



Insourcing is Hurting Small Business, Growing Government, and Costing Taxpayers Money

WASHINGTON, DC; JUNE 23—Contracting and Workforce Subcommittee Chairman Mick Mulvaney (R-SC) today held a hearing to examine the Obama administration’s insourcing policies and their detrimental effect on small businesses.

"This is a story that folks need to hear," Mulvaney said. "I have been approached by several small businesses that have had their work ‘insourced.’ Government agencies are cancelling contracts with private sector businesses, taking the work in-house, and often even hiring away the private business’ employees. By doing that, the Obama administration is growing government, hurting small business, and costing taxpayers money. It’s absolutely wrong, and people need to know about it.

"What’s worse is that this insourcing is being done with little or no transparency or accountability. For example, in 2009, the Democrat-controlled Congress included in the Omnibus Appropriations Act a requirement directing federal agencies to increase guidelines on insourcing. However, over two years later, those guidelines don’t exist --- but agencies are insourcing anyway."

The Subcommittee also investigated the inconsistent cost analysis used in the insourcing process that many times thereafter has proven to not save taxpayer dollars, but actually cost more.

“With our national debt skyrocketing over \$14 trillion, we should be looking at every avenue possible to reduce spending and decrease the size of Washington. One of the common sense ways we can do this is by outsourcing non-governmental functions to the private sector. In addition to saving taxpayer dollars, this would also help boost small business growth and create jobs.

“Insourcing was initially sold as a way to save money. However, based on results at the Department of Defense, just the opposite has proven to be true. In fact, the Army recently froze all insourcing efforts due to the overwhelming cost increases.”

At the close of the hearing, Mulvaney committed to take the following four actions:

- Ask the full Committee to follow up with the agencies mentioned by hearing witnesses Ms. Hamilton and Ms. Carroll.
- Send a copy of the hearing transcript to the Office of Federal Procurement Policy for review of the suggestions offered by the witnesses as they finalize their policy guidance.
- Send a letter to OMB requesting that each agency publish their insourcing guidance pursuant to notice and comment rulemaking, and that OMB and each agency impose a moratorium on cost- based insourcing until those rules are published.
- Review ways to address standing for small businesses facing insourcing, and ways to strengthen the SBA's role in this process.

Notable Witness Quotes:

Dawn L. Hamilton, President and CEO of Security Assistance Corporation in Arlington, VA, said, *“The insourcing action taken by the USCG against my company was not done to bring inherently governmental functions back into the Federal government. Rather, the USCG claims it was done to save money. However, the cost analysis provided by the USCG is riddled with problems and is ultimately inconclusive of whether the Federal government will realize any cost savings, at best, or at worst, even cost the Federal government more. What is certain is that the USCG’s actions have inflicted real and actual harm to my small business – cutting jobs and revenue [during this economic downturn] by up to 75%.”*

Bryant S. Banes, Managing Shareholder of Neel, Hooper & Banes, P.C. in Houston, TX, said, *“Internally, the Department of Defense recognizes that it has not addressed all of the impacts. I spoke personally with the decision-makers at the Air Force after the insourcing of Hallmark’s contract was announced. They conceded that they had not considered the impact to either small business or the impact to the union labor force that worked for Hallmark... Perhaps it is time the Defense Department be required to consider these things before they do further damage the small business contractors through insourcing.”*

Bonnie C. Carroll, President of Information International Associates in Oak Ridge, TN, said, *“[W]e have observed that decisions to insource are often driven more by arbitrary budget and manpower bogies sent down from the top levels of the DoD or Air Force than by the objectives of enhancing the government’s workforce capabilities or true cost savings. Further, the reprehensible tactics of approaching our staff directly to recruit them before official notice about the government’s in-sourcing decision was sent to the company and then not working through official contract processes, is highly inappropriate. Finally, where in-sourcing decisions were notionally based on cost savings, the cost analyses of how the decisions were made were not transparent.”*