

Contractors: Quotas Drive Insourcing at Defense

By STEPHEN LOSEY | Last Updated: May 9, 2010

The Defense Department's drive to bring critical contracted jobs back in house has become a quota-driven exercise aimed at meeting cost-cutting targets, argues a trade group representing government contractors and a union that represents contractor employees.

Professional Services Council President Stan Soloway and International Association of Machinists and Aerospace Workers President Thomas Buffenbarger said in separate, nearly identical May 3 letters to Defense Secretary Robert Gates that noncritical positions such as maintenance and janitorial staff are being insourced.

"What you conceived and set forward as a vital, strategic human capital initiative is rapidly devolving into a quota-driven exercise based on highly questionable cost assumptions with no validation, oversight or other verification that the intended results are being achieved," Soloway and Buffenbarger said in the letters.

Soloway, in an interview with Federal Times, pointed to insourcing guidance issued in January from the Air Force Materiel Command that said the Air Force had set a target to reduce contract spending by \$561 million by fiscal 2015.

"To me, that says quota," Soloway said in the interview.

Another problem with the insourcing effort, he said, is that it is achieving far smaller cost savings than expected — something he said could prompt more insourcing to meet cost-cutting targets.

For example, Soloway said the Air Force guidance noted that the Pentagon had assumed a 40 percent savings for each contractor-to-civilian conversion — but the Air Force Materiel Command historically has saved only half that for each conversion.

In another example, Soloway said, the Air Force insourced work being done on a \$220 million contract for a cost savings of only \$500,000 — about one-fifth of 1 percent of the contract value.

Pentagon officials dispute any suggestion that the insourcing effort is becoming "quota-driven" to meet unrealistic cost savings goals.

Thomas Hessel, a senior analyst in the Office of the Undersecretary of Defense for Personnel and Readiness, and Pam Bartlett, the Pentagon's deputy director of requirements and program and budget coordination, said cost isn't a leading factor when deciding whether to insource a position.

"If someone were to say they couldn't meet their [savings] goals, they would not be required to insource just for the sake of insourcing," Bartlett said.

Hessel said those goals would be revised if any Defense offices could not meet them. But he said all offices have so far met their projections.

Defense expects to create about 17,000 new positions this year to do work now being done by contractors, such as acquisition, logistics, engineering, program management, security and financial management. Hessel did not know how many contractor positions might be affected by that insourcing.

Soloway said he agrees that inherently governmental jobs should be insourced. But he said some jobs such as food services, fleet maintenance and training are also being insourced for little — if any — savings.

Soloway, a senior Pentagon acquisition official during the Clinton administration, and Buffenbarger said the department is not fully considering all costs of government labor, such as lifetime benefits, training programs and personnel support, as it estimates the savings each insourced position will yield.

The Pentagon officials disagreed, saying they are considering all costs during the insourcing process. Hessel said the Pentagon is insourcing janitorial, maintenance and similar jobs to increase control and oversight, and avoid situations like a two-week contractor strike last summer that grounded aircraft at Vance Air Force Base, Okla.

Gates hopes to convert as many as 41,000 contractor jobs to federal positions by 2015. Many of those are expected to be in the acquisition and information technology fields.

The insourcing drive could also cost thousands of contractor employees their jobs, Soloway and Buffenbarger said, or result in pay cuts for those who take federal jobs.

And a group of small-business contractors on May 7 announced a new coalition to fight the insourcing drive. The Small Business Coalition for Fair Contracting, led by Washington law firm Venable, said the administration's goals will hurt small businesses across the nation and force them to scale back operations.

"Many agencies will be tempted to overclassify jobs as critical," said Robert Burton, a partner at Venable and a senior federal procurement official in the Bush administration. "Those agency choices are not victimless. Small businesses are already feeling the impact of those choices."

Burton said the coalition will talk to lawmakers and federal executives about the "unintended consequences of the insourcing initiative," and try to find ways to fix the process so small businesses are protected.

Defense "faces the possibility of losing access to vital expertise and experience as employees opt to not accept government positions," Soloway and Buffenbarger said.

"And we are seeing the spirit, and sometimes the letter, of merit systems hiring, veterans preference hiring, and the sound principles of business and workforce integrity commonplace in the commercial market increasingly ignored."

Hessel said that less than half of the affected positions were insourced only because of cost.

"This is not a war on contractors," Hessel said. "We're not focused on savings. This is about well-reasoned insourcing."