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Huntsville Defense Contractors Take on Insourcing

By Patricia C. McCarter

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WASHINGTON D.C. - With 450 employees, Jan Smith's defense contracting business is considered small.

She started it 16 years ago and built it up through thoughtful recruiting of bright minds, often giving them bonuses for relocating and paying for their moving expenses and for training they needed to do a certain job.

"We make these investments knowing it will take five or six years to recoup those expenses," said Smith, president of System Studies & Simulation Inc.

A fairly new practice being implemented by the federal government interrupts the recouping process. It's called "insourcing," and it allows the government to convert some contracting jobs because the tasks the employees are performing functions "inherently governmental."

But several local defense contracting firms have a problem with the way the government is implementing the process, which was passed in 2008. During last week's annual Washington D.C. trip by the Chambers of Commerce of Huntsville/Madison County and Decatur/Morgan County, they expressed their concerns to their congressmen and senators.

Smith, who has workers at 33 government sites, said she's lost 30 employees to insourcing in the past year, and she knows she's slated to lose more.

"That's a pretty drastic number for a small business," she said. "When the government hires them away from us, we lose the position and we lose the employee."

"(Small defense contracting firms) were notified in Washington this week that the government will insource another 7,000 this year and 11,000 in 2012. We absolutely believe some of these will come from Huntsville."

The problem isn't with the concept of insourcing, Smith said. It's the way it's being implemented. She said it feels as if it's being arbitrarily done, in almost a quota-fashion instead of someone taking a close look at the jobs and determining if the work is "inherently governmental."

"(Defense Secretary Robert) Gates' memo said it was not a quota, that if the government found there were jobs being handled by contractors that were governmental in nature, then a change would be made," she said. "We were assured it wasn't a matter of numbers but a matter of finding the occurrence and correcting the problem."

"But they're insourcing all kinds of jobs that don't fit that requirement. And it's hurting small business."

The administration has said it will cut \$40 billion in noncompetitive and high-risk contracts by the end of 2011, hiring government workers to manage large contracts.

Talking to her representatives in Washington didn't bring Smith much comfort that she and other Huntsville companies won't hurt more. She was told that the insourcing is provided by a government executive order, and that they have no influence over that.

"We left Washington not knowing how to effect any change," she said.

At least one business has taken on the government over insourcing and apparently won.

Multimedia/audiovisual contractor Rohmann Services petitioned a San Antonio federal court judge when he was told the job his company performed at Edwards Air Force Base was scheduled to be insourced. Shortly afterwards, the Air Force rescinded its insourcing decision and extended Rohmann's contract.

Wallace Kirkpatrick, CEO of Defense Energy Space Environment (DESE) in Huntsville said he's lost 5 percent of his modeling and simulation workforce to insourcing: "There's a total disconnect to the way this is being handled."

"I don't know of anyone who disagrees with the premise that the government should be handling inherently governmental functions," Kirkpatrick said. "But they need to do a much better job of defining that and following a plan, not just going about it willy nilly.

"I know it's a mandated thing, but slow down. Get it right."

In early April, the Office of Federal Procurement Policy published draft guidelines to clarify "inherently governmental functions," or tasks that should be performed by the government instead of private contracting companies, jobs such as setting agency policy, hiring workers and awarding contracts.

The Obama administration has asked agencies, unions, federal workers and contractors for input over the next two months and announced a plan to have final guidelines by the fall.