

TESTIMONY OF

ALAN HUNGATE
DIRECTOR FOR FINANCE FOR CENTRAL OPERATIONS
MOTOROLA, INC., SSG

ON BEHALF OF

FINANCIAL EXECUTIVES INTERNATIONAL

BEFORE THE

COMMERICAL ACTIVITIES PANEL

AT A PUBLIC HEARING ON

PUBLIC-PRIVATE COMPETITIONS AND A-76

AUGUST 15, 2001

Members of the Panel. My name is Alan Hungate. I am the Director of Finance for Central Operations for Motorola and Chairman of the Committee on Government Business of Financial Executives International (FEI). Speaking for myself, I have spent approximately ____ in the field of Government Business working a variety of cost and finance issues. [] It is my pleasure to share FEI's views on the role of accounting standards in the allocation of capital in global markets.

Financial Executives International (FEI) is a professional organization representing the interests of about 15,000 CFO's, Treasurers, Controllers and other senior financial executives in over 8,000 corporations throughout the United States and Canada, representing both providers and users of financial information. FEI's Committee on Government Business, is authorized to formulate positions and comments on Government policies that impact FEI members doing business with all sectors of the Federal Government.

FEI supports the underlying objectives of the panel to establish more definitive criteria for determining the functions which can be outsourced,

standards for comparing costs which reflect good accountancy, and fair procedures for conducting public-private A-76 competitions. In general, we believe that public-private competitions should employ transparent and neutral procedures, unbiased competitive evaluations, and reflect fundamental fairness concerns. We share the views of others that a reformed A-76 process will increase efficiency, save money, enhance transparency, and improve the quality of services delivered to the public.

Consistent with these broad goals, we recommend that public-private competitions would

- Procedures for independent review and verification of the public sector bids or proposals - industry and government competitive bids should be subject to the same verification and public accountability standards;
- More effective separation of the selecting officials and the government bidders in the public private competition;

- Better equalization of costs and risks, including:
 - Better recapture of the government's actual cost in its overhead assessment (in a way similar to the way in which government recoups full costs in foreign military sales cases);
 - Correct the current imbalances in costs -especially as pertains to the Department of Defense to bid estimates rather than true activity based cost models;
 - Use of actual wage rate data rather than mandated use of prevailing wage rates
 - A mechanism to include consideration of government's avoided costs due to prevailing policies on self-insurance, contract administration expense, and lack of revolving credit interest expenses;
 - Reexamine if not eliminate the cost savings thresholds. -given the high private sector costs involved in public-private competitions.
 - Improved monitoring of actual costs and performance for public sector "winners" in competitions which would be beneficial in

future competitions. For example, the government should be forced to transition to its "Most Efficient Organization" as a condition of contract award. Another positive step might be to force a winning public sector bidder to agree allow the workers of the resulting organization to vote to privatize the operation using an ESOP buy-in process and ;

- Strict protection of business confidential and proprietary information which is submitted in the course of public-private competitions;
- Meaningful adverse consequences to public sector "winners" who fail to perform.

This committee should give careful consideration to making strong policy recommendations changes which would establish the position, similar to that being asserted by OFPP Administrator Styles, that FAIR Act inventories are a beginning. Recognizing that there continues to be a need to keep inherently governmental functions off the table, there needs to be a recognition (perhaps in modifications to the FAIR Act) that DOD and other government agencies should follow the worldwide industrial trend towards

private sector outsourcing in the following "best candidate" areas: payroll, benefits management, real estate management, claims administration, human resources, internal audit, sourcing/procurement, finance and accounting.

These trends documented in the Price Waterhouse Coopers' global decision-maker's study on business process outsourcing, were matched by positive feedback:

84% of the business executives surveyed expressed overall satisfaction with the results of outsourcing.

66% of those surveyed felt that shareholder's equity was enhanced;
and

67% felt that outsourcing improved their company's competitive position.

As this pertains to the issues under discussion by the A-76 panel, there should be an effort to establish a clear standard where outsourcing and/or privatization (not public private competitions) is the outcome unless there is

insufficient diversity in the private sector to deliver qualified bidders. In that context, the issues pertaining to contracting schemes and costs skirt the very important issue of ensuring a soft-landing for federal workers who are displaced as a result of public-private competitions and incentivizing private sector bidders to retain qualified workers from the public sector. This is probably the core issue which prevents us from realizing the full benefits which outsourcing and public/private competitions have to offer and one which should be given priority attention by the Panel.