

Firms Fear Feds Will Insource More Contracts

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Federal contractors fear they will lose business as a result of new guidance issued by the Obama administration on when federal agencies should reserve work for federal employees.

The Office of Federal Procurement Policy issued a proposed policy letter in March that defines functions that are "inherently governmental" and therefore should be performed by federal employees. It also calls for federal agencies to give special consideration to using federal employees for functions that are closely associated with inherently governmental functions, and it asks agencies to make sure they have enough employees in-house to manage functions that are critical to the agency's operations and mission.

Work that shouldn't be contracted out
The Office of Federal Procurement Policy has issued proposed guidance on when agencies should have work done by federal employees vs. contracting it out. Under the guidance:
"Inherently governmental functions" -- ones intimately connected to the public interest -- should be performed by federal employees.
Federal employees should be given special consideration for work "closely associated" with inherently governmental functions; if this work is contracted out, agencies should provide enhanced oversight of contractors.
"Critical functions" -- ones needed for the agency to perform effectively and achieve its mission -- should be performed by federal employees to the extent necessary.
Source: Office of Federal Procurement Policy

The comment period for this guidance ended June 1. Business groups fear the guidance will lead federal agencies to insource work now handled by contractors. They asked OFPP to revise the guidance to offset what they see as a bias toward hiring more federal workers. Unions representing federal employees, on the other hand, contend the guidance doesn't go far enough and gives agencies too much discretion to contract out government positions.

The Council of Defense and Space Industry Associations said it appreciated OFPP's attempt to provide clarity on what type of work should and shouldn't be contracted out.

"On the other hand, we have a continuing concern that agencies will interpret this policy as a mandate to insource," the council stated, even though "we do not believe this is the intent."

John Palatiello, president of the Business Coalition for Fair Competition, is concerned that adding a category for work "closely associated" with inherently governmental functions "will create a buffer zone that will result in more federal employees and more untested government monopolies."

"I'm hopeful that the administration will look at the comments and make some revisions to lessen the impact on the private sector, particularly small businesses," Palatiello said. "This rule has the potential of severely restricting contracting out, and quite frankly, killing jobs in the private sector and small business. I don't think that's something the administration really wants to do at this time and in this economy."

OFPP Administrator Daniel Gordon, however, doesn't expect the guidance, "if finalized in something like its current form, will lead to a widespread shift away from contracting."

"However," he told a Senate committee last month, "we do expect every agency to work actively to identify if and where rebalancing is needed" between the number of in-house staff vs. contractors, "and to take appropriate actions to fix any identified unbalances."

Defense already insourcing work

Such an effort already is under way at the Department of Defense, which last year began an initiative to insource thousands of jobs previously handled by contractors. Only one-third of the positions identified for insourcing, however, fell into the "inherently governmental" or "critical skills" categories. Other considerations, such as cost, were supposed to apply to the other positions, but "we have not yet seen a single case of insourcing where the government has even attempted to truly capture the total cost implications of its decisions," said Allan Chvotkin, executive vice president and counsel of the Professional Services Council. The council represents 350 companies that provide professional and technical services to the federal government.

"We have witnessed thousands of contractor positions being insourced, resulting in potentially thousands of contractor employees losing their jobs, the very survival of some small businesses threatened, and perhaps worst of all, for the taxpayer an all but certain increase in costs to DoD," Chvotkin said.

Contractor 'lost everything'

Aquasis Services Inc. in Pensacola, Fla., is one of those small businesses whose existence is being threatened by insourcing.

"I've lost everything," said company President Steve Westerlund.

Last year the Department of Defense decided to insource his administrative support contract at Fort Leavenworth, Kan., where his firm's 30 employees ordered, warehoused and distributed instructional materials for the Command and General Staff College. This year the Navy is in the process of taking over his administrative support contract for flight training at Naval Air Station Whiting Field in Milton, Fla., where Aquasis employs 70 people. That will leave his company with no contracts.

"There is nothing to bid on," Westerlund said. "The whole landscape of service contract work for the government, doing functions like I've been doing for 27 years, no longer exists."