



Pentagon In-Sourced 8,500 Jobs In 2010 For Core Government Work

By Gopal Ratnam and Melissa Aparicio, Bloomberg News

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The U.S. Defense Department last year created as many as 8,500 new federal jobs because the work was considered to be core to the government and therefore should not be performed by contractors, the Pentagon official responsible for in-sourcing said.

“In fiscal year 2010, the department established 17,000 new positions as a result of in-sourcing contracted services,” Thomas Hessel, the Defense Department’s in-sourcing program manager, said in an interview yesterday. Of the new jobs “50 percent, or half, were because the work was determined to be either inherently governmental” or otherwise not eligible for an open competition, Hessel said.

The remaining jobs were in-sourced, or brought in house, after analysis showed they could be performed at a cheaper cost by the government than by private contractors, Hessel said. The actual number of people hired for the new positions may be higher or lower than 17,000, he said.

Industry groups have been advocating a slowdown in the Pentagon’s push to in-source jobs that began with President Barack Obama’s 2009 memo to curb outsourcing work to contractors. Advocates for contractors say the Defense Department’s cost analysis is flawed and does not consider health care and pension benefits paid to government employees.

“Only half of the positions in-sourced are helping the Defense Department solve its workforce challenges,” Stan Soloway, president of the Arlington, Virginia-based Professional Services Council, a trade group for federal contractors, said in an interview. “The other half are being based on cost analysis that raises significant questions as to their accuracy.”

Hessel spoke with Bloomberg News at the Pentagon. Here is an excerpt of the interview.

Q. What's the status of the Pentagon's in-sourcing push? Some commentators are saying that the 2011 Defense Authorization Act has effectively ended the program. Is that accurate?

A. "The 2011 National Defense Authorization Act that President Barack Obama signed in January essentially prohibits agencies from setting arbitrary targets for in-sourcing. We are not going to say that a certain number of jobs or positions are going to be in-sourced but we are going to inform the decision through strategic well-reasoned policy and cost analysis that the department already has. It's certainly not an end to in-sourcing."

Q. What do you mean by the department's existing policies?

A. "The Defense Department's policy on in-sourcing actually precedes memos from President Obama and Secretary Gates and it goes back to statutory obligations that were codified in the 2008 Defense Authorization Act."

"The law requires the department to annually produce an inventory of its contracts for services and review those to identify services being provided by the private sector, not jobs, but services that are more appropriately performed by the government. And the law also requires us to use the most cost-effective source of labor."

"What President Obama's memo did was to establish this as a priority for the administration."

Q. Did some military services and defense agencies interpret the memos as a mandate to bring more jobs in house?

A. "The mandate is in the law; if a job is inherently governmental, you have to bring it in house, and if it's more cost-effective you've got to convert it to a federal position."

Q. Industry groups say that the Pentagon's cost assessment leaves out the government's pension and health-care expense and therefore is not a good comparison with industry costs. How do you respond?

A. "Not all decisions to bring work back in house are based on cost. If the work is deemed to be inherently government we bring it in house irrelevant of cost."

"For those jobs that are based purely on cost, we are required to use the full cost of manpower. We look not only at the cost to the Defense Department but also to the cost borne by the Department of Veterans Affairs, Health and Human Services and Department of Education because we also offer education benefits. And that gives us the full cost of manpower to the taxpayer."

Q. So the Defense Department already is doing this?

A. "That's the policy of the department. What the 2011 Defense Authorization Act does is validate the processes that were in place."

Q. How do you explain Secretary Gates's comments last year that in-sourcing hasn't produced the kind of savings the Pentagon expected?

A. "We had reductions in contracts as a result of in-sourcing but elsewhere, in other areas like logistics, contracted services were going up. If you look at the budget for fiscal year 2010, the reduction associated with contracting in the budget submitted to Congress was \$900 million. But growth in all contracted services was more than \$5 billion and the net of that is \$4.1 billion of growth in contracts, and that's the context of his remarks."

Q. Army Secretary John McHugh in a Feb. 1 memo told the service to go slow on in-sourcing. Why did he do that and what does that mean?

A. "Secretary McHugh's memo still recognizes that we are overly reliant on contractors and at the same time, before adding a new civilian position, I'm going to look at my work load and ask, 'Do I really need to be doing this work?' If I do determine the work needs to be done, then is it more appropriate to do it in house? That's what Secretary Gates has said, and Secretary McHugh reinforces that."

Q. What is the goal or target for 2011?

A. "Collecting data on the in-sourcing effort was a high priority goal in the fiscal year 2010 budget to highlight it as a major administration priority. Certainly there has been a pullback from that from at least within the department, not pull back from in-sourcing, but a pull back from how we collect the data, how we view and how we portray it."

"Since we are under a continuing resolution on the 2011 budget I can't predict what the outcome will be."

Thomas Hessel

Position: Program Lead, In-sourcing, Requirements and Program & Budget Coordination Directorate, Office of the Undersecretary of Defense for Personnel & Readiness.

Role: Responsible for overseeing and managing in-sourcing efforts across more than 30 Defense Department agencies.

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