

THE WALL STREET JOURNAL.

WSJ.com

Small Firms Losing Out to Federal In-Sourcing

June 23, 2011

As federal agencies look to trim spending by doing more work in-house, small-business contractors Thursday told lawmakers that government “in-sourcing” is killing private-sector jobs and costing taxpayers.

Bonnie Carroll, owner of Information International Associates Inc., an information technology firm in Oak Ridge, Tenn., says her company has shed 15% of its staff in the past eight months due to in-sourcing efforts by the U.S. Air Force.

Yet the savings and benefits for the Defense Department are unclear, she says.

“In at least one case, positions the government planned to in-source have not been filled and services to our war fighters that [we] previously provided have been diminished,” Carroll told members of the Subcommittee on Contracting and Workforce.

The hearing sought to review the administration’s in-sourcing policies and their impact on small businesses. In 2009, President Obama issued an agency-wide memorandum to establish clear rules for outsourcing federal jobs, saying the lines between inherently governmental tasks and private-contract work had been blurred.

Dawn Hamilton, the chief executive of Security Assistance Corp. in Arlington, Va., says the U.S. Coast Guard recently scrapped a contract to help process merchant credentials. As a result, the company lost 75% of its revenue and cut workers.

Hamilton said the agency’s cost analysis was based on the ceiling value of the contract, rather than the actual amount charged by the company. As such, the expected savings were likely exaggerated, she says.

Last year, the Defense Department launched an aggressive in-sourcing effort to reduce workforce costs and streamline operations , though it has since pulled back. Other agencies have made similar moves.

“Continuing the policy of in-sourcing commercial functions without demonstrable cost savings increases the size and cost of the federal government, and it moves us exactly in the wrong direction,” Rep. Mick Mulvaney (R., S.C.), the subcommittee chairman, said in his opening remarks Thursday.

He said agencies looking to move tasks in-house should be required to demonstrate that the long-term costs of hiring and training new federal employees are cheaper than a temporary contract to a private company.

Earlier this year, Democrat lawmakers introduced a bill that would steer more work to federal employees. The bill follows Republican-led effort to require agencies to rely more on the private-sector contractors.