

## Tables Turned: Contractors Complain Insourcing Tactics Unfair

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Federal agencies complained for years during the Bush administration about what they called an overly broad, poorly designed outsourcing program; now, it seems, federal contractors have the same complaint about President Obama's insourcing program.

Several large contractors say the Defense Department is approaching its insourcing program in an ad hoc fashion — insourcing the wrong positions and, in some cases, trying to poach employees from contractors.

"It's absolutely right to look at the mix of the federal workforce" and insource positions that should be performed by government employees, said Stan Soloway, president of the Professional Services Council, an industry group. "But it needs to be strategic. ... Some agencies are just playing a numbers game."

In California, for example, officials at Edwards Air Force Base decided to insource a contract for audiovisual work performed by Rohmann Services, a San Antonio-based firm.

The company maintained public address systems and presentation equipment on the base.

The Air Force notified Rohmann earlier this year that it wouldn't renew Rohmann's five-month contract when it ended in February; the company filed a lawsuit, and the Air Force eventually reversed its decision.

"The work ... was not an appropriate candidate for insourcing, and those services would for the time being continue to be performed by contract," the Air Force said in a statement.

A spokesman for Rohmann said the Air Force would have paid 70 percent more to perform the same work with federal employees; the Defense Department, indeed, never provided a cost justification for why it was insourcing the work.

Another firm, which performed support services on two military bases in the South, said it lost those contracts — virtually its entire business — to an insourcing initiative.

That firm and three others interviewed for this article, all of which deal primarily with the Defense Department, requested to speak on condition of anonymity to avoid jeopardizing their ongoing business with the federal government.

"These are administrative jobs ... they're not inherently governmental," Soloway said. "And there's not going to be much of a cost savings because you have basically the same fixed costs — the equipment needed for maintenance — whether these jobs are performed by feds or contractors."

Such examples appear to fly in the face of the Office of Management and Budget's instructions to agencies in July that they insource only inherently governmental functions and functions that "closely support decision makers." OMB urged a thoughtful approach in which insourcing programs complemented each agency's strategic human capital plans.

The Defense Department has made the most progress to date: Defense Secretary Robert Gates announced last year that the department would insource roughly 17,500 positions, and individual Defense agencies have already begun shifting those jobs in-house. Civilian agencies are still developing plans for insourcing.

The Army, for example, plans to insource 7,162 positions in fiscal 2010; another 11,000 jobs will be insourced in the following five years.

At a Senate Armed Services Committee hearing last month, Army Secretary John McHugh said his service planned to insource only "inherently governmental" jobs, including nearly 4,000 acquisition jobs.

In one example, the Army used a team of federal employee engineers to work on the next generation of the Javelin shoulder-fired missile, for example, instead of relying on contractors. That decision earned the OMB's praise since it will save \$10 million over five years.

"Each agency will have different missions, but what we're looking for is: Do they have sufficient data in terms of being able to identify the functions they want to bring in?" said John Needham, a director for acquisition issues at the Government Accountability Office. "You hope they're going to go through a thoughtful process."

## Lessons for civilian agencies

Industry advocates, such as Larry Allen, president of the Coalition for Government Procurement, say they're worried that civilian agencies also will insource work for the sake of insourcing work, not as a tactic to arrive at a smart balance between in-house and contracted work.

"They need a better handle on who performs critical functions for them," Allen said. "Some of their operations are at the point where, not only are they performed by contractors, but there's not enough in-house expertise to understand what those contractors are doing."

Many defense industry executives contacted by Federal Times said they didn't disagree with the insourcing initiative, and they praised the insourcing guidance issued by OMB and the Pentagon. But they criticized Defense agencies for not properly following that guidance.

"Most agencies don't seem to be treating this as a strategic human capital initiative, but instead as a numbers game," one contractor executive said. "The reality is, there's a breakdown in the system between what OMB requested and what agencies are actually doing."

## Just a numbers game?

Next to the Defense Department, the Homeland Security Department is furthest along with its insourcing initiative.

The department has come under fire from Congress after it disclosed last month that it has nearly as many contractors as employees.

DHS officials say they're working to rebalance the workforce — though they argue it's wrong to focus on the number of contractors.

"When the department first stood up, it needed bodies, so it contracted. ... Now we're making sure we have the right balance in the workforce," said Larry Orluskie, a DHS spokesman. "There's been a lot of focus on the number of contract employees, but you don't contract for bodies, you contract for services, and however many people it takes to perform those services."

GAO's Needham agreed that it's wrong to focus simply on the number of contract employees and the size of the insourcing program.

"When we looked at A-76 a few years ago, we had some real concerns that it was just a numbers game," Needham said. "We don't want to see that in reverse."

Two members of Congress — Rep. James Moran, D-Va., and Rep. Gerry Connolly, D-Va. — sent a letter to the Pentagon last year urging the department to conduct a more thorough review of its insourcing program.

"We are concerned that [Defense] is using an arbitrary number, or percent, for implementing OMB's guidance on insourcing contract services," the lawmakers wrote in a letter to Pentagon procurement chief Ashton Carter. "A rejection of arbitrary outsourcing targets should not be replaced by an embrace of equally arbitrary insourcing targets."

Emily Blout, a spokeswoman for Moran, said the congressman "continues to monitor the insourcing initiative closely" and plans to review agencies' pilot programs later this year.

Contractors also say the Defense Department is trying to poach their employees — to lure them into government jobs, often by promising better pay and benefits, or by threatening contractor employees that their contracts are about to disappear.

"We've seen more aggressive efforts to hire our employees," another executive said. "In a few situations, our employees have been offered significantly more money than we can offer a contract employee."

Cost savings aren't the primary goal of the insourcing program — though the administration has routinely stressed that federal employees are less expensive than contractors.

But industry groups say offering higher salaries to insource employees undercuts one of the program's objectives — and they argue the poaching practice hurts the relationship between agencies and contractors.

"The proper way is not to strong-arm current contractor employees, not to put them in an untenable position," Allen said.

The Defense Department did not respond to a request for comment.