



THE SECRETARY OF VETERANS AFFAIRS

WASHINGTON
January 7, 2005

The Honorable Richard B. Cheney
President of the Senate
Washington, DC 20510

Dear Mr. President:

In accordance with section 647(b) of Division F of the Consolidated Appropriation Act, 2004, Public Law 108-199, and the Office of Management and Budget (OMB) Memorandum M-05-01, Report to Congress on FY 2004 Competitive Sourcing Efforts, dated October 15, 2004, enclosed is the Department of Veterans Affairs (VA) report on its competitive sourcing efforts for FY 2004.

VA terminated all competitive sourcing activities on August 5, 2003, as a result of an April 28, 2003, VA General Counsel opinion. It ruled that section 8110(a)(5) of title 38 U.S.C. prevents VA from conducting cost comparisons by Veterans Health Administration (VHA) comparing in-house and contractor costs of providing a product or service to VHA unless the Congress provides specific funding for the studies. Therefore, the Department did not complete nor initiate any competitions in FY 2004, and there are no planned competitions in FY 2005.

However, we are providing an update on the one standard competition completed in FY 2003. The Property Management Study within the Veterans Benefits Administration (VBA) was completed in August 2003 under the OMB A-76 Circular dated August 4, 1983 (Revised 1999). The competition resulted in VA outsourcing its operations and management of the VBA Property Management Services to Ocwen Federal Savings Bank, of West Palm Beach, Florida.

- VA projected savings from baseline of approximately \$47 million over 4.5 years through its contract with Ocwen.
- At present, based on **6 months** into the performance period, VA realized an actual cost savings of approximately \$4.3 million.

The Department is actively working with OMB to find VA legislative relief to restart its planned competitive sourcing program. The Department continues to urge Congress to enact the Administration's legislative proposal to provide such sums as necessary in VA's FY 2006 Appropriation so that VA can proceed with reasoned and responsible competitive sourcing efforts.

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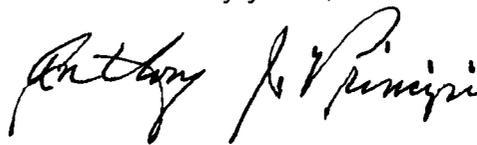
In the interim, VA's leadership approved a process that integrates Management Analysis/Business Process Reengineering (BPR) with workforce planning as an alternative to meeting the President's Management Agenda goals. In conjunction with VA workforce planning efforts, a workgroup has been assembled to determine non-core, commercial, competitive functions for BPR opportunities, develop a Reengineering Plan for those functions and benchmark against the best in class in order to improve effectiveness and efficiency, and reduce costs.

Most recently, the Department is developing a 5-year BPR/Workforce Planning implementation plan, which we project will enhance the quality of health care we provide and free up VA resources that can be dedicated to our veterans. VA is currently in the process of acquiring contractor support to launch this effort.

As required by Public Law 106-419, a statement of the cost for preparing the report is enclosed. Similar letters are being sent to the other leaders of the House and Senate Committees on Appropriations, Veterans' Affairs, Governmental Affairs, and Government Reform, and the Speaker of the House of Representatives.

Should you have any questions on VA's Competitive Sourcing program, please have a member of your staff contact Mr. Dennis Duffy, Acting Assistant Secretary for Policy, Planning, and Preparedness, at 202-273-5033.

Sincerely yours,

A handwritten signature in black ink, reading "Anthony J. Principi". The signature is written in a cursive style with a large initial "A".

Anthony J. Principi

Enclosures

Veterans Affairs
FY 2003 COMPETITIVE SOURCING ACTIVITIES

SAVINGS & PERFORMANCE UPDATE
(Dollars in Millions)

Bureau Function Competed	Type of Competition	Total Estimated Savings (AS reported to Congress in FY03)	Total Performance Period (in years)	Actual Phase-In Completion Date (Mo/Yr)	Actual Accrued Savings	Period Over Which Actual Savings Accrued (In Years)	Savings Methodology/ Calculation/ Proxy	Quantifiable Description of Improvements in Service or Performance (if appropriate)
STREAMLINED COMPETITIONS								
		0.000			0.000			
SUBTOTAL, STREAMLINED COMPETITIONS								
STANDARD COMPETITIONS								
V.A.	Property Management Cost comparison	47.000	4.5	Aug. 2003	4.300	0.5	Calculation	
SUBTOTAL, STANDARD COMPETITIONS		47.000			4.300			
TOTAL, ALL COMPETITIONS		47.000			4.300			

Estimate of Cost to Prepare Congressionally-Mandated Report

ATTACHMENT

Short Title of Report: VA's Competitive Sourcing Efforts for FY 2004

Report Required By: PL 108-199, Section 647(b), Division F

In accordance with Title 38, Chapter 1, Section 116, the statement of cost for preparing this report and a brief explanation of the methodology used in preparing the cost statement are shown below.

Manpower Cost:	<u>\$813</u>
Contract(s) Cost:	<u>\$0</u>
Other Cost:	<u>\$50</u>
<u>Total Estimated Cost to Prepare Report:</u>	<u><u>\$863</u></u>

Brief Explanation of the methodology used in preparing this cost statement:

Manpower cost is derived by estimating the time spent by the following personnel in preparing/reviewing the report: GS-13 lead analyst (preparation), GS-14 (senior peer review), and the GS-15 (supervisory review). Other cost is materials and processing.