

## Wanted: Accurate Assessment of Sourcing Decisions

BY GUY BEN-ARI AND JESSE ELLMAN | October 2, 2011

Between 2000 and 2010, federal spending on service contracts grew in constant terms from \$164 billion to \$343 billion. Given today's difficult budgetary environment, the spending on service contracts and decisions on insourcing and outsourcing have been at the forefront of policy discussions.

Recently, Ashton Carter, then-undersecretary of Defense for acquisition, technology and logistics and now deputy secretary, indicated that the Defense Department had almost completed its insourcing of "critical" functions. Also, there is a proposal from Senate Republicans to cut the federal workforce by 10 percent, on the basis that government workers are more expensive than contractors, and the contractor workforce by 15 percent.

With the federal government facing significant budget challenges in the near term, it is more important than ever that all sourcing decisions be made on a sound analytical basis.

Earlier this year, the Center for Strategic and International Studies released its Department of Defense Workforce Cost Realism Assessment, providing a methodology for calculating the fully burdened cost of public performance to the federal government.

Such a framework enables government agencies to determine the complete and accurate budgetary implications of their sourcing decisions in a manner that is repeatable, verifiable and data-driven.

However, current cost-estimation methodologies used by the federal government — exemplified by the Defense Department's Directive-Type Memorandum 09-007 — fail to capture the fully burdened cost to government, calling into question the soundness of any cost-driven decision. Interestingly, this DoD memo was scheduled to be replaced with a more permanent Defense Department Instruction by Sept. 1, though this has not been done.

The release of the Office of Federal Procurement Policy's Policy Letter 11-01 marks the most recent major policy development relating to the broader issue of sourcing decisions. This guidance provides a much-needed framework for sourcing decisions based on three categories of work: inherently governmental, closely associated and critical classifications.

Even for sourcing decisions determined solely by this guidance, however, an analytically sound cost comparison methodology is beneficial. Regardless of sourcing considerations, the government must understand the cost implications of its decisions.

However, a recent Project on Government Oversight report, which compares the cost of government and contractor performance, only muddies the water on this issue. In its opening pages, the report correctly notes that the true costs of sourcing cannot be calculated unless the fully burdened costs to government are also considered.

Strangely, the report then proceeds to abandon any attempt to capture fully burdened cost, explicitly excluding facilities and materials and supply costs, while using the Office of Management and Budget's widely discredited 12 percent government overhead rate. The report also uses General Services

Administration contractor billable rates as the basis for estimates of contractor performance, which fail to include adjustments for either foregone tax revenue or contract administration and oversight costs incurred by the government.

Implementing a robust methodology for public-private cost comparisons is needed more than ever, but must be based on the true cost to government of both private and public performance.

With Directive-Type Memorandum 09-007 slated to be replaced with more permanent guidance, there is a unique chance to implement a methodology that captures the true cost to the government as a whole. Without it, any cost-based comparison will be analytically suspect.