

Industry Officials Criticize 'Quota-Driven' Defense Insourcing

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An Arlington, Va.-based contractor trade association raised concerns that the Pentagon's plan to bring thousands of contracted positions in-house has gone off track, according to a May 3 letter to Defense Secretary Robert Gates from the Professional Services Council.

PSC President Stan Soloway said Defense components are insourcing routine commercial activities without demonstrating any verifiable cost savings. The International Association of Machinists, a union representing contractors and federal employees, sent a May 3 letter to Gates expressing identical concerns.

"From a budgetary perspective, the [Defense] components are simply eliminating fully burdened contract costs with less than fully burdened personnel costs," Soloway wrote. "Moreover, market competition, which the president has repeatedly identified as the key to improving performing and reducing costs, is not even being considered in DoD's and the components' planning. Rather, for work that does not fall into the categories you identified as being critical to the department, DoD is substituting a sole-source model for a competition-based model of management."

The Air Force's strategy might be emblematic of a departmentwide problem, Soloway said. For example, the Air Force Materiel Command's January internal insourcing guidance "assumes a 40 percent savings for every contract-to-civilian conversion." The document, which the watchdog group Public Employees for Environmental Responsibility released in April, suggests that for every contract dollar cut, 60 percent is returned for civilian pay and the Office of Secretary of Defense retains 40 percent.

The 40 percent figure originated in a classified Defense Department Resource Management Directive (RMD 802), but the guidance does not provide any analysis to back up its savings claims. In fact, elsewhere in the guidance, the Air Force stated certain "nonpay tail" costs associated with federal employees -- supplies, training and travel -- were not included in the cost savings analysis. The Air Force directed questions about the plan to the Office of Secretary of Defense, which did not respond to a request for comment.

The guidance also indicated the Air Force is expected to save \$561 million by cutting contracts and adding 3,301 civilian employees by 2015. Critics have argued that Defense components are being asked to meet insourcing quotas, but department officials have rejected those claims.

"DoD components are asked to insource all contracted services that are found to be inherently governmental or an unauthorized personal service contract," Defense spokeswoman Cynthia O. Smith said in September 2009 when PSC first raised questions about the plan. "In addition, DoD components are required to

verify that the mission requirements are for a valid, enduring mission requirement."

The 2009 Omnibus Appropriations Act and the 2008 National Defense Authorization Act required agencies to set guidelines to ensure that federal employees are given "priority consideration" for new projects as well as functions performed by contractors. Neither bill explicitly sets a quota or directs agencies to insource work.

Christine Fox, director of Defense's cost assessment and program evaluation, issued guidance in January that spelled out a process for comparing the labor costs of civilian and contract support. The guidance, however, does not include a number of costs that should be attributed to the government, Soloway said, including training and development. The document also cites the expenses incurred by Defense for contract administration and oversight, but does not include similar information when the work is performed by federal employees.

"As a result of this lack of process discipline, we are witnessing thousands of contractor employees, many of them members of a union and/or employees of small businesses (some of which face the potential of literally going out of business), having their jobs terminated, in many cases leaving contractor employees without work," wrote R. Thomas Buffenbarger, president of the International Association of Machinists.

In total, Gates has called for Defense to reduce the number of support service contractors from its current level of 39 percent of the workforce to its pre-2001 level of 26 percent. The Pentagon would replace those contractors during the next five years with 39,000 new full-time government employees, 20,000 of whom would be acquisition professionals.

The department plans to insource contracted services in areas such as logistic support of aviation systems, safety engineering, cost accounting, anti-terrorism trainers and religious support.