



Defense Bill Nudges Toward Outsourcing

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By Jared Serbu

The Defense Department had already put the brakes on the insourcing of contract employees after realizing it wasn't saving as much money as it originally hoped. Now, several provisions in the Defense authorization bill, just passed by the House, appear to be trying to nudge the pendulum back in the outsourcing direction.

If lawmakers in the GOP-controlled House have their way, the Defense Department will come out from under a moratorium aimed at limiting outsourcing, a provision first enacted in 2009. The language kept DoD from using the A-76 process to conduct public-private competitions to decide whether to keep work in-house or contract it out to industry.

Meanwhile, a separate bill, introduced by two democratic lawmakers, would expand the A-76 moratorium to cover the five largest departments in government.

It's a tug of war that's been going on for a long time, said Dan Goure, vice president of the Lexington Institute, a Washington think tank.

"The insourcing-outsourcing debate competes, I think, with the Israeli-Palestinian struggle for the title of most intractable dispute," He said. "As a former undersecretary of Defense for acquisition, technology and logistics once said, outsourcing promised to save 20 percent, insourcing promises to save 20 percent, and we're still fighting over the same 20 percent."

Goure, who spoke at an outsourcing-insourcing forum the institute sponsored on Capitol Hill Thursday, said it's time for the fight to come to an end. He said DoD needs to right-size the blend between its contracted and government workforce once and for all based on sound data, and stop drifting between extremes.

"It seems to be appropriate to think of a strategy that would circumvent the constant to-ing and fro-ing over the same ground," he said. "The nation cannot afford that the intersection between the private and public industrial and support bases be a war zone. This is no longer acceptable. We need to find a right balance between the public and private sectors, and between insourcing and outsourcing spread broadly."

The bill the House passed last week attempts to do that. It orders the secretary of Defense to develop a total force management plan that sets out policies and procedures for determining the right mix between contractors, civilians and military personnel, but to do so in a way that prioritizes mission capability over cost savings.

Also included in the bill is non-binding language expressing the sense of Congress that DoD should not compete with private industry, and should not insource any job unless its function is inherently governmental.

Redding Hobby, executive director of strategic plans and initiatives at DoD's Defense Logistics Agency said there's no right answer to whether insourcing or outsourcing are good or bad. He said DLA has saved money through both means.

Using the A-76 process, he said DLA conducted 19 competitions over the last 15 years, saving nearly \$1 billion. Insourcing has its place as well, he said.

"In one year, fiscal year '10, DLA insourced almost 400 positions, and that saved us \$19 million in one year," he said. "The jury's still out on the long-term effects on that, however, the numbers speak for themselves."

The lesson, he said, is that outside mandates to do more or less insourcing or outsourcing are probably not a good idea.

"These decisions would probably be best left to management to work a business case analysis, and let the business case analysis, properly executed with the right guidance determine the best value," he said. "If we do an economic analysis based on that outcome and make sure that over the long haul we make our decisions based on that, without statutory right or left limits or policy bookends that drive us to a specific decision, I think we'll provide the best value to our customers, the best support to our warfighters and provide the enduring capability that our nation demands."

John Conger, DoD's assistant deputy undersecretary for installations and environment, said just as DoD doesn't have to do everything itself, neither does it have to contract everything out. And he said prior to the moratorium, DoD proved public-private competition does not always lead to outsourcing.

"Through the miracle of competition, we saved \$11.5 billion. We did the math. That's a lot of money, especially in an environment where we're squeezing for every dollar. Now, here's the thing that not everybody realizes: more than half of these competitions were won by the public sector, and we still saved money. Why do we save money when the public sector wins? We save money because the public sector looks at its organization and squeezes it down in order to win the competition, just like a private company's going to do to come in with a good bid."

Conger said he hopes the A-76 moratorium ends, but he cautioned that even if it does, getting the competitions back up and running will take time.

"The problem is that when you have said moratorium, the competitions that were in process go away and there are no new competitions," he said. "So the staff that was dedicated to assessing the cost of everything and the staff that was in charge of doing oversight on these competitions are doing other things. I'm not just going to pay them to sit at their desks and do nothing, so I've got them doing other stuff. So you don't have a competitive sourcing staff any more, either in the (office of the secretary of Defense) or in the services. You're going to have to reconstitute that."

But Frank Finelli, managing director of the Carlyle Group, said there's an inherent problem with competing DoD's in-house performance against private industry. He said since neither DoD nor the government as a whole can produce auditable financial statements, the competitions do not compare apples to apples.

"We really do have a government cost accounting process that underestimates the total cost of some of these programs. You really have to ask yourself whether that's a conflict of interest that drives some of the decisions that people have to contemplate. The government also has an evolving process to estimate these costs. What is the process, what are the systems and what are the metrics to measure these actual fully burdened costs, and how does that compare with what was estimated on the front end? It's interesting to note that DoD is pressing the private sector to be under firm fixed price contracts for virtually everything they do, yet the government's work remains essentially on a cost plus basis. This inconsistency has important implications for the allocation of risk across the public and private sector."

In addition to the A-76 process developed by the Office of Management and Budget, DoD has its own cost estimating procedures, outlined in a directive-type memorandum that's due to be upgraded to a DoD instruction by September.

But David Berteau, a Defense researcher at the Center for Strategic and International Studies, said that memo is rarely observed within the department. He and industry groups also say the DoD process is flawed, because it hides a number of costs when work is performed by government employees.

"In particular, it hides costs that aren't in the budget of the deciding activity," he said. "And the only budget you really care about is the budget that's yours. If somebody else absorbs that cost, it really doesn't enter into your decision making process. I've had chief budget officers and chief financial officers of substantial DoD entities admit that to me point blank. That's fine, their job is to manage their entity. But at some level you do have to care. At the level of DoD-wide you have to care, at the level of governmentwide you have to care."

Nonetheless, Berteau said DoD did outsource too much work over the last 20 years, and the department does need to rebuild its internal capabilities, particularly in the acquisition workforce. But that, he said, has nothing to do with cost.