

OMB Guidance Expected on Measuring Insourcing, Outsourcing Costs

BY SARAH CHACKO | MARCH 29, 2012

The Office of Management and Budget is expected to soon release guidance on how agencies should compare the cost of using federal workers against the cost of hiring contractors for certain work, Senate Contracting Oversight Subcommittee Chairwoman Claire McCaskill said Thursday.

"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," McCaskill said at a hearing looking at contracting costs and the data agencies use to analyze those costs.

"Assumptions are especially costly in our current budget climate and could undermine efforts to save taxpayer dollars."

Numerous studies have been done to account for the costs of federal and contract employees, McCaskill said. But they all reach different conclusions because they use different assumptions when calculating benefits, overhead and salary, she said.

Over the last decade, spending on service contractors has outpaced spending on federal employees, McCaskill said, citing figures from the Federal Procurement Data System and the Congressional Research Service. The cost of service contracts has increased by 79 percent, from \$181 billion to \$324 billion, she said. At the same time, spending on the total federal civilian workforce increased by 35 percent, from \$170 billion to \$229 billion.

The Office of Management and Budget is in the best position to provide governmentwide guidance on how to how to gather data and analyze costs, McCaskill said, adding that she expects OMB to issue guidance in the next 60 days.

Office of Personnel Management and Department of Homeland Security workforce management officials said they would welcome common guidance.

DHS currently uses an OMB-approved model to calculate federal employee and contractor costs for similar work, said Debra Tomchek, executive director of the department's Balanced Workforce Program Management Office. DHS has insourced 44 positions and saved about \$2.3 million since 2010 using that method, Tomchek said. An additional 241 positions are being considered for insourcing in the remainder of fiscal 2012 and 2013, she said.

Jay Aronowitz, Army deputy assistant secretary for force management, manpower and resources, told the committee that Defense Department agencies use an internal directive to guide insourcing decisions.

A May study by the Center for Strategic and International Studies on the Defense Department's internal guidance concluded that it did not fully account for governmentwide costs, such as lifelong benefits, training and education. The department's guidelines also do not account for federal cost of capital, such

as money needed to build infrastructure for new activities, forgone taxes that contractors would have paid, and imputed costs of liability and casualty insurance when hiring feds, CSIS said.

The Professional Services Council trade association asked lawmakers to rescind the moratorium on agencies' use of OMB Circular A-76, a guide for public-private competitions, and to require OMB to update it to address problems also highlighted in the CSIS study.

CSIS analysts concluded that the A-76 guidance uses a fixed rate of 12 percent of an agency's personnel costs to determine overhead costs for federal employees. Overhead usually covers the cost of supporting employees, such as operating and furnishing facilities.

But that rate is low considering private sector overhead costs likely run close to 30 percent of their personnel costs, said David Berteau, director of the CSIS Defense-Industrial Initiatives Group.

The PSC also recommended that agencies that decide to insource be required to share their cost analysis with the affected contractor and that the contractor be allowed to appeal the decision.