



## Outsourcing vs. Insourcing: Solving the Cost-Comparison Conundrum

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Defense and civilian agencies often fail to consider a range of administrative costs when comparing contractors' and federal employees' proposals for work, a problem that can lead to unexpected costs, according to a report released May 17.

As the Defense Department looks to minimize spending, it's often impossible to compare contractors' costs and in-house overhead expenses, because policies do not include expenses outside the realm of a statement of work, the Center for Strategic and International Studies (CSIS) wrote in its report, DOD Workforce Cost Realism Assessment.

The problem is that no one knows what to include when comparing contractors' and federal employees' expenses, CSIS said. "The challenge for determining an adequate overhead rate starts with the definitional question of what constitutes overhead. There does not exist a universally accepted definition of what costs are subsumed under overhead," the report states.

Even so, a single definition that would cover the vast expanse of federal work is suspect, the report states.

But when budgets are strained, officials need a data-driven approach, with verifiable results, to make good decisions on allocating resources, CSIS wrote. Then they can also understand the implications of how they're spending their funds, including the associated costs.

Officials need to account for costs of oversight and administration, whether the work is being done in-house or by a contractor, and they need to consider the risks of cost growth for each case. Factors to weigh include tax revenues, personnel (such as health care and retirement) and the cost of transitioning the work from one sector to the other, the report states.

When laying out the initial statement of work, an agency should clearly describe the performance parameters on which it will assess the federal employees and private company's proposals for work, the report states.

Stan Soloway, president and CEO of the Professional Services Council, has said the issue of deciding when to insource work that can be done by either sector has to account for various costs beyond the direct cost of a project or certain work.

"For too many years, we have been embroiled in a continual debate over how to calculate the relative costs of performance," Soloway said. "No one believes the current process offers

an accurate perspective but until now, no viable, fair, and analytically rigorous alternative was available.”

Now, DOD has to put something in action, David Berteau, senior advisor and director of CSIS’ Defense-Industrial Initiatives Group, said in a presentation May 17. DOD must do more with guidelines than simply issue memos that lack the power to institute real change.

“Guidance only matters if it’s part of guidance that’s institutionalized,” Berteau said. Memos may carry little weight unless they’re turned into as directives or other official orders.

Berteau also stressed the need for better transparency and access to data and information about costs. “This information isn’t publicly available so it’s hard to understand,” he said.

For example, information on out-year DOD budget savings from insourcing was still unaccounted for as of a Feb. 15 conference call with Robert Hale, DOD budget comptroller, according to Berteau.

If such information is ever found, it would help determine if DOD is on the path to streamlining its resources toward the warfighter. Without the data though, no one can understand the implications of spending and other decisions made inside the DOD.

“The ball is in their court,” Berteau said.