database, Budget of the United States Government, Fiscal Year 2005](#), a different website sponsored by the Office of Management and Budget (OMB). The spreadsheet we created to calculate this figure is included as Attachment A. Attachments B, C, and D are charts we have developed from the spreadsheet showing raw growth, annual growth in dollars and annual growth expressed as a percent.

Over the same period, inflation rates went from about 3.75 percent in 2000, dropped to a low of about 1.00 percent in 2002, then steadily climbed again for the next three years. Rates reached a high of about 3.50 percent in early 2005 and dropped again to their present rate of about 2.50 percent in July 2005.<sup>43</sup>

The DOD is the world’s largest purchaser of goods and services, and year to year accounts for the largest share of the Federal Government budget.<sup>44</sup>

“In FY 2004 alone, DOD spent \$254 billion on acquisition. On an average working day, DOD issues more than 25,000 contract actions, valued at \$923 million, and makes more than 195,000 credit card transactions, valued at \$43.9 million....Every acquisition dollar that is not prudently managed results in that dollar not being available to fund the Secretary of Defense’s top priorities, such as the global war on terrorism and joint warfighting capabilities.”<sup>45</sup>

The Department of Homeland Security (DHS) budget has hovered at approximately the \$30 billion mark since 2002. Rounded numbers for budget authority are shown in the table below.<sup>46</sup>

**Table 4: DHS Budget FY02-FY05**

FISCAL YEAR	\$ IN BILLIONS
2002	30.6
2003	30.8
2004	28.8
2005	31.4

The Homeland Security Act of 2002 authorized DHS to establish a pilot program for the use of acquisition agreements known as “other transactions.”<sup>47</sup> “Because they are exempt from many of the requirements that apply to government contracts, other transactions can be useful in acquiring cutting-edge technologies from entities that traditionally have declined to do business with the government.”<sup>48</sup>

<sup>43</sup> <http://inflationdata.com/inflation/images/charts/air20050714.gif>

<sup>44</sup> Inspector General, United States Department of Defense, Semiannual Report for Transmission to Congress, October 1, 2004-March 31, 2005, page 12

<sup>45</sup> DOD Inspector General Semiannual Report Oct. 1, 2004-March 31, 2005, page 12

<sup>46</sup> <http://www.truthandpolitics.org/budget-numbers-intro.php>

<sup>47</sup> “Highlights of GAO-05-136”, a report to the Senate Committee on Governmental Affairs and the House Committee on Government Reform

<sup>48</sup> Highlights of GAO-05-136

“DHS is expected to spend billions of dollars annually to acquire a broad range of products, technologies and services from private-sector entities.” Other transactions authority is one of the acquisition tools—in addition to standard Federal Acquisition Regulations (FAR) contracts, grants, and cooperative agreements—available to DHS to help support its mission.<sup>49</sup>

The DHS Science & Technology (S&T) Directorate “plans an increasing number of mission programs that could use its other transactions authority, but DHS’s current contracting workforce may not be sufficient to manage this workload. DHS has relied on a small number of key S&T program practitioners, to develop or approve solicitations.”<sup>50</sup>

Information Technology spending in the Federal Government has been on the increase for several years. Even during the economic downturn that began in approximately the year 2000, *Washington Technology* reported that “the federal market has been a bright star in this otherwise slow economy over the past two years. The significant growth and the addition of supplemental budgets given to federal agencies have been needed lifts to the technology sector.” Where traditional growth would have been measured at 2 to 4 percent, federal technology spending increased even in an otherwise down economy by 8 to 12 percent.<sup>51</sup>

Forrester Research Group estimates that federal government agencies will spend nearly \$60 billion on IT for FY 2005.<sup>52</sup>

It is commonly reported that the Federal Government spends more money now on IT than on ships and aircraft, and that IT is the fastest growing segment of the Federal Government budget.

Many of these IT systems are standalone, “stovepiped” or legacy systems that worked well when implemented, but are now in need of replacement, technology refreshment, or continual integration to newer systems. Traditional contracting cycles and subsequent development can take so long that frequently this technology is old the first time the “On” switch is thrown. These older systems may also become responsible for consuming inordinate amounts of appropriated funds to keep them running.

## **Need for Business Transformation**

“DOD spends billions of dollars to sustain key business operations intended to support the warfighter, including systems and processes related to the management of contracts, finances, the supply chain, infrastructure, and weapons systems acquisition.

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<sup>49</sup> “Homeland Security: Further Action Needed to Promote Successful Use of Special DHS Acquisition Authority”, United States Government Accountability Office report GAO-05-136, page 4

<sup>50</sup> GAO-05-136, Homeland Security, page 21

<sup>51</sup> “Across the Digital Nation: Fed Government—Rising tide meets two possible dams”, *Washington Technology*, Rishi Sood, Feb. 4, 2004,

[http://www.washingtontechnology.com/news/18\\_3/digitalnation/20705-1.html](http://www.washingtontechnology.com/news/18_3/digitalnation/20705-1.html)

<sup>52</sup> <http://www.forrester.com/ForrTel/Previous/Overview/0,5158,1010,00.html>

“GAO has reported on inefficiencies in DOD’s business operations, such as the lack of sustained leadership, the lack of a strategic and integrated business transformation plan, and inadequate incentives.

“Moreover, the lack of adequate transparency and accountability across DOD’s major business areas results in billions of dollars wasted resources annually at a time of increasing military operations and growing fiscal constraints.

“The Secretary of Defense estimates that improving business operations could save 5 percent of DOD’s annual budget. Based on DOD’s reported fiscal year 2004 budget, this would represent a savings of about \$22 billion a year.”<sup>53</sup>

“An October 5, 2004 DOD OIG assessment provided to OMB in response to the requirements of the Federal Information Security Management Act concluded that DOD does not currently have a comprehensive, enterprise-wide inventory of major information systems. As has been reported in numerous DOD OIG and Government Accountability Office reports, issuances and testimonies since at least 1997, the DOD cannot accurately respond to congressional and OMB data calls regarding the status of its IT enterprise, to include the security of that enterprise, without this basic tool.”<sup>54</sup>

“GAO has reported on inefficiencies and inadequate transparency and accountability across DOD’s major business areas, resulting in billions of dollars of wasted resources. Senior leaders have shown commitment to business transformation through individual initiatives in acquisition reform, business modernization, and financial management, among others, but little tangible evidence of actual improvement has been seen in DOD’s business operations to date.”<sup>55</sup>

“Since the 1990’s, DOD has spent billions of dollars each year attempting to leverage the vast power of modern technology to replace outdated ways of doing business. However, the Department has had limited success in modernizing its information technology environment, and (GAO has) designated DOD’s systems modernization as high risk since 1995. A major reason for this designation is DOD’s inconsistent use of best practices for acquiring IT systems.”<sup>56</sup>

The best practices DOD should be using are cited in “Sourcing and Acquisition: Challenges Facing the Department of Defense” (GAO-03-574T) as follows:

- Acquisition of systems in accordance with mature processes
- Use of an enterprise architecture to guide and constrain system acquisitions
- Acquiring systems in a series of economically justified incremental builds

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<sup>53</sup> GAO Highlights: High-Risk Series, Department of Defense Approach to Business Transformation, January 2005.

<sup>54</sup> DODIG Semiannual Report for Transmission to Congress, October 1, 2004-March 31, 2005, pages 9-10

<sup>55</sup> GAO Highlights, “Highlights of GAO-05-207, a report to Congress on GAO’s High-Risk Series.”

<sup>56</sup> “Sourcing and Acquisition: Challenges Facing the Department of Defense”, United States General Accounting Office report GAO-03-574T, March 19 2003, Page 8

## Business Transformation Case-Study

Since 2002, the Navy has been testing a business transformation approach in four similar pilot projects.<sup>57</sup> NAVAIR's pilot project focuses on the acquisition of weapons systems, program management, financial management, and asset tracking-configuration management, using the E-2C Hawkeye program as a test bed.

NAVAIR also is teaming with the Naval Supply Systems Command (NAVSUP) on a pilot project dealing with aviation supply-chain and maintenance management. The E-2C and the LM2500 engine are the test beds for that project.

In yet another project, the Space and Naval Warfare Systems Command (SPAWAR) is concentrating on the financial-management process used at SPAWAR Systems Center San Diego to manage the Navy Working Capital Fund.

Finally, the Naval Sea Systems Command (NAVSEA) and the staff of the U.S. Atlantic Fleet are teaming on a pilot program dealing with regional ship maintenance and work force management--starting at Ships Intermediate Maintenance Activity (SIMA) Norfolk, but with the possibility of later phasing in the Norfolk Naval Shipyard.

Program managers for each of the four pilot projects, working independently, adopted similar approaches. All four selected the same Enterprise Resource Planning (ERP) software package. To keep the results compatible and ensure they are applicable across the Navy, the four pilot efforts are being coordinated by an executive steering group and an integrated control board.

## Tying it all Together

As I move toward the conclusion of my testimony, Mr. Chairman, I would like to be very clear on the following point: Although GSA/FTS fees may need examination and realignment, and although GSA is clearly at fault for the contracting improprieties in its own CSCs, the root of the problem is outside of GSA control. GSA is simply trying to service its customers in the best manner possible, as does any business entity that lives or dies on its ability to provide value in the marketplace. I am not alone in this assessment.

“GSA is not that badly run when you compare it with other agencies,” says Congressman Tom Davis, (R-VA), chairman of the House Government Reform Committee. “But GSA needs to be setting the example and leading the way.”<sup>58</sup>

“In some of the GSA issues that have come before us, people were trying to think outside the box to get things done. They might have bent the rules, but I don't think there has been any money lost or anything like that. We need to change rules and regulations in those cases to allow people to do things.”<sup>59</sup>

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<sup>57</sup> “NAVAIR Set to Apply Network-Centric Warfare Tools to Management Process”, Otto Kreisher, Navy League of the United States, April 2002, [http://www.navyleague.org/sea\\_power/april\\_02\\_19.php](http://www.navyleague.org/sea_power/april_02_19.php)

<sup>58</sup> “The Davis Plan”

<sup>59</sup> “The Davis Plan”

“You need more officers and auditors and everything else, if you do it (procurement reform) the right way. But we’ve got to make sure that we are a mission-oriented government, not a regulation-driven government where, whatever the regulations say, that’s the outcome. That’s not the way any business would operate. That’s not the way you want to operate in your life. We have missions to accomplish out there.”<sup>60</sup>

Another point Davis makes is that the Internet and the speed of communications now has probably eliminated the need for so many regional centers in GSA. A third point is that Federal Supply Service (FSS) and FTS are probably competing with each other now and may need to be combined.<sup>61</sup>

As was stated earlier, one source of these challenges is that the Federal Government needs global solutions, but continues to procure based on local requirements. GSA may have broken the rules, but was doing so simply to fulfill the requirements brought by its government customer base. Now that GSA is under the “Get It Right” program, many of its government customers are unhappy with the service levels, efficiency and effectiveness of GSA. The real challenge is for the Federal Government to resolve its procurement issues, especially in regard to IT. And to accomplish that, the Federal Government needs to establish a blueprint for change. One solution we have so far presented is for the Federal Government to take a big-picture view of the problem.

## **Solution: Partnership**

Another solution we are presenting today is for the Federal Government to pursue a partnership model in procurement. This model “encourages partnerships and teamwork rather than stovepipes and adversarial relationships.”<sup>62</sup>

According to “The Procurement Partnership Model” a whitepaper sponsored by the IBM Endowment of the Business of Government, “Contracting became increasingly complex as government began to contract for solutions and knowledge rather than for specific material goods or standardized services.”

*“As government downsized the number of employees and began to rely more on contractors to accomplish work, it found that the old procurement model was not achieving the results it needed.*

*“The traditional model took too long, was not flexible enough, and discouraged the kind of communication needed to find solutions to problems.*

*“Accountability was more important than ever, but the old approaches that relied on accounting standards, audits, penalties, and arm’s-length relationships could*

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<sup>60</sup> “The Davis Plan”

<sup>61</sup> “The Davis Plan”

<sup>62</sup> “The Procurement Partnership Model: Moving to a Team-Based Approach”, Kathryn G. Denhardt, School of Urban Affairs and Public Policy and Institute for Public Administration, University of Delaware, February 2003, page 4

*ensure only that the rules were adhered to, not that the contract accomplished what was needed.*

*“New approaches to accountability emphasize outcomes and continual communication in order to solve problems as they emerge, as well as performance measures and incentives.*

*“The emerging partnership model of procurement is characterized by team-based approaches, new contracting vehicles, an outcomes orientation, and increased emphasis on open communication and due diligence.”<sup>63</sup>*

## **Open Market Corridor**

As we discuss matters such as the partnership model, procurement reform and use of interagency contracts, we would be remiss if we did not mention Open Market Corridor (OMC), the automated MAC ID/IQ contract developed and operated by Networld Exchange, as the result of a Cooperative Research and development Agreement (CRADA) with Naval Postgraduate School (NPS), based in Monterrey CA. The OMC contract is administered by the Department of Interior/National Business Center based in Fort Huachuca, AZ.

OMC was developed as a result of a “think-tank”-like atmosphere at NPS, where military line officers working on their master’s theses brought together their best thinking and collective field experience to make government contracting faster and more efficient, while implementing the Paperwork Reduction Act, the Federal Acquisition Streamlining Act and general use of the Internet for government contracting.

OMC was developed with zero up-front development costs, assigning to Prime contractor Networld Exchange all risk for successful implementation and operation of the system and the contract it automates. There was never any risk for the taxpayer in the development of this system, which automates our contract.

OMC charges a flat 2 percent transaction fee. The intent of OMC is to demonstrate a web-based procurement execution and administration system compliant with the FAR, particularly FAR Part 12, which describes commercial buying practices for the Federal Government.

The web-based system is being developed incrementally, taking in suggestions from users based on their own experiences using OMC and other applications. Because of this approach, it will never be a legacy system.

OMC is an effective and efficient contracting tool because it automates contracting paperwork and activities, thereby cutting down the time and effort required to complete contracting activities. OMC also eliminates duplicate data entry which saves time and errors.

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<sup>63</sup> “The Procurement Partnership Model”, page 4



Using OMC, the shrinking procurement workforce can become a more efficient organization. OMC archives all data in real time, and eliminates the possibility for overpayments or improper payments. OMC is an Internet-based system allowing people to work anytime, anywhere they have Internet access. OMC automates all of the applicable FAR, cutting down on the knowledge base and skill set needed to use the system effectively. OMC has a customizable workflow to ensure full accountability within each organization, according to each organizational structure or hierarchy.

OMC provides complete control and oversight over bidding, ordering, invoicing and funding activity. OMC tracks funding in real time to the project, task and penny. OMC allows the program managers, budget offices and contracting personnel to work collaboratively, bringing together the knowledge base and skill set of each in a synergistic way.

I close my point with this statement: “To effectively implement best practices and properly manage the goods and services it purchases each year requires that DOD have the right skills and capabilities in its acquisition workforce. This is a challenge given decreased staffing levels, increased workloads, and the need for new skill sets. Procurement reforms and the ongoing technological revolution have placed unprecedented demands on the workforce, and contracting personnel are now expected to have a much greater knowledge of market conditions, industry trends, and technical details of the commodities and services they procure.”<sup>64</sup>

Although this passage specifically references DOD, I would argue that the point extends equally well to all Federal agencies, including DHS.

## Conclusion

GAO’s high-risk program has increasingly focused on those major programs and operations that need urgent attention and transformation in order to ensure that our national government functions in the most economical, efficient, and effective manner possible.<sup>65</sup>

A review of GAO-05-207 shows of 25 areas designated as “high-risk” in 2005, eight of them that have bearing on government contracting. By extension these also have bearing on GSA, interagency contracting and OMC.

Three of these high-risk areas have been on the GAO list since 1990. Six of them have been on the list since 1995 or earlier. None of the eight have been removed from this list. Two areas (DOD Approach to Business Transformation and Management of Interagency Contracting) were added to the list this year.<sup>66</sup> Our conclusion is that problems related to government contracting are increasing, or at least are being made public more often.

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<sup>64</sup> GAO-03-574T, March 19 2003, Page 13

<sup>65</sup> GAO-05-207, High-Risk Series Update, page 1

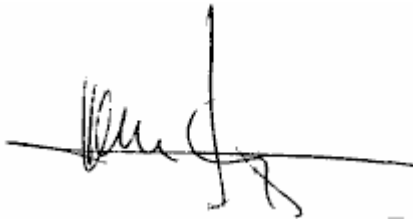
<sup>66</sup> GAO-05-207, High-Risk Series Update, pages 5-6

GSA may not be the best deal in the Federal Government right now in terms of interagency contracting fees, and GSA is certainly facing some difficult organizational challenges, but GSA is certainly not what we would consider a bad deal for the taxpayer.

The larger issue is for the Federal Government right now to do a more effective job of managing interagency contracting in light of its growing necessity and value to the taxpayer, and to implement global business transformation.

As developer of OMC, Networld Exchange is a firm with the domain expertise needed to help government move skillfully into a new era of interagency contracting and business transformation.

We look forward to updating the committee on a quarterly basis as we work with other Federal agencies to introduce added effectiveness and cost savings to the Federal Government. Mr. Chairman, this concludes my remarks and testimony for today. I will be happy to answer any questions from the committee. Thank you.

A handwritten signature in black ink, appearing to read 'Thomas Graham', with a long horizontal line extending to the right.

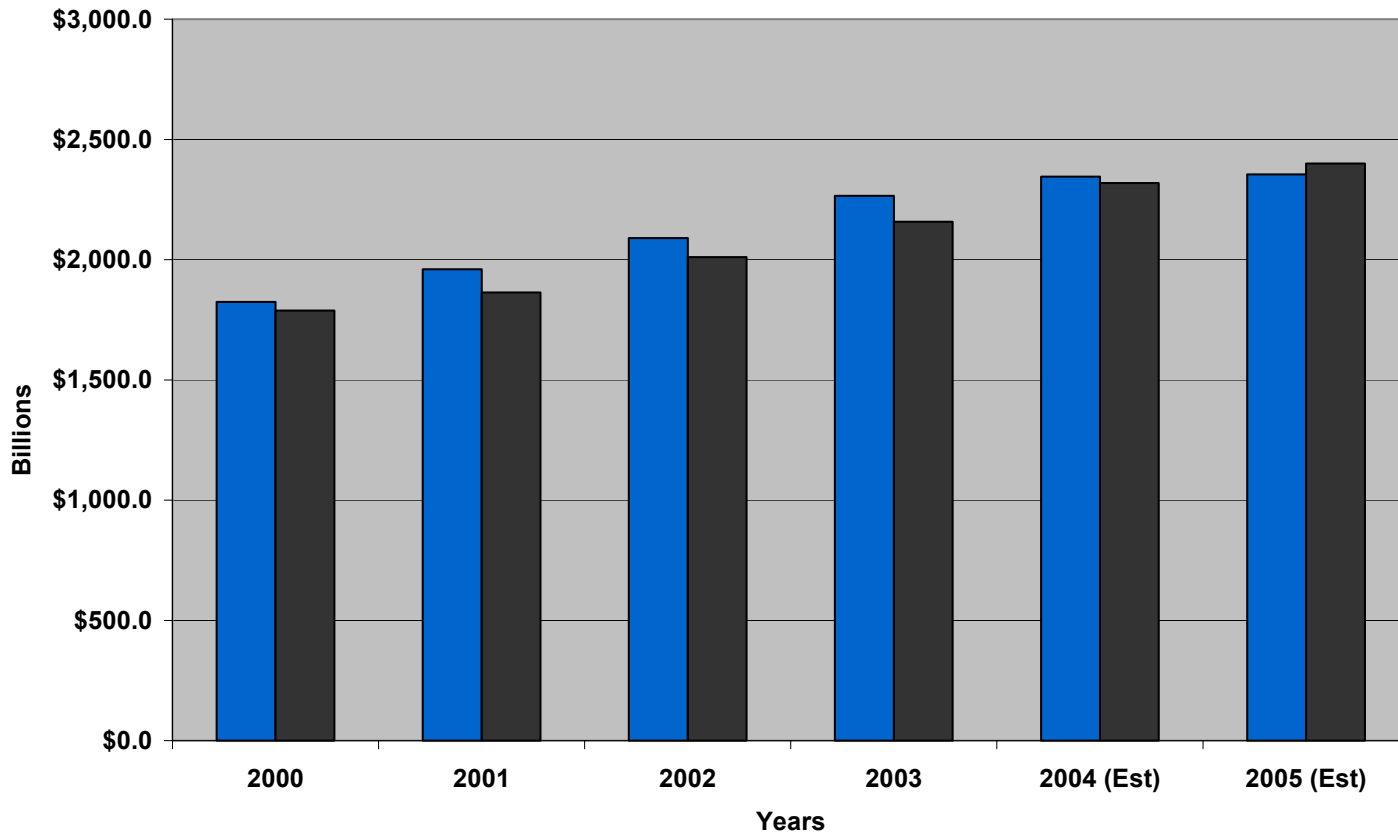
Thomas Graham  
Chief Operating Officer  
Networld Exchange  
Carlsbad, CA  
July 26, 2005

## Attachment A

Year	Total Budget Authority (billions)	Total Outlays (billions)	\$ growth (billions) over previous period (Budget Authority)	\$ growth (billions) over previous period (Outlays)	% growth over previous period (Budget Authority)	% growth over previous period (Outlays)
2000	\$1,824.8	\$1,788.7				
2001	\$1,959.7	\$1,863.7	\$134.9	\$75.0	7.39%	4.19%
2002	\$2,090.0	\$2,010.9	\$130.3	\$147.2	6.65%	7.90%
2003	\$2,266.1	\$2,157.6	\$176.1	\$146.7	8.43%	7.30%
2004 (Est)	\$2,345.2	\$2,318.8	\$79.1	\$161.2	3.49%	7.47%
2005 (Est)	\$2,354.7	\$2,399.8	\$9.5	\$81.0	0.41%	3.49%
Total Five-year \$ growth			\$529.9	\$611.1		
Total Five-year Growth Percentage					29.04%	34.16%

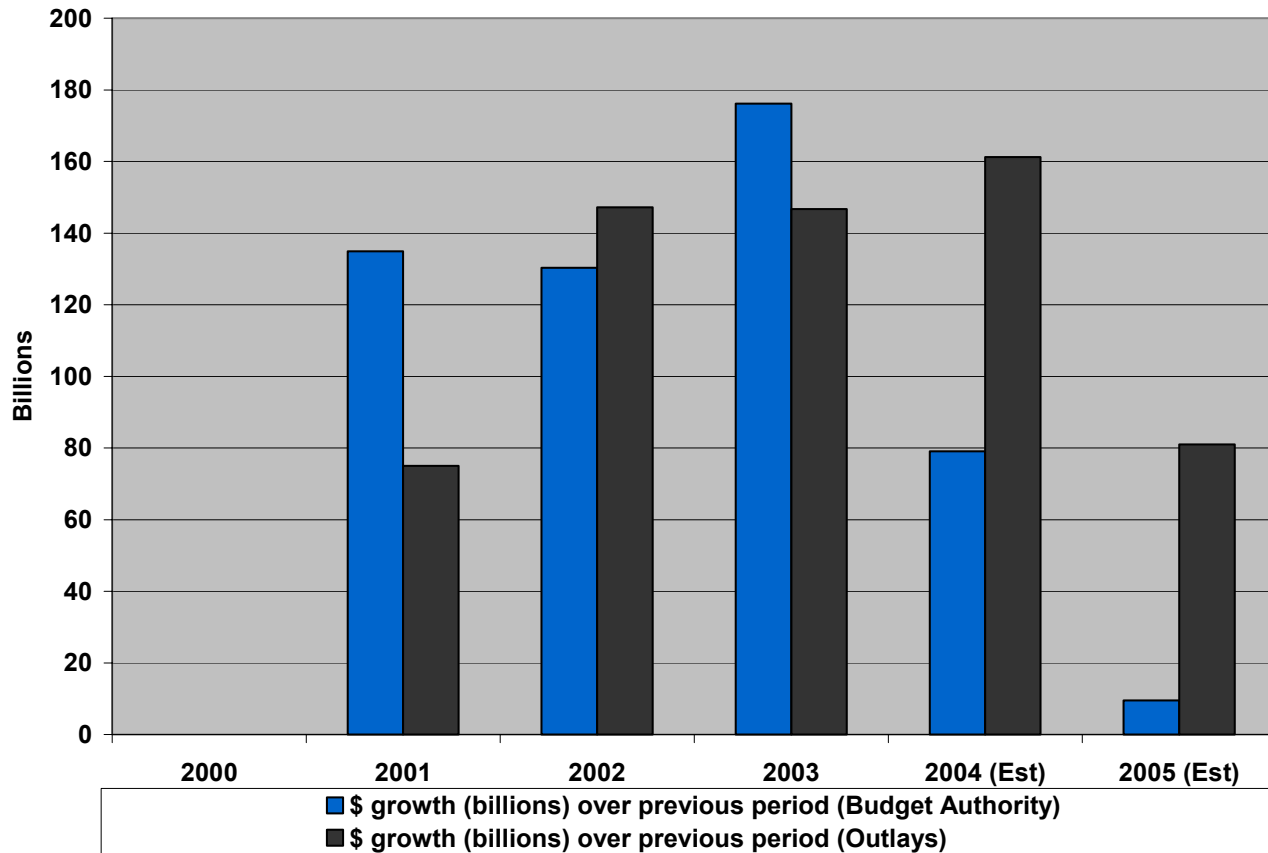
## Attachment B

### Budget Growth FY2000-FY2005



### Attachment C

**Budget Growth (\$) FY00-FY05**



### Attachment D

#### Budget Growth (%) FY00-FY05

