

Defense Insourcing Backfire

DoD Must Objectively Weigh Procurement Options

By Jacques Gansler

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As debt, deficit reduction and the looming end of U.S. engagements in Iraq and Afghanistan increase pressures on the U.S. defense budget, defense dollars will have to be spent more wisely and effectively, particularly in procurement and sustainment.

In recent years, there have been a number of efforts in this direction. Three specific ones are related to the insourcing issue.

First, Congress has stopped so-called lead systems integrator (LSI) contracts for major weapon procurements. Cost and schedule overruns led to the cancellation or curtailment of the most conspicuous of these ambitious programs, in which the integrating contractor produced few of the program's actual systems and equipment. Seeking to head off further waste, Congress virtually forbade them - assuming (perhaps erroneously) that the government could achieve this function and do it at lower cost.

Second, there has been a push to reduce reliance on outside contractors by reassigning sustainment and other support functions that are not inherently governmental to federal employees, a process called insourcing. The presumption is that insourcing will save money. (Among other things, DoD would avoid paying the contractor's overhead and profit margin - assuming, of course, that government overhead and learning are free.)

Insourcing has had its ups and downs. In April 2009, then-Defense Secretary Robert Gates announced an initiative to replace 30,000 contractors with DoD civilians. But by August 2010, Gates seemed to back off from the insourcing emphasis. He reaffirmed DoD's commitment to reduce contractor support positions but indicated that no more full-time DoD civilian positions would be created to replace them.

Finally, active competition has long been encouraged in the awarding of major contracts. Such competitions need not be simply among private, commercial suppliers. The OMB Circular A-76

process - the governing framework - permits private sector and internal government competition to provide comparable services for non-inherently governmental functions.

Yet, Congress has stopped these public/private competitions despite the positive results achieved, preferring to keep non-inherently governmental work (on a sole-source basis) in house. But what is the risk to mission effectiveness when these well-intentioned efforts are applied, or misapplied, to potentially unsuitable cases? Let's look at a case out of the limelight: the sustainment of the intercontinental ballistic missile (ICBM) force.

In 1997, the U.S. Air Force decided to relinquish its in-house role as the prime systems integrator for its Minuteman force, then in urgent need of a service-life-extension modernization. The result was an innovative program called the ICBM Prime Integration Contract (IPIC), which has extended the service life of the Minuteman system, on cost and on schedule, through 2030.

IPIC is, literally, a textbook case of cost savings and engineering and process discipline whose accumulated data and modeling capabilities permit the Minuteman system to sustain its incredibly high reliability.

Yet, with cost-reduction strategies now in vogue, the Air Force plans to insource the integration of this key U.S. nuclear deterrent system.

Several reasons have been given for the move. It dovetails with the Air Force's efforts to rebuild and strengthen its nuclear enterprise after its embarrassing 2006-07 nuclear stewardship lapses. It also dovetails with Gates' 2009 insourcing initiative, even though Gates has moved on and the initiative itself is being questioned. It also mollifies Congress, as the Air Force seems to be eliminating an LSI contract even though the IPIC prime contract is nothing like the LSI contracts to which Congress objects.

Fortunately, there is a great deal of objective data relative to the question of insourcing versus outsourcing.

- We know that cost comparisons between fully loaded private-sector procurement contracts and comparable services provided in-house by federal employees can be apples and oranges. The government usually cannot accurately calculate the full cost of its personnel doing the job in terms of overhead, long-term benefits, training, etc.
- Independent study after study has shown that federal employees often cost more than contractors to provide a given service. For example, a 2005 Congressional Budget Office (CBO) study calculated that it could cost 90 percent more to replace contractors with regular Army troops to provide logistical support to deployed forces.

Similarly, a 2010 Government Accountability Office study found that, in four out of five cases examined, using government employees to provide security services in Iraq was much more expensive - in one case, more than 10 times more expensive - than using contractor personnel.

- We also know that the surest way to reduce and hold down procurement costs is through competition, whether among commercial providers or between commercial providers and in-house government alternatives. (On average, for the latter cases, no matter who wins, the savings have been over 30 percent.)

The Air Force is trying to balance many considerations in sustaining its ICBM force, but in the end, nuclear reliability and surety are all-important. Presuming that one answer, insourcing, is the answer could compromise the Air Force's complex, interrelated goals.

Orchestrating an unbiased competition for the most cost-effective provider of long-term reliable sustainment and systems integration for this key U.S. nuclear deterrent would better achieve them.

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