

Civilian Agencies Get Green Light to Continue Insourcing

By Robert Brodsky August 13, 2010

The Defense Department might be abandoning efforts to bring contractor jobs back in-house, but don't expect civilian agencies to necessarily follow suit anytime soon.

In an interview on Friday, Daniel Gordon, administrator of the Office of Federal Procurement Policy at the Office of Management and Budget, told *Government Executive* agencies are free to continue their insourcing initiatives.

"I don't think or would not anticipate issuing guidance that would prohibit agencies from adding federal employees to do work currently being performed by contractors if they think it's necessary," Gordon said. "Let me be clear. If there are 100 contractor employees doing a function, and the agency decides to reduce its reliance on contractors and it decides it needs to have additional federal employees to absorb part of that work ... OMB is not going to tell them in a blanket policy guidance they cannot do that."

On Monday, Defense Secretary Robert Gates announced the Pentagon would phase out its insourcing program, citing disappointment in cost savings during the past year. Defense will continue with planned insourcing transitions for fiscal 2010, but with the exception of some critical functions -- such as beefing up the size of the acquisition workforce -- no more full-time government positions will be added to replace contractors, he said.

Gordon noted, however, that cost has rarely been the primary driver for civilian agencies when deciding whether the public or private sector should perform a function. "It is my clear and strong impression that the number of positions being insourced based solely on a cost savings analysis is very low," the administrator said.

OFPP has instructed agencies to focus their attention on work that is inherently governmental and should not have been outsourced in the first place. Final guidance on how agencies should determine an inherently governmental function is due out in the fall.

A secondary priority is critical functions, where an agency feels it has lost control of its mission or operation. In both cases, a cost analysis is neither required nor relevant before deciding to transfer contractor work to federal employees, Gordon said.

Most positions that have been insourced at civilian agencies fall into these two categories, Gordon said, though OMB does not have governmentwide data. Information technology and acquisition jobs that have been brought back in-house more often qualify as critical functions, he said.

"Insourcing to save money should, in my view, be the third priority," Gordon noted.

While agencies might not be pursuing insourcing based solely on cost, it at least appears to be a factor. Last year, President Obama asked agencies to cut their total contract spending by 7 percent by the end of fiscal 2011. In December 2009, OMB published a report detailing how each major agency planned to achieve those savings. Nine civilian agencies, as well as Defense, included insourcing services as one component of their savings plans.

Contracting observers suggest that strategy should now be called into question. "How do we know that these savings will be realized given Secretary Gates' recent admission that DoD recovered no savings on its insourcing?," asked Renee Courtland, director of Jefferson Solutions, a Washington government consulting firm.

Among civilian agencies, the Homeland Security Department has led the way in terms of aggressive insourcing. Lawmakers had criticized the department for having more contractors on its books than federal employees. In 2009, DHS directed its components to develop and implement contractor conversion plans.

"We will continue to build on these efforts at an even more aggressive pace while sustaining the workforce required to carry out our critical mission," DHS spokeswoman Amy Kudwa said. "By the end of this year, we anticipate making substantial reductions in our contractor positions as our balanced workforce strategy is fully implemented."

On Monday, Gates also instructed Defense officials to reduce their spending on service support contractors by 10 percent during each of the next three years. In many instances, Defense contractor functions will be eliminated as the department does away with offices such as the Joint Forces Command. In other cases, the existing Defense workforce will absorb the job functions.

A similar policy holds true for civilian agencies, Gordon said. "Across the government we are sensitive about increasing our expenses," he said. "If we don't need to have work performed, we should not have it performed, period. If work needs to be performed, and it can be absorbed by our existing federal workforce, that is true governmentwide. We should not unnecessarily add positions."

Some want OMB to go further. On Friday, the Business Coalition for Fair Competition, an industry association that has opposed federal insourcing plans, called on the administration to issue an immediate moratorium for the program.

In an Aug. 13 letter to OMB's acting director, Jeffrey Zients, the group's president, John Palatiello, said the "shift to government performance of commercial activities not only hinders the private sector, including small and minority-owned business, but places additional costs to taxpayers during a lengthened period of a steep decline in the nation's economy, a staggering national debt and a high national rate of unemployment."

But, Gordon suggested industry fears about widespread insourcing are overstated. "I have said from day one that we do not expect massive insourcing," he said. "We always spoke about targeting focused insourcing based on a close analysis of the situation."