

Trade Group Concerned about In-sourcing Mandate

By Robert Brodsky
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An industry association is concerned that the Defense Department is haphazardly shifting work from contractors to federal officials without careful analysis on who can provide the best value for taxpayers.

The Professional Services Council, an Arlington, Va.-based group, said on Tuesday that between 60 percent and 70 percent of its member companies are losing projects because of in-sourcing at Defense. That level of transition has not yet been replicated at civilian agencies, according to Stan Soloway, president of PSC.

In one recent example, Soloway said, a military base support firm lost a contract that represented most of its revenue and likely will have to close its doors on Oct. 1. The council said Defense could have found significantly more savings by re-competing the contract.

"This is really concerning," said Soloway, a former deputy undersecretary of Defense for acquisition reform.

In many instances, agencies are in-sourcing work without a rigorous determination of price or efficiency -- potentially driving up costs to the government, he said.

The 2009 Omnibus Appropriations Act and the 2008 National Defense Authorization Act require agencies to set guidelines to ensure that federal employees are given "priority consideration" for new projects as well as functions performed by contractors.

Neither bill explicitly sets a quota or directs agencies to in-source work, but private industry is concerned about the message being conveyed.

"There is a growing perception that we are seeing and hearing from agencies that there is some sort of in-sourcing mandate from the administration," Soloway said. Such a perception would not be consistent with recent administration guidance on the use of contractors, he said.

Assumptions already are being built into the 2011 Defense budget, based on what theoretically could be saved by cutting service contractors, Soloway said. The formula, he adds, reportedly involves a Defense-specific algorithm that calculates how much more expensive a contractor would be than a federal employee.

DoD spokeswoman Cheryl Irwin said there is no policy that applies across the board in terms of reimbursing agencies for making in-sourcing decisions. "However, if the question concerns a particular decision that was made in putting together the fiscal 2010 budget request, then yes, such decisions are sometimes made," Irwin said.

Soloway said he has heard that the Pentagon is telling the military services they must cut a certain percentage of their service contractors. A portion of the savings from those terminations would go back to agencies to hire in-house personnel, he added.

Alan Chvotkin, executive vice president of PSC, compared the recent shift to in-house work with the much-criticized Bush administration outsourcing quotas.

"Now, we are skipping back to quotas on the other side, which is no more helpful," he said.

But according to Cynthia O. Smith, a DoD spokeswoman, the department has established goals, rather than quotas for meeting in-sourcing objectives. For example, in its fiscal 2010 in-sourcing plan, Defense components reported that they are either meeting or exceeding their goals for bringing work back in house, Smith said.

"DoD components are asked to in-source all contracted services that are found to be inherently governmental or an unauthorized personal service contract," Smith said. "In addition, DoD components are required to verify that the mission requirements are for a valid, enduring mission requirement."

The department did not have data available on the number of billets that have been in-sourced for specific functions in fiscal 2009. But, the department confirmed that the agency has plans to in-source contracted services -- and in some cases have already completed the in-house transition -- in areas such as logistic support of aviation systems, safety engineering, cost accounting, anti-terrorism trainers and religious support.

PSC officials said they are not fundamentally opposed to in-sourcing when the process is strategic and serves a need to rebalance the federal workforce -- a process Chvotkin said could take decades to complete.

In addition to positions that are considered inherently governmental and must be performed by federal workers, the council said agencies should identify mission-critical jobs that should be filled by government employees.

For those positions that are not inherently governmental or mission critical, PSC said agencies should be required to conduct a strategic analysis of the factors that will affect an in-sourcing decision, including compensation, health and retirement benefits, overhead costs, facilities, equipment and supplies.

In addition to in-sourcing, contractors are grappling with the disappearance of A-76 competitions, which allowed them to challenge in-house bidders on best value. Recent legislation effectively banned public-private competitions for fiscal 2009 and a new bill working its way through both chambers would suspend the practice until several reforms are implemented.