

DoD Insourcing Savings Estimates Flawed, Says Study

By David Perera *May 23 2011*

Defense Department estimates of cost savings made by converting contractor positions into jobs held by civil servants rest on a slew of unproven assumptions, says a study from the Center for Strategic and International Studies.

The report, released earlier this month, notes that DoD originally estimated it could make a budgetary saving of 40 percent of the cost 30,000 contractors slated for replacement by 2015 under an insourcing initiative. Defense officials later revised that anticipated savings figure downward to 25 percent.

In fact, neither figure is justifiable, says the CSIS report, whose principal author is David Berteau, a former principal deputy assistant secretary of defense for production and logistics during the first George H. Bush administration.

"How can DoD claim it is savings 40 percent, or 25 percent, or any amount via insourcing private-sector positions if it doesn't know how much the newly insourced function will cost?" the report states.

Current DoD guidance for insourcing decisions, DTM 09-007, fails to consider a number of costs, including DoD-owned capital, the cumulative effect of many insourcing decisions on overhead such as payroll processing, the cost impact of insourcing to the government as a whole rather than just the DoD, and non-cost factors such as downtime created by variable workloads, the report says. When it becomes clear that contractors provide excess capacity, they can be dismissed--whereas civil servants, who are much harder to let go, could go under-utilized during periods of decreased work.

Cost savings estimates sometimes rely on incorrect cost comparisons, the report also notes. For example, an appropriate comparison of study and analysis work would not be between the cost of a DoD employee contrasted against the hourly cost of a private sector employee performing that work. Rather, it would be between the costs that DoD would incur if it tried to meet its needs by internally running the equivalent of a private sector consulting firm, the report says.

Consultancies let go individuals whose skills are not in demand or who cannot generate sufficient billable hours, the report notes.

The report suggests an alternative methodology for cost comparisons, one that it says is captured fully in a

The CSIS Public Cost Estimation Taxonomy

taxonomy of categories and elements:

Personnel	Overhead	Facilities	Additional Costs
Direct Labor (Military & Civilian)	Operational Overhead - Management & Oversight	Cost of Facility	Liability Insurance
Fringe	Information Technology	Rent	Travel
	HR / Personnel	Insurance	Subcontracts
Material & Supply	Legal Support	Maintenance & Repair	Nonrecurring Workloads
General	Accounting	Utilities	Minor Items
Inflation	Payroll	Capital Improvements	Medical Exams
Insurance	Headquarters Management	Capital	Training
Maintenance & repair	Miscellaneous	Cost of Capital	Cost Growth
		Depreciation	Conversion costs
			Administration & Oversight Costs

Some elements would be difficult to calculate, the report acknowledges, but "doing this work is the only way to have repeatable, verifiable, and data-driven estimates for the overhead costs of the wide variety of government functions," it concludes.

Source: DoD Workforce Cost Realism Assessment