

Contracting Services Fails to Save Agencies Money, Report Says

By Charles S. Clark

September 13, 2011

The outsourcing of federal services -- currently a \$300 billion annual expense for taxpayers -- actually costs more than doing the work in-house, according to a years-in-the-making study released on Tuesday by the nonprofit watchdog group the Project on Government Oversight.

Though outsourcing is designed to both save money and enhance agency flexibility, the POGO study's authors say their fresh methodology shows that most savings are illusory -- and that in some cases agencies are paying contractor employees twice or even five times the rate for a federal worker.

"Comparing federal to private sector compensation reveals nothing about what it actually costs the government to outsource services," they write. "The only analysis that will shed light on the true costs of government is that of contractor billing rates and the full cost of employing federal employees to perform comparable work," they add, describing the approach POGO attempts in the report.

"The federal government is not doing a good job of obtaining genuine market prices," write investigator Paul Chassy and POGO General Counsel Scott Amey, "and therefore the savings often promised in connection with outsourcing services are not being realized."

Debates over insourcing versus outsourcing in recent years have often foundered over the quest for "apples to apples" methodologies. POGO analysts, Chassy and Amey explained in a conference call with reporters, introduced the element of contractor billable hours.

Chassy said his team gathered federal employee annual pay and benefits data from the Office of Personnel Management, private-sector pay and benefits data from the Bureau of Labor Statistics and contractor hourly billing rates from the General Services Administration. They then assembled a sample of 35 occupational activities used in 550 service activities.

They found that while federal workers are paid slightly more in benefits than private sector employees in general -- a 36.25 percent benefit rate versus 33.5 percent for private employees -- contractors' employees were paid more by the hour in 33 of the 35 categories. The government pays contractors 1.83 times more than it pays federal employees in total compensation, and more than twice the total compensation paid in the private sector for comparable services.

The only area where outsourcing saved money, Amey said, is the familiar service of groundskeeping, which contractors can perform at a cost of 20 percent less than federal staff.

The study found that contractor-employed claims examiners make five times what federal employees make, attorneys three times, and auditors and accountants twice the federal rate. "This raises the question," Amey said, "is the federal government getting enough bang for its buck?"

POGO bills its report as unique in that "there are no governmentwide studies" of this issue, Chassy said. The study looked at costs of contracting by the Government Accountability Office, the Congressional Budget Office, the Defense Department, the Office of Management and Budget and the Commission on Wartime Contracting in Iraq and Afghanistan.

OMB's A-76 public-private competition studies "involve only a small fraction of contracting and even within those, 83 percent of the competitions are won by federal agencies," Chassy said. The Wartime Commission, he added, showed that war-zone work, "to no one's surprise, is less expensive if done locally, but when it is done by American civilians, it's less expensive if they are federal employees."

Too many private studies comparing pay, Chassy said, "rely on misleading data from the private sector instead of contractor billing rates. They should measure what it costs to have private contractors do the work."

Amey noted that the Pentagon on Friday released data to the House and Senate Armed Services committees showing that Defense in fiscal 2010 insourced some 17,000 jobs and that 50 percent of the rationale for the change was to save money. "DoD is now looking at costs, but not on a grand scale," he says.

POGO's recommendations include:

- Requiring agencies to use OPM's job classification codes when awarding service contracts;
- Mandating data collection on life-cycle costs of services;
- Requiring greater transparency and improved pricing on GSA service contracts;
- Strengthening the 1998 Federal Activities Inventory Reform Act to enhance service contract reporting;
- Removing full-time equivalent ceilings;
- Reducing the maximum benchmark compensation allowed contractor employees.

"Agencies should use their existing authorities to hire federal employees for more short-term projects," Amey said.

"The government should take a more proactive stance, and Congress should rethink how it ties agency hands," he said. "Congressional proposals for hiring freezes do not help the debate.

Reaction to the POGO study from the contracting community is not likely to be warm. Olga Grkavac, executive vice president for the public sector at TechAmerica, an information technology industry group, told *Government Executive* the report is "surprising and not credible since even the Department of Defense recently reduced its efforts to insource positions from the private sector since they were not finding the savings that were predicted."

Multiple studies have shown that government employee compensation benefits have grown at a faster rate than the private sector since the early 2000s, she said. "There is no way that training and expertise can be measured purely by salary levels, either. It is well known that whenever government budgets are tight, training programs are the first

to be cut. In the tech sector, training and highly skilled workers are essential to competing in a very competitive marketplace."

POGO's methodology was criticized by one player among several in the think tank community who've been debating public and private pay comparisons for years.

Jason Richwine, a senior policy analyst at the Heritage Foundation, told *Government Executive* in an email that it's possible the government overpays private contractors, but that POGO's comparisons have limited utility.

"Worker skills can differ markedly even within the same occupation or field," he said.

"For example, OPM uses essentially a job-to-job comparison each year in claiming that federal workers are paid less in wages than private-sector workers," he said. "But the federal government also tends to hire and promote workers who are less educated and less experienced than private workers in the same occupation. Person-to-person skill comparisons consistently show federal workers are *overpaid* in wages compared with the private sector," he said, adding that he would need to do more research on contractors.

Richwine and Andrew Biggs, his colleague at the American Enterprise Institute, have argued that federal benefits are actually twice as valuable as OMB says when one factors in paid leave and retiree health benefits and guaranteed pensions, "which tend to be much higher in the public sector," Richwine says. "POGO does not value federal benefits correctly."