



Workforce Balance Boomerangs toward Insourcing

Obama's insourcing guidelines undo some Bush-era outsourcing efforts, but OMB wants agencies to proceed with caution

By Matthew Weigelt Jan 08, 2010

Mathew Blum is on a campaign trail of sorts. Like a politician trying to explain why he voted for something after previously voting against it, it's not clear if Blum's nuanced message is gaining traction with his constituency.

The quiet, diminutive and usually office-bound associate administrator at the Office of Federal Procurement Policy has hit the road for several months now, participating in panel discussions at large industry conferences and speaking to various meetings of private-sector contractors, acquisition officials and agency directors.

He's out to give them all a clearer picture of the Office of Management and Budget's mandate for insourcing government procurement work. Do it, he says, echoing directives that have emanated from the White House since the day President Barack Obama took office nearly a year ago with a public indictment of outside contractors. But then Blum quickly adds a big caveat – and in fact, it is his central thesis on the threshold question of insourcing: Do it, yes. But don't *just* do it.

"There are many management tools that could address an organization that may be overly reliant on contractors. Insourcing is just one tool," Blum said during a recent panel discussion before some 500 people from both federal and private sectors. He added that Obama's March 4 memo on contracting reforms — the administration's cornerstone for many of the procurement policy changes to follow — didn't say that outsourcing is necessarily a bad thing either.

But Blum is having a hard time convincing the acquisition community that Obama's agenda for insourcing isn't the exact opposite of predecessor George W. Bush's predilection for outsourcing, which sent a wave of federal jobs to the private sector. Indeed, the relatively small but close-knit community of people who deal with procurement policy and acquisition practices – both inside and outside government – are still feeling whipsawed by the changes wrought by last year's turnover in the White House.

"We just came out of an administration where there was an outsourcing initiative," said Steve Schooner, associate law professor and co-director of the Government Procurement Law Program at the George Washington University, who was on a panel with Blum recently. "It was not a uniquely strategic effort but a clear message that outsourcing was favored. There is at least a perception that, in this administration, insourcing is favored."

The White House insists that people are overreacting to an attempt to bring a more sophisticated approach to federal spending. Last July, Obama's OMB issued a memo on managing the multisector, or blended, workforce. The multisector workforce is composed of private contractors and federal employees working in the same office to do an agency's work. The memo tells agencies to find the appropriate balance between federal employees and contractors. "Each agency must identify and prioritize its particular needs and develop a plan to improve the performance and effectiveness of its acquisition services," the memo states.

And Blum, for his part, reiterates in his speeches that OMB isn't in favor of simply insourcing work or reclaiming it from outside contractors who once seemed to have a virtual open season to take over federal projects. Blum said agencies should take back only the work that is central to accomplishing an agency's mission. And before they do that, officials should first undertake a careful examination of what that mission is and which federal employees are essential to it.

The Federal Acquisition Regulation "has some pretty good language that recognizes some relatively basic steps agencies should take," Blum said.

The question remains: Are the agencies' big decision-makers listening?

From their words and actions, say acquisition experts who are watching this latest transformation closely, many top federal officials seem mainly to be hearing only that the Obama administration wants to take back the work that agencies once gave to contractors. And these agency officials are pushing ahead as if that is indeed the case.

For example, Defense Secretary Robert Gates said in April that the Defense Department would reduce contractors and boost its personnel by about 33,400 civilian employees, with 10,000 of them headed to the defense acquisition workforce. Intelligence agencies have insourced thousands of contractor jobs already.

In October, Tom Mason, director of policy and the acquisition workforce at the Homeland Security Department's Office of the Chief Procurement Officer, said DHS would insource 3,200 contractor positions. And even without a statutory requirement, DHS has said it will review all newly awarded or renewed services contract worth more than \$1 million to ensure no inherently governmental work was outsourced.

Blum is doing his part to get the more qualified message out, though he's never really played this kind of evangelist role in his nearly two decades at OFPP. But he's not out there alone. Lesley Field, deputy OFPP administrator, frequently speaks about acquisition reforms and the workforce at conferences, and Jeffrey Zients, OMB's deputy director of management and chief performance officer, has testified before Senate subcommittees about contracting, insourcing and analyses of agencies' needs. Daniel Gordon, the new OFPP administrator, touched on insourcing during his confirmation hearing Nov. 10 and in a questionnaire about his views on procurement policy.

Most importantly, though, OMB Director Peter Orszag signed the July 29 memo on how agencies should assess their multisector workforces. The memo describes what OMB wants departments to consider before pulling work away from contractors.

What's more, Orszag did not address the memo to the procurement community; he sent it directly to the heads of the departments and agencies.

"This is intended to be communication to the government writ large at the highest levels," Schooner said. While the contracting community is talking continually about insourcing these days, "our biggest fear is that the rest of the people — the big decision-makers and policy-makers — aren't thinking about these issues."

From Blum to Zients, OMB officials are waving their hands in the air, trying to get agency officials' attention. They want to warn agencies that hauling government work back in-house without deliberation isn't the way to break its dependence on contractors.

"Too often, assessments of the multisector workforce are driven by a desired outcome rather than by a reasoned consideration of an organization's true needs, as determined by an analysis of its goals and priorities," Zients told a panel of senators in October.

Moving in fits and starts

All of those OMB officials are going after agency officials before they do anything drastic. The message: Stop and study the options before rolling ahead.

Instead of simply insourcing a minimum percentage of work, OMB has told officials to bring together people from various offices — from procurement officials to personnel and budget officers — to develop ways to build a strong internal core of federal employees. Only then can agencies identify places where outside contractors can support those federal employees and their mission-critical jobs.

Orszag's memo tells officials to think about the agency's priorities for accomplishing its mission. Such an examination will help to determine which jobs must be done by federal employees and which jobs that a contractor can -- and perhaps should -- perform. Officials should consider the jobs that directly affect the accomplishment of their agency's mission as inherently governmental functions, which are jobs that only federal employees can and should do.

No argument there, say advocates for a more generous view of outsourcing. "The first thing you need to do is figure out what your mission is," said Stan Soloway, president of the Professional Services Council, a trade association for federal contractors. "Then you back off that and work with the human-capital folks and others to find the best mix in which to" accomplish that mission.

The Obama White House already has been labeled as the administration intent on insourcing government work. The president has made statements that make it sound like contractors are fattening their pockets by abusing the government.

"There is a fundamental public trust that we must uphold," Obama said. "The American people's money must be spent to advance their priorities -- not to line the pockets of contractors."

In that regard, Obama is the antithesis of his Republican predecessor. Bush is said to have put everything on the table for possible outsourcing to the private sector, to the point that a job would be a candidate for contract work until agency officials could justifiably deem the work as inherently governmental. Bush's administration also pushed competitive sourcing as a principal management tool. A controversial initiative for decades regulated by OMB Circular A-76, competitive sourcing essentially pits federal employees against companies for government work.

Once put up for competition, the work was awarded to a contractor or a group of federal employees based not on what was inherently governmental but on other factors, such as lower cost. Even then, federal employees won more than 80 percent of those public/private competitions.

But Obama administration officials have said they believe contractors have been performing inherently governmental functions and that the Bush administration outsourced too many jobs overall. As a result of the new administration's directives -- and body language -- agencies such as DOD and DHS have made plans for taking back some of that work in a few areas, particularly in acquisition work.

On the legislative side, Congress has done its part to drive the insourcing of federal work. In the past few years, appropriations bills essentially condemned competitive sourcing. However, the bills allowed departments to review jobs that were contracted to the private sector. If appropriate, the agency can take back the work if the federal employees can do it better and cheaper.

Overall, though, outsiders are skeptical about whether agency officials will follow the July 29 memo and think strategically as OMB officials are urging them to do.

"If people followed the memo that you all have put out, we'd have a very different discussion," Soloway told Blum. "We'd have a much more strategic process."

Industry experts recently told the Defense Acquisition Reform Panel that they have learned of plans by the Navy Department to insource work. Citing an internal working memo, industry sources say the Navy intends to insource 9,800 jobs during the next six years. To support this move, the memo reportedly asserts that the government can do the work 40 percent cheaper than the contractors.

That 40 percent figure has taken on the weight of urban legend in the contracting community. Skeptical industry experts have received no details on the government's math, and they question how the government is arriving at such savings estimates.

Is the government including all of the costs associated with doing the work in-house? An agency must pay for employee training, equipment, office supplies and office space. Insourcing raises the costs for health care and other employee benefits. And more employees increase the cost to the human resources offices and other offices. More than likely, industry officials say, the government is not including those indirect costs when making comparisons to a contractor's bid, which routinely bakes that overhead into its estimate.

"Too often, when we compare the private sector to the government it is apples to oranges," said Schooner of George Washington University.

Getting ready

A big question is whether the government is even ready right now for a wave of insourced government work. Agencies are having trouble filling empty jobs, and they still need to figure out which jobs contractors can and cannot do.

While OFPP's Blum said OMB could have named the July 29 workforce memo as the insourcing and inherently governmental function memo, he added that OMB is dealing with a lot more than that.

"We wanted to put this in a much broader context of truly managing," he said. "It's a management initiative and not just looking at the tools in the process."

Blum also said the memo intentionally leaves out governmentwide mandates and lets department officials decide how to analyze their own needs and ultimately decide what work should be in-house and what should be outsourced. The agencies are so different from one another in terms of mission and size and skills of their workforces, Blum said, that one definition would never work.

On that point, he has an important ally on Capitol Hill. Joseph Lieberman (I-Conn.), chairman of the Senate Homeland Security and Governmental Affairs Committee, said overarching numerical targets aren't the next step to better contracting management because agencies vary so much.

Agencies must first figure out what work is inherently governmental. No one has a clear definition, even though OFPP is crafting one now, as Congress mandated.

"The administration has to determine what is inherently governmental work and what isn't," said Norm Lorentz, director in the global public sector practice at Grant Thornton of Alexandria, Va., and former chief technology officer at OMB. But Lorentz also added: "The govies need to be in charge in all senses of the word."

Government officials have debated the issue for years — since the days when the federal government first let contractors do its work. There are some clear government-only jobs, such as conducting criminal investigations or signing a government contract. Beyond that point, however, the line essentially disappears.

One of the most recent and long-standing definitions was crafted in 1992 by Allan Burman, the OFPP administrator from 1990 to 1993 who is now president of Jefferson Solutions, a Washington, D.C., consulting firm. Burman said Congress and past administrations have wanted a black-and-white characterization of inherently governmental functions. He found that there isn't one.

"The term is so malleable," agreed Angela Styles, the OFPP administrator from 2001 to 2003 and now a partner at Crowell and Moring's Government Contracts Group. "Take any position, and you can make it an inherently governmental function."



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