

Defense Insourcing to Continue at Military Services

By Robert Brodsky

September 7, 2010

When Defense Secretary Robert Gates announced in August that the Pentagon was scaling back its insourcing initiative because it wasn't generating enough cost savings, many in the contracting universe let out a not-so-silent cheer. But the victory party might have been premature.

Military services have continued with previously announced plans to bring thousands of private sector positions back in-house. And those efforts are expected to pick up steam next year.

Department officials confirmed on Tuesday that the Army, Air Force, Navy and Marine Corps are exempt from a fiscal 2011 billet freeze, allowing them to continue with their insourcing plans. Other Defense agencies will see their ranks frozen. Unless contracted work is being inappropriately performed, or "compelling circumstances" for insourcing are provided, those jobs will remain with the private sector, they said.

"Insourcing was not canceled as a result of Secretary Gates' efficiency directives," said Thomas Hessel, a senior analyst in the Office of the Undersecretary of Defense for Personnel and Readiness in an e-mail to *Government Executive*. "No insourcing programs were canceled. Insourcing is a statutorily required workforce-shaping tool/process to appropriately align work between private and public sectors."

Defense officials explained that the most significant policy change arising from Gates' speech is that insourcing will no longer result in an automatic or assumed federal position increase to replace contracted services.

As of June 30, more than 16,500 new civilian positions have been established across the department as a result of insourcing contracted services, Hessel said. More than half of these positions were brought in-house because the work was determined to be inherently governmental, closely associated with inherently governmental, or otherwise exempt from private sector performance, he said.

"Moreover, on a case-by-case basis at the organizational level, DoD components are finding that they can generate savings or efficiencies through insourcing certain types of services or functions," Hessel wrote.

The initiative will add 12,000 new civilian positions in fiscal 2011, Hessel said.

The Pentagon's insourcing efforts have caused growing confusion and consternation in private industry.

"This has not been a very transparent process," said John Palatiello, president of the Business Coalition for Fair Competition, an industry group that called on the Obama administration to impose an immediate moratorium on insourcing. "The companies that are involved have not been given a lot of information and they don't know what the rules and criteria are."

On Monday, the coalition sent a letter to Daniel Gordon, administrator of the Office of Federal Procurement Policy at the Office of Management and Budget, citing 17 examples of insourcing projects that have continued at Defense in areas such as meteorology services, library administration and anti-terrorism protection.

In each instance, the coalition says the work does not meet the strict criteria for insourcing. Gordon told *Government Executive* in August that insourcing should be occurring only for positions that are inherently governmental; in critical functions where an agency feels it has lost control of its mission or operation; or when a detailed cost analysis has been conducted to show savings for

the government. The group wants Defense or OMB to issue new guidance on the criteria for canceling or moving forward with insourcing projects.

The coalition cited job conversions for the Army and the Air Force, and neither responded to requests for comment about their insourcing plans. The Navy confirmed on Monday that it plans to establish roughly 10,000 civilian positions by fiscal 2015 through insourcing contracted services. The jobs would be focused on acquisition, cybersecurity and financial management, department officials said.

"With guidance from the Office of the Secretary of Defense, the Department of the Navy is continuing to pursue insourcing," said Cmdr. Victor Chen, a Navy spokesman. "The recent announcement by the secretary of Defense did not cap or freeze the number of authorized and funded manpower billets in the [Navy]."

The Navy's "insourcing goal is to ensure the appropriate mix of military, civilian and contractor support to perform its functions; rebuild internal capabilities to enhance control of the mission and operations; and reduce workforce costs as appropriate," Chen said.

In 2009, Defense officials announced they would cut 33,000 service support contractors by 2015. The Pentagon had planned to replace those contractors during the next five years with 39,000 new full-time government employees, many coming from insourcing.

On Aug. 9, Gates said, "We weren't seeing the savings we had hoped from insourcing." He noted insourcing projects at nonmilitary departments that were already planned for fiscal 2010 would be allowed to continue, as well as conversions for acquisition support positions.

At military installations throughout the country, little has changed since Gates' announcement. The Army Aviation and Missile Command at Redstone Arsenal in Alabama, for example, still plans to insource hundreds of private sector jobs -- an initiative that is now about 75 percent complete.

"We are executing the plan we laid out to the business community in 2009, based on our guidance from our higher headquarters, Army Materiel Command," said Kim Henry, a spokeswoman for the command. "We will continue to implement our strategy as planned, until told otherwise by our higher headquarters."

Several contractors who stand to lose projects to insourcing have hired attorneys and are planning to litigate their cases in court. In at least one case, the Air Force canceled an insourcing proposal when faced with potential court action. Several additional cases have been filed but not yet heard by the court, industry officials said.

Elsewhere contractor employees whose jobs are on the line remain hopeful for a last-minute reprieve.

The Air Force, for instance, announced plans in 2009 to insource 55 firefighter jobs and other contract security and management positions at Air Force Plant 42 in Palmdale, Calif., a government-owned, contractor-operated facility.

"Nothing has changed for the firefighters since Gates made his announcement," said Capt. Raymond S. Bower, who serves as president of the International Association of Fire Fighters Local I-25. "We have received no news from the [Air Force] regarding any changes."

A lack of clarity also hangs over the proposed conversion of several hundred flight simulator instructor positions at five Air Force bases in Oklahoma, Texas and Mississippi. The Air Force originally estimated converting the private sector positions to civil service jobs would save taxpayers \$480,000 during the next five years -- or about 0.2 percent of the total cost of the contract.

According to documents Lear Siegler Services obtained, the incumbent contractor at Vance Air Force base in Oklahoma, the Air Force's price analysis might have been flawed. Documents show the cost of continuing with the contractor was based on work at five bases, while the price for using federal employees included only four. The contractor suggests the insourcing plan actually would cost taxpayers \$27.5 million.

In an e-mail to a Lear Siegler Services employee in August, Air Force Chief of Staff Gen. Norton Schwartz wrote the service "will pursue a course of action consistent with both the guidance from the Department of Defense and the Air Force's best interests."

Members of Oklahoma's congressional delegation wrote to Air Force Secretary Michael Donley in August requesting more information on the insourcing plan -- which is scheduled to begin on Oct. 1 -- and an explanation of the disputed cost analysis.

The private sector training instructors, meanwhile, are awaiting a final decision on their fate.

"We are all taking unnecessary salary cuts, the cost to the taxpayer and government is drastically increasing, the mission is being negatively affected, and morale is low," said one contractor employee. "We are all former military officers and pilots and feel like we have been treated much like cattle."