



## The Administration's Push to Do More Work In-house Will Alter the Status Quo

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With solid growth in fiscal 2009 for federal information technology budgets, the 4 percent growth in the fiscal year 2010 IT budget request, and President Barack Obama's view of technology as an enabler, the long-term outlook is good for the federal professional and IT services industry.

However, the administration's pledge for change also has negatively influenced the industry, resulting in delayed awards as government employees sort through new mandates and rules for procurement, conflicts of interest and insourcing, in addition to attempts to reduce protests through peer reviews and other processes. Other headwinds faced by industry are the administration's emphasis on strict compliance to small business rules, increased scrutiny from the Defense Contract Audit Agency (on even closed audits) and less direct billing.

With the substantial growth in outsourcing that occurred during the last decade, government leaders will easily be able to look around and find jobs that were previously done in-house. When the Office of the Director of National Intelligence did its workforce survey last year that asked intelligence agencies why they contracted out work instead of hiring in-house, 56 percent said the contractor employee had unique experience, but the remainder of the reasons can be summarized by saying the contractor offers more flexibility than hiring an in-house employee.

If a government manager does not find the contractor employee acceptable for the job, he or she can have the person replaced by another qualified person in days, not years. Also, as workloads and required qualifications change, contractors offer the government less carrying costs and more flexibility. The concern about contractors earning too high profits is also misplaced. Federal services companies earn lower profit margins than their commercial counterparts that employ people with the same skill sets.

Many qualified federal service providers bid competitively to provide a solution that the government is seeking. Any arbitrary requirements to reduce pricing beyond market rates will likely lead to substandard services, as an efficient commercial enterprise will divert its strongest resources to opportunities with better return on investment. In other words, you get what you pay for.

The requirements for insourcing work that is not inherently governmental also need to be economically driven. Unfortunately, at this point, insourcing seems to be more opportunistic and not economically driven. If the government can sway a person or group to leave a contractor, they will move it in-house. With each agency required to have an insourcing pilot program by next April as mandated by an Office of Management and Budget memo released July 29, we should hear about larger attempts at insourcing in coming months.

Although the outlook for IT in government and IT budgets during the next couple of years is good, particularly with the push for cybersecurity, the administration's drive for change might be pushing too far the other way unless better guidance from OMB and government leaders comes through. The government needs to improve the mechanics of the procurement process and insource inherently governmental work. A major reason this country has the strongest economy in the world is its free market system, a system the federal government should take advantage of through competitions not diluted by arbitrary constraints and excessive regulatory and oversight burdens.

