



memorandum

DATE: January 21, 2004

Audit Report No. OAS-L-04-09

REPLY TO
ATTN OF: IG-30 (A03DN002)

SUBJECT: Department of Energy's Implementation of the Competitive Sourcing Initiative

TO: Bruce M. Carnes, Associate Deputy Secretary of Energy

INTRODUCTION AND OBJECTIVE

In 2002, the President established the Competitive Sourcing Initiative to improve the procedures for comparing public and private sources for the performance of government operations, to better publicize the activities subject to competition, and to ensure senior level agency attention to the promotion of competition. The intended result was increased efficiency and effectiveness through increased competition between public and private sources.

The Federal Activities Inventory Reform (FAIR) Act of 1998 requires each agency to assess the competition potential of activities performed by Federal Government sources and report to the Office of Management and Budget those activities which are not inherently governmental. The agency is required to further distinguish which activities would or would not be suitable for competition. In developing its plan for competitive sourcing, the Department of Energy (Department) identified six functional areas which it determined were most amenable to competitive sourcing. These functional areas -- including Civil Rights, Graphics, Human Resources, Financial Services, Information Technology, and Logistics -- were selected for competitive sourcing study. The objective of this audit was to determine if the Department is considering all activities that it identified as suitable for competition in its competitive sourcing studies.

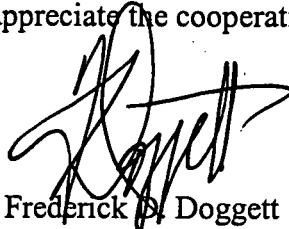
CONCLUSIONS AND OBSERVATIONS

Based on the 2003 FAIR Act inventory listing, the Department identified approximately 3,300 Full-Time Equivalents (FTEs) that could be subjected to competitive sourcing studies. Initially, the President's Management Agenda charged each agency with competing specified percentages of commercial activities that were being performed by Federal employees. However, those goals have since been eliminated and replaced with a requirement for each agency to develop a competitive sourcing plan adapted to its needs.

While 976 of the 3,300 FTEs identified as amenable to competition were positions at the Power Marketing Administrations (PMAs), the Department later decided that studying the PMA positions would not provide substantial benefit to the Department and exempted them from further study at that time. In correspondence with the Office of Management and Budget, the Department outlined its rationale for not studying them further. Specifically, the correspondence indicated that the PMAs are financed through the rates charged to customers and are already subject to market pressures to reduce costs.

The Department has, in our judgment, clearly documented its rationale for excluding the PMAs. Nonetheless, we noted that the PMAs, with the exception of the Bonneville Power Administration, received approximately \$200 million in appropriated funds for Fiscal Year 2004. Consistent with the President's objectives, recent studies have confirmed that subjecting in-house operations to competition generally results in cost savings, even if the retention of the service in-house is the result. As competitive sourcing activities continue, senior Department managers may want to consider including the PMAs in associated studies.

We discussed the audit results with the Director of the Office of Competitive Sourcing. Since no formal recommendations are being made in this letter report, a formal response is not required. We appreciate the cooperation of your staff.



Frederick D. Doggett
Assistant Inspector General for
Audit Services
Office of Inspector General

Attachment

cc: Director, Office of Competitive Sourcing
Team Leader, Audit Liaison Team, ME-1.1

SCOPE AND METHODOLOGY

The audit was performed at Washington, D.C. between September 22 and November 20, 2003. The audit covered the Department's implementation of the Competitive Sourcing Initiative from March 2002 to November 2003.

To accomplish the audit objective, we reviewed the Department's plans for implementing the Competitive Sourcing Initiative; reviewed the rationale provided by the Department for the exclusion of the PMAs; and interviewed program officials.

The audit was performed in accordance with generally accepted Government auditing standards for performance audits and included tests of internal controls and compliance with laws and regulations to the extent necessary to satisfy the audit objective. Accordingly, we assessed internal controls and performance measures established under the *Government Performance and Results Act of 1993* related to competitive sourcing. Because our review was limited, it would not necessarily have disclosed all internal control deficiencies that may have existed at the time of our audit. We generally did not rely on computer-processed data to accomplish our audit objective.

memorandum

DATE: January 28, 2004

REPLY TO
ATTN OF: IG-30 (A02DN006)

SUBJECT: Final Report Package for Letter Report on "DOE's Implementation of the Competitive Sourcing Initiative"

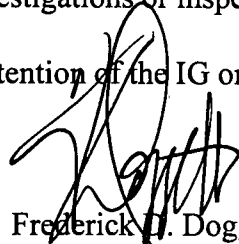
TO: Director, Planning and Administration

Attached is the required final report package on the subject audit. The pertinent details are:

1. Staff days: Programmed 115 Actual 98
2. Elapsed days: Programmed 255 Actual 122
3. Names of OIG audit staff:

Assistant Division Director: Fred Pieper
Team Leader: Mark Mickelsen
Auditor-in-Charge: Susy Serrano
Audit Staff: Christine Nehls

4. Coordination with Investigations and Inspections: Inspections and Investigations were notified on January 14, 2003 of planned issuance of letter report. No actual or potential compromise of an investigation or inspection was noted. This report will not impact any ongoing investigations or inspections.
5. Matters to be brought to attention of the IG or DIGAS: None.



Frederick D. Doggett
Assistant Inspector General for
Audit Services
Office of Inspector General

Attachments:

1. Final Report (3)
2. Monetary Impact Report
3. Audit Project Summary Report
4. Transmittal Memorandum

MONETARY IMPACT OF REPORT NO.: OAS-L-04-09

1. Title of Audit: DOE's Implementation of the Competitive Sourcing Initiative

2. Division: Environmental Audits Division

3. Project No.: A03DN002

4. Type of Audit:

Financial:	_____	Performance:	<u>X</u>
Financial Statement	_____	Economy and Efficiency	<u>X</u>
Financial Related	_____	Program Results	_____
Other (specify type):	_____		

5.

FINDING		COST AVOIDANCE		QUESTIONED COSTS				MGT. POSITION	POTENTIAL BUDGET IMPACT
(A)	(B) Title	(C) One Time	(D) Recurring Amount PerYear	(E) Questioned	(F) Unsup-ported	(G) Unre-solved	(H) Total (E)+(F)+(G)	(I) C=Concur N=Noncon U=Undec	(J) Y=Yes N=No
		\$0	\$0	\$0	\$0	\$0	\$0	N/A	N
TOTALS--ALL FINDINGS		\$0	\$0	\$0	\$0	\$0	\$0		

6. Remarks: We found that the Department's plans for competitive sourcing studies do not include all activities it identified as suitable for competition. The Department decided that studying 976 PMA positions identified as suitable for competition would not provide substantial benefit to the Department, and exempted the PMA positions from being studied. However, recent studies show that subjecting in-house operations to competition generally results in cost savings, regardless of whether the winner is a private contractor or the government. For example, two competitions already completed within the Department— involving only 21 FTEs—are estimated to result in a combined \$5 million savings over a 5- year period. Therefore, as competitive sourcing activities continue, senior Department managers may want to consider including the PMAs in associated studies.

7. Contractor: None

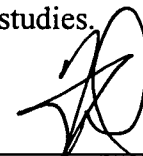
8. Contract No.: None

9. Task Order No.: None

10. Approvals:

Division Director/Date:

Technical Advisor & Date


11/28/2009

Office of the Inspector General (OIG)
Audit Project Office Summary (APS)

Report run on: January 15, 2004 5:12 PM

Audit#: A03DN002 **Ofc:** DNA **Title:** DOE IMPLEMENTATION GOVT OUTSOURCING INITIATIV

**** Milestones ****

	Planned	End of Survey	Revised	Actual
Entrance Conference:.....	05-MAY-03		22-SEP-03	22-SEP-03
Survey:.....			06-NOV-03	06-NOV-03
Draft Report:.....				
Completed (With Report):..	15-JAN-04	06-NOV-03	23-JAN-04	()
-----Elapsed Days:	255	45	123	116

Elap. Less Susp:

Date Suspended:	Date Terminated:
Date Reactivated:	Date Cancelled:
DaysSuspended(Cur/Tot): ()	Report Number:
Rpt Title:	Report Type: Not Found

**** Audit Codes and Personnel ****

Class: PER PERFORMANCE		
Program: MA Not Found		
MgtChall: 103 PERFORMANCE MANAGEME	AD: 496	PIEPER,
Site: MSA MULTI-SITE AUDIT	AIC: 729	SERRANO
SecMiss: CMT CORPORATE MANAGEMENT	Team Ldr: 342	MICKELSEN
PresInit: CPS COMPETITIVE SOURCING	Tech Adv: 421	SCHULMAN

**** Task Information ****

Task No:	
Task Order Dt:	CO Tech. Rep:
Orig Auth Hrs:	Orig Auth Costs:
Current Auth:	Current Auth Cost:
Tot Actl IPR Hr:	Tot Actl Cost:

**** Time Charges ****

<u>Emp/Cont Name</u>	<u>Numdays</u>	<u>Last Date</u>
MICKELSEN, M	11.1	10-JAN-04
NEHLS, C	26.6	29-NOV-03
SERRANO, S	56.4	10-JAN-04
Total:	94.1	

**** Keywords ****

Office of the Inspector General (OIG)
Audit Project Office Summary (APS)

Report run on: January 15, 2004 5:12 PM

**** Keywords ****

COMPETITIVE SOURCING
SOURCING

**** Location Information ****

Loc

Code

Description

HAH HEADQUARTERS, ADMINISTRAT

**** Finding Information ****

Bud Mgt Dept

Dept

Dept

Find#

Title

Type Amount

Yrs

Imp

Pos

Pos

Amount

Date

Office of the Inspector General (OIG)
Audit Project Office Summary (APS)

Report run on:

January 15, 2004 5:12 PM

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FACT SHEET
AUDIT REPORTS SUBMITTED TO AIGAS

- | | |
|-----------------------|--------------------------------------|
| 1. Type of Report | 2. Report No. _____ |
| Blue Cover _____ | 3. IGDBMS No. <u>A03DN002</u> |
| Buff Cover _____ | 4. Date Issued _____ |
| Letter _____ X _____ | 5. Audit Category <u>Performance</u> |
| Other (Specify) _____ | |

6. Project Cross-Indexing:

- a. Competitive Sourcing
- b. Office of Competitive Sourcing
- c. President's Management Agenda
- d. Competitive sourcing studies
- e. A-76

7. Narrative of Report:

We found that the Department's plans for competitive sourcing studies do not include all activities identified as suitable for competition. While 976 of the 3,300 Full-Time Equivalents (FTEs) identified by the Department as suitable for competition were positions at the Power Marketing Administrations (PMAs); the Department decided that studying the PMA positions would not provide substantial benefit to the Department and exempted them from being studied. In correspondence with the Office of Management and Budget, Department officials outlined their rationale that the PMAs are financed through rates charged to customers and are already subject to market pressures to reduce costs; therefore, it would not accrue additional cost savings or improved quality by including the PMAs in the studies. We noted that the PMAs, with the exception of Bonneville, receive approximately \$200 million in appropriated funds each year. Further, recent studies have confirmed that subjecting in-house operations to competition generally results in cost savings regardless of who wins the competition. Therefore, as competitive sourcing activities continue, senior Department managers may want to consider including the PMAs in associated studies.

8. Submitted by: Mark Mickelsen Date: 1/15/04

9. Reviewed by: _____ Date: _____

AUDIT DATABASE INFORMATION SHEET

1. Project No.: A03DN002
2. Title of Audit: Audit of DOE's Implementation of the Competitive Sourcing Initiative
3. Report No./Date OAS-L-04-09 1/21/04
4. Management Challenge Area: Performance Management
5. Presidential Mgmt Initiative: Competitive Sourcing
6. Secretary Priority/Initiative: None
7. Program Code: MA
8. Location/Sites: DOE Headquarters
9. Finding Summary:

We found that the Department's plans for competitive sourcing studies do not include all activities identified as suitable for competition. While 976 of the 3,300 Full-Time Equivalents (FTEs) identified by the Department as suitable for competition were positions at the Power Marketing Administrations (PMAs), the Department decided that studying the PMA positions would not provide substantial benefit to the Department and exempted them from being studied. In correspondence with the Office of Management and Budget, Department officials outlined their rationale that the PMAs are financed through rates charged to customers and are already subject to market pressures to reduce costs; therefore, it would not accrue additional cost savings or improved quality by including the PMAs in the studies. We noted that the PMAs, with the exception of Bonneville, receive approximately \$200 million in appropriated funds each year. Further, recent studies have confirmed that subjecting in-house operations to competition generally results in cost savings regardless of who wins the competition. Therefore, as competitive sourcing activities continue, senior Department managers may want to consider including the PMAs in associated studies.

10. Keywords:

A-76

Competitive Sourcing

PMAs

President's Management Agenda

POTENTIALLY SENSITIVE INFORMATION

The following is a list of information considered to be potentially sensitive. **If the information is detailed to such an extent that it would cause or could potentially cause damage to U.S. national security, citizens, or property, it cannot be included in our public reports.** Therefore, when preparing your reports be sure to use this checklist to determine whether the report contains potentially sensitive information.

CATEGORIES/TYPES OF INFORMATION	YES	NO
Facilities		
➤ Detailed description and location of facilities to include maps, written directions, drawings, blue prints, photographs and the like		X
➤ Detailed descriptions and location of storage facilities for nuclear or other hazardous materials		X
➤ Detailed descriptions and location of personnel or facility support systems (e.g. water supply, electrical supply systems, communications systems, emergency response personnel/equipment)		X
➤ Detailed descriptions and locations of computer systems used to process, store, and transmit sensitive information.		X
➤ Environmental Impact Statements that provide the consequences for what is being studied.		X
➤ Any detailed information pertaining to other sites that has not been reviewed/approved by the other site.		X
Materials		
➤ Form and quantity of hazardous materials, (chemical, nuclear, biological)		X
➤ Vulnerabilities of materials to unauthorized access or destruction.		X
➤ Consequences of release of hazardous materials		X
➤ Detailed transportation related information (routes, maps, shipping means, containers).		X
Security/Safety		
➤ Detailed plans, procedures, communications, reaction times, capabilities that would allow someone to determine vulnerabilities of the site.		X
➤ Specific assessments, exercise results, evaluations for a particular site		X
➤ Specific personnel data identifying security/safety personnel		X
➤ Specific equipment and its potential uses		X

POTENTIALLY SENSITIVE INFORMATION

Assessments		
➤ Site specific vulnerability assessments		X
➤ Site specific safety assessments/analysis		X
➤ Site specific risk analyses		X
➤ Specific hazardous assessments (Dispersion models and analyses, accident analyses, or site hazards)		X
Personnel		
➤ Specific organization charts or phone lists identifying senior management/key personnel		X
➤ Specific personal data to include travel plans, meetings and the like		X
➤ Specific training materials that include sensitive information		X
Programs		
➤ Detailed information identifying sensitive programs, special projects, SAPs, WFO		X
➤ Reports detailing specific activities and/or results from programs and projects		X
➤ Information pertaining to specific programs at other facilities/sites that has not been cleared with the other sites for publication on a publicly accessible web site		X

If your audit work or report deals with any of the following information, be sure to have your information reviewed by a classifier to ensure you are not inadvertently discussing Restricted Data or Formerly Restricted Data or any other level of classification. Information in the aggregate can be classified even if taken from unclassified sources.

AIDS FOR REVIEW OF INFORMATION THAT MAY BE CLASSIFIED OR CONTROLLED	YES	NO
Source or formula for Chemical/Biological Agents that has not been widely reported in open scientific literature.		X
Existence of a specific Chemical/Biological agent that is considered a threat to national security at a specified location within a government facility.		X
Statements that a specific Chemical/Biological agent considered a threat to national security cannot be detected by existing technology.		X
Information concerning significant technical advances and breakthroughs in Chemical/Biological agent detection, dissemination, or response technologies that could significantly assist an adversary.		X
Results or interpretation of research results from computer modeling that reveal specific operational deficiencies or vulnerabilities of a facility, infrastructure, or response plan which could be exploited or otherwise could materially aid an adversary in planning or conducting a Chemical/Biological attack.		X
Source term parameters (e.g. location, quantity, release rate, dispersal mechanisms, physical state, or particulate size distribution) of a Chemical/Biological agent and the airborne or surface concentrations resulting from dispersion modeling.		X
Specific dispersion mechanisms for specific chemical/Biological agents, including grinding techniques and pressurized systems that would be effective for dispersion over a large area.		X
Details of operational scenarios either for intelligence, civilian, or military organizations that would reveal current vulnerabilities or lessen the effectiveness of the scenarios.		X
Information about deployment of a specific detector or response system that could be used to defeat or significantly reduce the effectiveness of that system or otherwise materially aid an adversary in planning or conducting an attack.		X

Descriptions of specific vulnerabilities of decontamination equipment or procedures that could be exploited to prevent or significantly reduce their ability to perform required functions or otherwise materially aid an adversary in planning or conducting a Chemical/Biological attack.		X
Descriptions of specific conditions (e.g., carrier for an agent or environmental condition) that could be exploited to reduced the effectiveness of standard decontaminants or decontamination procedures such that risks to unprotected personnel cannot be reduced to acceptable levels, or otherwise would aid an adversary in planning a Chemical/Biological attack.		X
Nuclear weapon design, fabrication, and utilization.		X
Radiological warfare.		X
Radiological dispersal devices.		X
Inertial confinement fusion.		X
Military nuclear reactors (not necessary for civilian).		X