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**BUSINESS**

## **Small Businesses Hard Hit as Obama Takes Back Contractors' Work**

**By Leah Nysten    July 24, 2011**

Dawn Hamilton got the call two days before Christmas: The Coast Guard would be canceling most of her \$5 million-a-year contract in six months to bring the work in-house.

"I was just shocked," Hamilton, chief executive and founder of Security Assistance Corp., said in an interview at her company's offices in Arlington. "We always had outstanding and excellent reviews from the Coast Guard."

SAC is one of dozens of small businesses that have lost employees and revenue as federal agencies cancel contracts and hire civil servants to do the work, a practice known as insourcing.

By the end of June, the Coast Guard had made job offers to 54 of Hamilton's 63 employees. A few others accepted jobs with other companies, she said. The Coast Guard extended one part of the contract until Sept. 30 to allow for a "more orderly transition," Lt. Paul Rhynard, an agency spokesman, said in an e-mail.

The Coast Guard identified SAC's contract as a candidate for insourcing after an assessment and cost comparison, Rhynard said. Based on the comparison, the agency determined it could achieve "substantial annual savings" of about \$2.8 million by insourcing most of the work, he said.

### **'Out of business'**

"The government is aggressively removing work from some small businesses," said Robert Burton, a partner at the law firm Venable in Washington, who represented SAC and other small vendors in insourcing cases. Insourcing "impacts small businesses much more than midsize and large businesses. If small businesses lose their employees, they can go out of business."

Federal procurement officials said the impact on small business from insourcing has been minimal, though they had little data on the number of businesses affected.

“The impact is smaller than some people expected,” Daniel I. Gordon, the administrator of the Office of Federal Procurement Policy, said in a June 28 interview. “We are keenly sensitive to the impact of insourcing on small businesses.”

In a February memo, Gordon’s office instructed agencies to conduct impact analyses of the dollar value of contracts that have been insourced and how much of the work was performed by small businesses, he said in a July 11 e-mail. Those analyses are still being completed.

The memo also instructed agencies to place “lower priority” on reviewing work by small businesses if it was not “inherently governmental,” or work that only federal employees may perform, he said.

Agencies don’t have to notify the Small Business Administration before insourcing a contract held by a small vendor unless it’s within the 8(a) program, said Michele Chang, a senior adviser in the agency’s office of government contracting and business development.

The 8(a) program reserves some contracts for small companies owned by socially and economically disadvantaged individuals. If an agency wants to insource an 8(a) contract, it must first ask the SBA to release it from the program, Chang said in a July 12 e-mail.

That didn’t happen in SAC’s case, Hamilton said. After the Coast Guard notified her, Hamilton filed a Freedom of Information Act request seeking the cost analysis the agency used to make the decision to insource. Hamilton said the agency used inflated numbers to determine the cost of using the company, and she is now working with the SBA to decide whether to appeal the decision.

### **1,000 small-business jobs**

The Defense Department estimated that it has created nearly 17,000 civilian positions in fiscal 2010 as a result of insourcing, according to a June 20 communication to the House Small Business Committee. About 1,000 of those positions resulted from situations where a small business held the prime contract to provide the service, according to the department.

Department officials told the committee they couldn’t estimate how many of the positions were created from work a small business was performing as a subcontractor for a larger business.

So far, at least 12 companies have filed lawsuits in federal court challenging insourcing decisions, according to court filings by the Justice Department. All of those cases involve small businesses, and seven of the lawsuits concern work insourced by the Air Force.

The Air Force planned to base most of its insourcing decisions on cost analyses to determine whether government employees would be less expensive, according to a January Government Accountability Office report.

The Air Force decided in 2010 to end an \$8.6 million vehicle maintenance contract to a small business after a cost estimate showed it would be about \$300,000 cheaper to have in-house employees do the work.

Triad Logistics Services, owned by two Air Force veterans and based in Merritt Island, Fla., had provided the services since 2006. After its contract was insourced, Triad sued in the Court of Federal Claims. Its lawsuit is ongoing.

The insourced contract accounted for about 20 percent of the company's gross revenue, Timothy Tuggle, the company co-owner, said in an interview after a March court hearing. The company had to lay off six people when the contract ended, he said.

"We're the low-hanging fruit on the tree," Tuggle said. "Why are they picking on me?"

SAC's Hamilton said the Coast Guard probably selected the company's contract for insourcing because her business didn't have the means to fight back.

"In my opinion, it was because we are a small business," she said. "Clearly we don't have the resources to go up against the government."

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