

Small Firms Testify about Insourcing Impact

By Jill R. Aitoro Thursday, June 23, 2011

Small contractors testified before the House Small Business Committee Thursday about the impact that insourcing of federal programs has had on their businesses, detailing situations where agencies used flawed rationale for bringing work in-house.

The experience of Arlington-based Security Assistance Corp., detailed in testimony by CEO Dawn Hamilton, paints a pretty vivid picture:

In 2008, the small business was awarded an indefinite-delivery, indefinite-quantity contract with the U.S. Coast Guard that provided access to task orders for processing merchant credentials at the National Maritime Center in Martinsburg, W.V.

But in December, the agency informed the company that the services provided under the contract would be brought back internally. After reviewing the decision's details, provided after an open records request, Hamilton found (among other things) that the work being insourced was not inherently governmental and the cost analysis was flawed — based upon the ceiling value of the contract, not the actual amount charged for the services provided.

"For a small, disadvantaged company, there is no question that the insourcing of these task orders have profoundly affected the future viability of SAC," Hamilton said in submitted testimony. "In fact, this action has directly resulted in the loss of 75 percent of SAC's jobs and revenue." The company had even signed a five-year lease and hired additional staff to administer future work anticipated under the contract.

Furthermore, "SAC made significant investments in its employees, which the USCG now intends to recruit and hire," Hamilton said. Those costs include training, counseling and promoting of staff, as well investments in medical and insurance carriers to provide staff with competitive benefits.

Hamilton recommended to the panel that a moratorium be placed on all cost-based insourcing actions until government-wide procedures are in place, that the federal government adopt those procedures through a public rulemaking process with an opportunity to comment, and that the Small Business Administration be given a more clearly defined role in the review of agency insourcing actions.

"All insourcing actions should comply with uniform processes that ensure fairness and correctness in determining whether or not a function is inherently governmental, or if there is

true and actual cost savings," Hamilton said. "Moreover, the impact on small businesses, the driver of our economy, should also be a required consideration."

The Defense Department launched a massive insourcing initiative in the spring of 2010 before pulling it back when the effort did not produce the expected cost savings. In February, the Army took steps to rein in insourcing, freezing such efforts without direct approval from the secretary.

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