



Insourcing Benefits are all Smoke and Mirrors

Accounting mechanisms in use fail to capture the total cost of an employee

By Stan Soloway
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When President Barack Obama's budget goes to Congress next February, the Defense Department and other agencies will announce budget savings that have been achieved from insourcing. Unfortunately, most of those savings also will be largely illusory.

The military departments already have told their field activities that for every insourced position, a 30 to 40 percent savings is being included in the fiscal 2011 budget. Furthermore, each activity has been given an insourcing target to achieve. As a result, we are seeing more arbitrary insourcing of purely commercial activities, rather than a focus on the critical skills the government most needs.

However, the process of accounting for those savings simply does not capture the total costs of a federal employee, including salary, benefit, and all the attendant support systems required for each employee. Thus, the savings are based on fuzzy math at best. If an Air Force organization insources a support services contract, it might look like such action generates savings for the organization's budget. But this tells little about the total costs that are paid out of other budgets to cover expenses such as construction and infrastructure, pay and personnel systems and offices, travel systems, training and development, and cell phones and laptops. Those expenses are essentially invisible and perceived as free to the unit commander.

Some argue that government agencies are factoring in those costs in their budgets. Although no one has been willing to disclose publicly the algorithms they are using — and we have asked for them — it is interesting that in a July letter to 11 members of Congress who raised questions on this topic, a senior Defense Department official said more detailed cost guidance would be issued this fall, long after the budget assumptions were made and the insourcing directives issued to the field.

Clearly, it is essential to account for all of the life cycle costs associated with recruiting, training, and retaining either a contractor or a federal employee. Instead, agency budgets in this area are being built based on loose analyses and a degree of mythology. No one seems to have noticed that a recent study by the Equal Employment Opportunity Commission found that when all costs are considered and productivity and agility also are factored, contracted investigations of EEO complaints are faster and about 50 percent less expensive than investigations performed in-house.

In addition, the Chief Human Capital Officer for the Director of National Intelligence has acknowledged that although intelligence community contractors' salaries and benefits are on average nearly 50 percent higher than government employees, if you remove from that calculation the high-priced specialized skills that the government cannot and is not trying to hire, the gap narrows dramatically. This occurs even before including the overhead associated with government or industry.

Equally disturbing is the assumption that cost savings are only attainable via insourcing. In fact, competition is the single best tool to drive lower costs, let alone performance improvements. Throughout the federal government, from health care reform to acquisition, enhancing and expanding competition has been a constant theme. Yet competition is not even mentioned as an option in DOD's budget or insourcing guidance. Fortunately, it is clearly articulated in the Office of Management and Budget's July 2009 guidance to the agencies, and one can only hope that the civilian agencies follow that guidance closely.

The government faces many daunting challenges, not the least of which is a period of budget austerity at the same time it clearly needs to reinvigorate its workforce and rebuild its critical skills. Today, more than ever, meeting that challenge requires that human resources planning and decisions be based on complete information and carefully targeted. Fuzzy math and weak assumptions have no place in that equation.

