

Policy Spotlight: *Insourcing: The Pendulum Swings*

The “right” size of government has been a topic of discussion and debate for decades. And since the 1980 elections, limiting the size—and reach—of government has been a theme in presidential campaigns for both parties. While government never did shrink, several successive administrations of both parties used the size of the federal workforce as “evidence” of smaller government, since overall public attitudes toward “big” government were negative.

But that has now changed. With the down economy, rising oil prices, a collapse in financial markets, the housing crisis, health care concerns and more, public attitudes have clearly shifted. In fact, a leading Republican pollster reported last year that for the first time since the Reagan era, a majority of the public believes the government needs to take a more direct (and growing) role in addressing the challenges we face. And therein lies the basis for much of the current discussion and activity surrounding insourcing. That foundation is further supported by a general agreement and concern about the difficult state of the federal acquisition workforce, from contracting to engineering, pricing, technical support and more.

Competitive Sourcing

During the last two decades, the federal workforce, particularly in the acquisition field, has experienced real reductions (the vast majority of them at DoD) and/or lived under personnel ceilings. During this same period, the government’s workforce demographics worsened; today, the government has twice the number of employees over fifty as under thirty and it continues to struggle to compete effectively for critical skills. Those factors, combined with dramatic increases in the complexity and scope of the government’s mission along with the fact that the skills required to meet those changing mission needs are now more commonly found only in the



private sector, results in the private sector assuming an expanded array of vital support roles—such as base or laboratory operation and support, information technology system design, development, integration and operation, deploying to provide support services to the warfighter, and business and financial systems.

Ironically, despite the fact that both the Clinton and George W. Bush administrations placed a heavy emphasis on competitive sourcing and contrary to popular belief, that emphasis has had little effect on the balance of work performed by contractors—nearly 80 percent of all the A-76 studies conducted

resulted in retaining the work in-house. Furthermore, broad industry concerns about the integrity and credibility of the A-76 process resulted in the majority of A-76 studies receiving few, or no, bids from the private sector. All told, A-76 actions have effected only about two percent of total federal procurement spending for services. Instead, the growth in outsourcing has been primarily the result of the government’s growing missions, its difficulty in competing for talent, full time equivalent (FTE) personnel ceilings, and the atrophy of critical skills as the federal workforce moves and/or retires.

Obama Reverses Course

President Obama has clearly stated his intention to reverse this trend and to focus on rebuilding and reinvigorating the civil service. Less than two months after taking office, he signed a memorandum directing a broad review of federal acquisition policies, prominently including the proper role and use of contractors. The president also zeroed in on the need to rebuild critical skills, particularly in acquisition, in the federal workforce. The memorandum sent shock waves throughout the acquisition community—in a positive way. For the first time in many years, a president had made clear that the acquisition workforce is a top priority.

The memorandum states “... it is essential that the federal government have the capacity to carry out robust and thorough management and oversight of its contracts in order to achieve programmatic goals, avoid significant overcharges, and curb wasteful spending.”

The president directed the Office of Management and Budget (OMB), in collaboration with the Federal Acquisition Regulation (FAR) Council principals and the Director of the Office of Personnel Management, to develop and issue by July 1, 2009, government-wide guidance to assist agencies in reviewing, and creating processes for ongoing reviews of existing contracts to identify contracts that are wasteful, inefficient, or not otherwise likely to meet the agencies’ needs, and to formulate appropriate corrective action in a timely manner.

The memo further directed these officials, with input from the public, to develop guidance by September 1, 2009, in four specific areas as part of the president’s overall effort to improve acquisition performance:

- Competition—limit the use of sole-source and other types of noncompetitive contracts and maximize the use of full-and-open competition and other competitive procedures and processes;
- Type of contract—fully consider agency needs when choosing a contract type in an effort to minimize risk and maximize the value of government contracts;

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- Workforce—building capacity and the ability of the federal acquisition workforce to develop, manage, and oversee acquisitions appropriately; and
- Outsourcing/Insourcing—clarify when outsourcing is and is not appropriate.

On July 29, the Office of Management and Budget (OMB) issued guidance in these areas—improving government acquisition through competition and appropriate contract type, managing the multi-sector workforce, and insourcing/outsourcing.

OMB’s memorandum on managing the multi-sector workforce seeks to provide initial guidance to help agencies identify factors that should be considered in determining the proper utilization of federal employees and private sector contractors. Furthermore, the memorandum requires agencies to begin the process of developing and implementing policies, practices, and tools for managing the multi-sector workforce. The guidance offers much-needed balanced, strategic criteria that agencies should consider when assessing their total workforce needs and it provides flexibility for agencies to meet the requirements of the recent insourcing statutory requirements. However, additional guidance will be needed to address shortcomings of the memo. Specifically, the memo requires agencies to assess which functions are inherently governmental or closely associated with inherently governmental, yet updated definitions of those terms are not expected until October of this

year. Although the guidance requires an analysis of “full cost” when comparing the costs of federal employees versus the private sector, it fails to elaborate on the types of short-term and long-term costs that should be considered, such as retirement and lifetime health benefits.

DoD Steps Out

Both the fiscal year 2008 National Defense Authorization Act and the fiscal year 2009 Omnibus Appropriations Act contain requirements addressing actions that DoD and civilian agencies are to take to determine what work can be performed by the private sector and what work should be performed only by the government, and, based upon those determinations, what work should be insourced. DoD has taken the first actions.

In April, Secretary Gates announced that DoD would scale back the number of contractors providing support services, particularly to the department’s acquisition community. Gates set a total goal of adding 33,400 new civilian employees, including 20,000 for the acquisition workforce, over the next 5 years. Gates also indicated that 11,000 of the acquisition positions would be converted from current contractor performance.

On May 28, 2009, Deputy Secretary of Defense William Lynn issued a memo to all DoD activities titled, “In-sourcing Contracting Services—Implementation Guidance.” In the guidance, Mr. Lynn identifies insourcing as a high priority for the Secretary of Defense, including addressing insourcing as a metric in DoD’s performance budget submission, in a new quarterly report beginning in January 2010. His memo directs that the military services and components consider a total force approach to workforce management and strategic human capital planning while recognizing any concerns with operational risk. He instructs that the full life cycle management of employees is to be considered and prioritizes specific categories of services to be considered for insourcing (such as those considered “inherently governmental”), or such as those characterized as closely associated with inherently governmental functions.

PSC has communicated to the Deputy Secretary both its support for the essential goals established by Secretary Gates and its concern about the lack of specificity and context in the guidance itself.

Full Speed Ahead

The president's March memorandum and Mr. Lynn's May guidance resulted in a flurry of activity. For some defense agencies, the rush to insource is on, despite the lack of more detailed guidance and despite how clear both memos are about the need for balance in both the government and private sector roles. Moreover, there are early signs that, rather than focusing on the kinds of critical skills highlighted by the Gates budget directive, some DoD components are now managing to a budget rather than a strategic target—raising legitimate questions as to whether implementation of the directive will follow the course the Secretary has laid out.

Prior to the July 29 OMB memos, civilian agencies were insourcing

without any guidance other than the broad, misguided language included in the FY09 Omnibus Appropriations Act. While leadership in a handful of agencies has indicated they will adopt a strategic approach to insourcing, components seem to be moving forward with arbitrary insourcing.

At the same time, more congressional action is on the horizon. Provisions in the House and Senate FY10 defense authorization bills address both insourcing and impose a freeze on all competitive sourcing activities. FAIR Act inventories, already an annual occurrence, would have to contain additional information relative to insourcing actions.

Finding Balance

PSC has long supported a robust acquisition workforce and has been at the forefront in expressing concern about the growth in dollars, complexity, reporting requirements, and oversight of acquisition while the acquisition workforce

has decreased in terms of numbers and experience. It is time to re-balance the acquisition workforce and ensure that government agencies can successfully perform their core missions and manage their contractors. But efforts to “rebalance” the workforce are seen, and used, by some as a license to “insource for the sake of insourcing,” which is no more beneficial to the government than “outsourcing for the sake of outsourcing.”

As President Obama stated: “The federal government has an overriding obligation to American taxpayers. It should perform its functions efficiently and effectively while ensuring that its actions result in the best value for the taxpayers. When the government makes a determination whether to contract for a function or utilize government personnel, that decision must be based upon this fundamental principal—who can best perform the work at the best value to the taxpayer.”

PSC has responded to the legislation, executive branch memos, and proposed

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actions by endorsing proposals that could have a substantive effect on government performance and management and providing recommendations for effective and appropriate approaches to insourcing. In our view, the following short- and long-term actions are vital to the success of the federal government's workforce balance and performance.

• **Definition and guidance**—new, clear guidance must draw appropriate lines between inherently governmental functions, agency critical positions, and activities that may be performed by contractors.

• **Mission and capabilities**—agencies must assess their current staffing to determine how to establish and maintain sufficient organic expertise and capability to control their missions and operations. Based upon these needs, each agency must develop a strategic plan and time phased approach to reviewing

their work, functions and positions to determine what work should be brought or kept in house and what work should utilize private sector competitive forces to ensure capability.

• **Workforce funding**—both the Executive and Legislative branches must agree that the acquisition workforce must increase with more skilled, trained employees. To support this workforce growth, recurring funds must be available for recruitment, hiring, training and salaries and benefits.

• **Expedited hiring**—an expedited hiring and clearance process must be implemented and maintained for strategic positions. In some agencies, ten to twenty percent of the currently authorized positions are vacant—creating more positions without hiring flexibilities only exacerbates the problem.

• **Execution**—whether work is performed by government or industry,

leadership must be held accountable for results. Collaboration, transparency, accountability and oversight are key to performance and results for the blended workforce of the 21st century.

These fundamental activities will not be accomplished overnight and they will not be without mistakes and setbacks. Getting there will require setting aside the acrimonious “gotcha” mentality and presumption about the “evils” of contractors, so agencies can focus on delivering results for the taxpayer. In the end, these issues pose a strategic, rather than political, challenge. The administration's proper focus on a neutral process, designed to get the best answer for the taxpayer, offers a critically important stepping stone to meeting that challenge. The key now is to ensure that agencies understand and execute as directed by OMB so that the pendulum finds its balance.

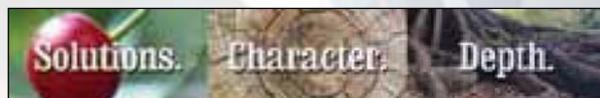
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