

NationalJournalDaily

Report: Pentagon's 'In-Sourcing' Plan Doesn't Add Up

By Otto Kreisher

May 18, 2011

Despite its drive to "in-source" 30,000 jobs previously performed by contractors, the Defense Department has no sound basis for comparing the cost of government workers to contractor personnel. And they will not achieve anywhere near the 40 percent savings projected in its 2009 initiative, a report released Tuesday by the Center for Strategic and International Studies has concluded.

But those savings are locked into budget calculations, forcing defense agencies to either find other ways to cut costs or to "pretend" they are getting the projected savings, the study's lead author said.

David Berteau, the director of CSIS's Defense Industrial Initiatives Group that produced the report, said it was ironic that due to procurement reform legislation pushed by Congress, the military has gotten much better at estimating the cost of its weapons programs, but is "moving in exactly the opposite direction" in predicting the cost of its civilian work force.

The report was highly critical of the plan Defense Secretary Robert Gates announced April 6, 2009, to reduce the department's reliance on contracted labor by replacing 30,000 contract personnel with defense civilian workers.

Based on the "assumption that federal civilians would be significantly less costly" than contractors, the plan projected budget savings of 40 percent of the cost of the outsourced workers, the report noted. That prediction was revised to 25 percent savings, it said.

"Neither figure appears justifiable," the report said, going into detail on why the government fails to account for the true cost of federal workers. That includes not accounting for post-retirement pensions and health care or overhead costs, such as facilities, insurance and legal services.

But, the report cited a February 15, 2011, statement by Pentagon Comptroller Robert Hale that the projected future savings from in-sourcing are factored into the budgets and must be accounted for.

The report said the push to replace contractors came because the defense civilian workforce dropped significantly starting in the 1990s, with the end of the Cold War, but the cost of performing the work soared as the work increasingly was outsourced to contractors.

Berteau noted that one of the harmful effects of the sharp reduction in the department's civilian workers was the loss of experienced acquisition personnel, which contributed to an escalation in

major weapons programs that ran into technical and budgetary problems. He said the study group strongly supports the continuing effort to rebuild the department's acquisition work force.

The report said there were many positive factors from having a sizable and stable civilian workforce, including providing more control over government functions and creating opportunities for advancement that would encourage talented people to take government jobs.

But, it said, "it is not clear that in-sourcing can provide large budgetary savings."

Berteau recalled a recent conversation with Gates in which the secretary concluded that he had been "misled" on the potential savings of in-sourcing and was surprised it took one federal worker to replace each contractor.

Berteau said the established A76 process for competing government workers against outsourced work has a better, though still imperfect, method of comparing costs. But he noted that Sen. Barbara Mikulski, D-Md., has introduced legislation that would stop all A76 competitions. A companion bill has been introduced by Rep. John Sarbanes, D-Md.