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## Let's Hope New OMB Insourcing Guidance Gets It Right

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Date: Thursday, April 05, 2012

The Office of Management and Budget (OMB) is about to release guidance to the entire federal government on what approach or methodology it should employ when conducting business case analyses (BCAs) to determine whether to use the private sector or government workers to perform a task. At a time when the federal budget deficit is over \$1.3 trillion and in the face of mandatory federal spending cuts of over \$2 trillion as a result of the 2010 Budget Control Act, accurately determining the least cost alternative for performing critical functions is a subject of great importance.

Another reason why the OMB guidance is of particular interest is because it comes amidst a growing fight over the Obama Administration's policy of giving preference to the government workforce over what is in general equally qualified and competent private sector capabilities -- generally termed insourcing. The White House expanded the protected space for government work through its definition of "inherently governmental" functions. The administration threw thousands of private sector workers out of their jobs when it insourced management of the student loan program. Beginning in 2009, the Department of Defense did something similar as part of its efficiency drive; it sought to insource nearly 40,000 administrative positions.

One of the most egregious aspects of this orgy of insourcing was the way many departments and agencies conducted BCAs to support their determination to move work into government hands. There are numerous examples of BCAs that were based on incomplete or erroneous cost data. In at least one case I am aware of a company that had lost a contract for \$18 million to insourcing based on a BCA that somehow concluded the cost of that activity performed by the private sector to be \$24 million but only \$20 million if done by the government.

The nicest thing one can say is that the government's BCAs must be considered suspect. The Congressional Budget Office recently released a report that documented the fact that government workers are on average 16 percent more expensive than their private sector counterparts. What is noteworthy is that the Pentagon's implementation guidance for insourcing sustainment work (RMD 802) assumes a 40 percent savings which would imply

an expectation that government workers were cheaper than those in the private sector. The prestigious Center for Strategic and International Studies published a study which lambasted the Department of Defense for its inability to accurately document its costs and for conducting BCAs that did not account properly for major cost elements such as benefits, retirement contributions, infrastructure expenses or training and education expenses.

In a recent Congressional hearing, Senator Claire McCaskill, a Democrat, made the clear and compelling argument for accurate cost accounting by the government:

“For too many years now, the federal government has relied on assumptions and flawed studies to support those assumptions. Without good data about the costs of using contractors instead of federal employees, the government simply doesn’t have the information it needs to make smart choices. . . Assumptions are especially costly in our current budget climate and could undermine efforts to save taxpayer dollars.”

OMB needs to get its guidance right. In particular, the guidance needs to address the problem of inadequate government cost data and faulty BCAs.