

Insourcing Savings Difficult to Predict

By David Perera April 3, 2012

Insourcing saved the Homeland Security Department \$2.3 million since mid-2010, a DHS official said, even while counterparts at the Defense Department said their initial estimates of cost savings to be had from converting contractor positions into full-time civil service jobs were overestimated.

During a March 29 hearing of the Senate Homeland Security and Governmental Affairs subcommittee on contracting oversight, Debra Tomchek, executive director of the DHS balanced workforce program management office, said efforts underway at DHS since mid-2010 to rely less on contractors and to hire more civil servants have produced about \$2.3 million in savings as of January 2012.

According to Tomchek's written testimony, DHS calculates the cost of a contractor to a civil servant using a "DHS Modular Cost Model" that includes "one-time and recurring costs associated with establishing new positions."

During the hearing, Chuck Grimes, Office of Personnel Management chief operating officer, emphasized that savings shouldn't be calculated by just comparing labor costs.

When the Defense Department began an insourcing initiative in 2009, then-Defense Secretary Robert Gates estimated the Army could produce \$400 million worth of savings and that conversion of contractor positions would save 40 percent on employment costs.

"We had two instances over different periods of time where we achieved anywhere from about 16 to 30 percent savings. And really the percentage savings are really dependent upon the function that's being in-sourced and the location where that's occurring," said Jay Aronowitz, Army deputy assistant secretary for force management, manpower and resources.

Lack of a good cost model to compare the true costs of retaining civil servants versus hiring contractors has long been an obstacle to cost transparency and decision-making. The Center for Strategic and International Studies proposed in May 2011 a cost estimation taxonomy that would permit a comparison based not on labor costs, but the costs that federal agency

would incur if it tried to meet its needs by internally running the equivalent of a private sector consulting firm.

The CSIS Public Cost Estimation Taxonomy

Personnel	Overhead	Facilities	Additional Costs
Direct Labor (Military & Civilian)	Operational Overhead - Management & Oversight	Cost of Facility	Liability Insurance
Fringe	Information Technology	Rent	Travel
	HR / Personnel	Insurance	Subcontracts
Material & Supply	Legal Support	Maintenance & Repair	Nonrecurring Workloads
General	Accounting	Utilities	Minor Items
Inflation	Payroll	Capital Improvements	Medical Exams
Insurance	Headquarters Management	Capital	Training
Maintenance & repair	Miscellaneous	Cost of Capital	Cost Growth
		Depreciation	Conversion costs
			Administration & Oversight Costs

Source: DoD Workforce Cost Realism Assessment