

The Huntsville Times

Defense Secretary Says Insourcing Hasn't Cut Costs as Hoped and Future of Initiative Uncertain

Sunday, August 29, 2010

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HUNTSVILLE, AL -- When he announced plans to reduce the Department of Defense's reliance on contractors over the next three years, Secretary Robert Gates also said efforts weren't working to "insource" many positions back into government that had been outsourced to companies for years.

"As we were reducing contractors, we weren't seeing the savings we had hoped from insourcing," Gates said earlier this month.

"Surprise, surprise," said Joe Alexander, president of Huntsville-based Camber. Alexander's voice has been among those critical of the insourcing initiative since its beginnings in Washington during the final years of the last Bush administration.

"It was just absolutely hilarious to me that they were using the exact reverse of the argument that they had used in the '90s to justify downsizing and outsourcing," he said.

Congress included insourcing in the National Defense Authorization Act passed in January 2008. The aims were, basically, to cut costs and increase efficiency and to strengthen and modernize the federal civilian workforce, particularly in areas such as acquisition or work associated with an "inherently governmental" function.

The government is not allowed to simply and directly hire away people who work for companies under a federal contract to do the same work for Uncle Sam when that contract and work is insourced. But, in practice, a number of those experienced private employees would be likely to migrate as those jobs - and money - moved into the Department of Defense.

That was of particular concern to contractors in Huntsville, who are already dealing with a shortage of skilled manpower associated with the move of about 4,700 federal positions to Redstone Arsenal under the 2005 Base Realignment and Closure decision.

The Huntsville/Madison County Chamber of Commerce even asked the Department of Defense to delay insourcing efforts on Redstone Arsenal until after the September 2011 BRAC deadline.

Commanders and officials met with area contractors last year to explain insourcing plans for the Army Aviation and Missile Command and Program Executive Offices for Aviation and for Missiles and Space, said spokeswoman Kim Henry.

Since then, they have insourced more than 75 percent of the positions that were planned for conversion to government posts, she said. Globally, the conversions are more than 50 percent complete.

"We've already borne the brunt of whatever impact we're going to feel for insourcing locally," Henry said Friday.

She added that it was important to note that no contracts have been terminated.

Henry said they have not received any new instructions or guidance regarding insourcing from their higher headquarters, the Army Materiel Command. Unless they do, they will continue executing the plan laid out to the business community in 2009.

"Though this will have an impact on the way our organization is staffed and operated, it is an opportunity to transform the way we do business," she said. "We look forward to working with our partners in our higher headquarters and the defense industry to accomplish what is in the best interest of our nation to continue our support to the Warfighter."

So the issue isn't dead yet. The defense secretary may have stopped the mass insourcing of work as a department-wide initiative, but agencies "can still classify certain positions as 'inherently governmental' and insource those to get around the Gates stop," Alexander said.

"I think it's going to be agency-by-agency dependent," he said. "What one agency elects to do, it doesn't necessarily mean the other agency down the road is going to do the same thing."

Alexander isn't overly concerned about local impact from Gates' plans to reduce support contractors by 10 percent in each of the next three years, as the bulk of missile and aviation work handled by companies here isn't likely to fall into categories to be trimmed.

Lt. Gen. Patrick O'Reilly, director of the Missile Defense Agency, said that insourcing has been more a method than an objective.

"We still have the objective of growing our government acquisition workforce, and we're committed to that," he said.

MDA will continue heavy recruitment of college graduates in that area, O'Reilly said, along with ongoing efforts to hire the next generation of engineers, researchers and managers needed for the agency's important mission.

He said the timing of hiring has been linked to the movement of thousands of MDA positions here from Virginia under BRAC, and the construction of new office space on Redstone Arsenal to accommodate them.

There are also contractor activities that Gates is referring to in the Defense Department that are not acquisition workforce-related, O'Reilly said, "so it's important to clarify between the two."

He said MDA has already taken steps that have probably had a more dramatic impact on businesses than insourcing has, such as the re-competing of the agency's support contractor base that started three years ago and is being completed now.

"That initiative was in fact very consistent with the Secretary of Defense's goals," O'Reilly said. "It was to achieve efficiency; it was to achieve a better application of the expertise that the support contractors offer us."

He said MDA is participating in study groups on these matters and, over the next six months, as studies are completed and Gates makes decisions, "I am very committed to being very open about what the impacts are. ..."

"Our mission has been endorsed by the President; the Secretary of Defense has testified, committed to the Hill, so have I, to execute that," O'Reilly said. "And you need an extremely high quality, very viable workforce at all different levels. So we're committed to that."