U.S. Office of Personnel Management (OPM)
Federal Investigative Services Division (FIS)

WHITE PAPER

Support Services Contract
Cost Benefit Analysis

Purpose

During a Senate Homeland Security and Government Affairs Committee hearing, held jointly by the Financial and Contracting Oversight Subcommittee and the Efficiency and Effectiveness of Federal Programs and the Federal Workforce Subcommittee, on June 20, 2013, one of the Chairs of the Subcommittees requested to have FIS do a cost benefit analysis (CBA) to determine if the Support Services Contract (SSC) held by U.S. Investigations Services Inc. (USIS) was financially beneficial to the Federal Government as compared to hiring federal employees to conduct the same work.

This white paper (1) describes the methodology OPM used to compare costs and (2) OPM's analysis of results. In preparing this paper, OPM has sought to (1) capture the full costs of government and private sector performance and (2) provide "like comparisons" of costs that are of a sufficient magnitude to influence the final decision on the most cost effective source of support for the organization. These principles are laid out in OMB Memorandum M-09-26, which provides government-wide management guidance to agencies for managing the multi-sector workforce.

See: http://www.whitehouse.gov/sites/default/files/omb/assets/memoranda_fy2009/m-09-26.pdf at Attachment 1.B.2.

Application of the methodology described below suggests that it is cost effective to continue using contract support to perform a portion of the background investigation work, with the balance continuing to be performed by federal employees. Notwithstanding this finding, OPM intends to continually analyze this mix -- both from a cost and human capital perspective. Among other things, OPM will work with OMB as it develops government-wide guidance on cost-comparisons and intends to revisit its analysis based on any alternative methodologies that may result from this effort as well as based on any other programmatic changes that may be made over time to its approach to performing background investigations.

Methodology

This section outlines the methodology used to conduct a CBA of the SSC for OPM-FIS. The goal of the methodology is to determine an equivalent basis to compare the projected costs of the SSC with the projected costs if performed by Federal staff. The first step is to develop cost estimates of the SSC as detailed in the following section.

SSC Costs

To determine SSC costs, a series of steps were undertaken. Summary of costs are:

Fiscal Yr	Costs
FY2011	$ 53.93 M
FY2012	$ 46.21 M
FY2013	$ 46.02 M
FY2014	$ 47.35 M
FY2015	$ 48.71 M

Table 1 – Actual and Projected Support Services Contract Costs*[1]
*Note Q4 FY 2013 – FY 2015 costs are projected

STEP 1: The actual costs were retrieved from beginning FY 2011 through Q3 FY 2013. The remainder of FY 2013 was straight-line projected based on the actual costs from 10/1/2012 – 6/30/2013. See Table 2, below, illustrating this calculation.

FY2013 Actuals (FY13 Q1 - Q3)	Average per Month (FY13 Q1 - Q3)	FY 2013 Q4 Estimate	FY2013 Projected Total
$ 34.51 M	$ 3.83 M	$ 11.50 M	$ 46.02 M

Table 2 – FY 2013 Q1-Q3 Actual Costs with Q4 Projection[1]

STEP 2: To project the costs for FY 2014 and FY 2015, the Support Services Contract document was referenced to calculate an average percentage increase per FY. This increase was based upon the line item prices for each product. The percentage change was first calculated for Fiscal Years 2013 – 2014 (2.80% increase), and then for Fiscal Years 2014 - 2015 (2.98% increase). The percentage change was averaged over those time periods to arrive at an overall average of 2.89%. See Table 3, below, illustrating the calculations.

Fiscal Year	Average % Increase
FY 2013 - FY2014	2.80%
FY 2014 - FY2015	2.98%
Overall Average	**2.89%**

Table 3 – Average percentage change in pricing[1]

STEP 3: The overall average percentage change (2.89%) was then used to project SSC costs for FY 2014 and FY 2015. Table 4 illustrates the actual and projected costs.

Fiscal Yr	Costs
FY2011	$ 53.93 M
FY2012	$ 46.21 M
FY2013	$ 46.02 M
FY2014	$ 47.35 M
FY2015	$ 48.71 M

Table 4 – SSC Actual & Projected Costs[1]

The costs illustrated in Table 4 were used as the basis for comparison with the Federal Costs. The methodology to determine the Federal costs will be examined next.

Federal Costs

To determine Federal Costs, a series of steps were undertaken to develop an equivalent basis for comparison.

STEP 1: Personnel data for the Support Services Contract with the position-by-position description and the total number of Contractor Manpower Equivalent (CME) is shown in Table 6 below. For comparison purposes, using the provided position descriptions (and other data provided by the support contractor), equivalent Federal positions were determined. FY 2012 salaries were then applied according to General Schedule (GS) and Wage Grade (WG) scales (refer to Table 6 to see how SSC position descriptions relate to the Federal GS and WG scales).

STEP 2: Because the number of people in each type of position fluctuates significantly annually (as shown in table 5) an average CME for each position was calculated. The calculation was done by taking the average for each year (2010-2011 [867.5]; 2011-2012 [962.5]; 2012-2013 [996.0]) and then averaging these three periods to calculate an overall average (942). Table 5 summarizes this calculation for all positions.

SSC Job Title	Actual				Averages			
	31-Dec-10	31-Dec-11	31-Dec-12	31-May-13	2010-2011	2011-2012	2012-2013	3 YR avg
Support Schedule Technician	211	204	265	241	207.5	234.5	253.0	**231.7**
Support File Technician	133	131	186	165	132.0	158.5	175.5	**155.3**
Support Imaging Technician	80	91	88	92	85.5	89.5	90.0	**88.3**
Support Pre-Review	221	330	269	287	275.5	299.5	278.0	**284.3**
Support Telephone Liaisons	9	6	6	6	7.5	6.0	6.0	**6.5**
Support Case Closing	25	34	29	32	29.5	31.5	30.5	**30.5**
Support Case Closing Automated	9	12	12	12	10.5	12.0	12.0	**11.5**
Support Post Closing	18	17	16	13	17.5	16.5	14.5	**16.2**
Support Mailroom Technician	51	48	56	61	49.5	52.0	58.5	**53.3**
Support Quality Control	5	13	17	22	9.0	15.0	19.5	**14.5**
Support Manager	22	24	25	42	23.0	24.5	33.5	**27.0**
Support Other	19	22	24	26	20.5	23.0	25.0	**22.8**
Sub Total Program FTE	**803**	**932**	**993**	**999**	**867.5**	**962.5**	**996.0**	**942.0**

Table 5 – CME/FTE average calculations[4]

STEP 3: To make a valid comparison, we considered average CME totals as analogous to FTE totals. To calculate a FY 2012 base salary total for the Federal equivalent staff, the average FTE was multiplied by the GS or WG salary for each position. All positions were then totaled to derive a total base salary. The below example demonstrates how the base salary for one position was calculated.

> *EXAMPLE: The Federal equivalent for an Imaging Technician is GS-2 Step 1 (FY12 salary = $23,294). The overall CME average for this position is 46 FTE. Therefore, the total base salary cost for this position is $1.07M ($23,294 * 46 FTE).*

Table 6, below, illustrates the FY 2012 base salary for each position along with the total base salary ($31.46M).

Federal Position / Support Contract Position	Step 1 Salary	Total FTE	Total Salary
GS-2	**$ 23,294**	**53.0**	**$ 1.23 M**
Imaging Technician	$ 23,294	46.0	$ 1.07 M
Office Machine Operator	$ 23,294	7.0	$ 0.16 M
GS-3	**$ 25,415**	**224.2**	**$ 5.70 M**
Data Support Clerk	$ 25,415	123.3	$ 3.13 M
Mail Clerk	$ 25,415	48.8	$ 1.24 M
Material Processing Technician	$ 25,415	32.8	$ 0.83 M
Clerk	$ 25,415	9.0	$ 0.23 M
Telephone Liasion	$ 25,415	6.5	$ 0.17 M
ISD Security Monitor	$ 25,415	3.8	$ 0.10 M
GS-4	**$ 28,532**	**223.5**	**$ 6.38 M**
Case Screening Technician	$ 28,532	207.7	$ 5.93 M
Workload Leader	$ 28,532	4.4	$ 0.13 M
Inv Record Techinician	$ 28,532	3.7	$ 0.11 M
File Release Clerical	$ 28,532	3.7	$ 0.11 M
Technical Associate	$ 28,532	3.0	$ 0.09 M
*Ops Manager	$ 28,532	1.0	$ 0.03 M
GS-5	**$ 31,921**	**28.3**	**$ 0.90 M**
Case Closing Technician	$ 31,921	11.5	$ 0.37 M
Redaction Release Specialist	$ 31,921	10.3	$ 0.33 M
Mail Support Technician	$ 31,921	2.5	$ 0.08 M
Ops Manager	$ 31,921	2.0	$ 0.06 M
Operations Assistant	$ 31,921	2.0	$ 0.06 M
GS-6	**$ 35,582**	**52.5**	**$ 1.87 M**
Data Support Technician	$ 35,582	35.5	$ 1.26 M
Corrections Tech	$ 35,582	15.0	$ 0.53 M
Ops Manager	$ 35,582	2.0	$ 0.07 M

Federal Position / Support Contract Position	Step 1 Salary	Total FTE	Total Salary
GS-7	**$ 39,541**	**303.6**	**$ 12.00 M**
Material Analyst I	$ 39,541	238.8	$ 9.44 M
Support Services Team Leader	$ 39,541	30.0	$ 1.19 M
Investigative Specialist SS	$ 39,541	18.5	$ 0.73 M
Material Analyst II	$ 39,541	14.8	$ 0.59 M
Ops Manager	$ 39,541	1.0	$ 0.04 M
Quality Control Technician	$ 39,541	0.5	$ 0.02 M
GS-8	**$ 43,791**	**7.0**	**$ 0.31 M**
Ops Manager	$ 43,791	7.0	$ 0.31 M
GS-9	**$ 48,367**	**18.0**	**$ 0.87 M**
Reviewer	$ 48,367	9.7	$ 0.47 M
Corrections Analyst	$ 48,367	5.0	$ 0.24 M
PIC Specialist	$ 48,367	3.3	$ 0.16 M
GS-11	**$ 58,519**	**10.3**	**$ 0.60 M**
Ops Manager	$ 58,519	7.0	$ 0.41 M
Quality Assurance Team Leader	$ 58,519	2.3	$ 0.13 M
Management Analyst	$ 58,519	1.0	$ 0.06 M
WG-5	**$ 58,874**	**1.2**	**$ 0.07 M**
Warehouseman	$ 58,874	1.2	$ 0.07 M
GS-12	**$ 70,141**	**16.5**	**$ 1.16 M**
Quality Assurance Specialist	$ 70,141	9.7	$ 0.68 M
Senior Operations Manager	$ 70,141	3.0	$ 0.21 M
Training Specialist	$ 70,141	2.8	$ 0.20 M
Ops Manager	$ 70,141	1.0	$ 0.07 M
GS-13	**$ 83,407**	**2.0**	**$ 0.17 M**
Quality Assurance Manager	$ 83,407	1.0	$ 0.08 M
Training Manager	$ 83,407	0.5	$ 0.04 M
Process Improvement Leader	$ 83,407	0.5	$ 0.04 M
GS-14	**$ 98,562**	**0.8**	**$ 0.08 M**
SS Deputy Program Manager	$ 98,562	0.8	$ 0.08 M
GS-15	**$ 115,937**	**1.0**	**$ 0.12 M**
Vice President Support Services	$ 115,937	1.0	$ 0.12 M
Grand Total		**941.9**	**$ 31.46 M**

Table 6 – Federal Equivalent and Support Contract positions with FY12 base salary information[2,3]

STEP 4: Using the total FY 2012 base salary of $31.46M three additional measurements were applied to the Base Salary Cost to arrive at a Total Cost: 1) Benefits Rate (31.5%)[5]; 2) Overhead Rate (18.9%)[5]; and 3) Inflation Factor (2.5%). The Benefits Rate used is the current Fiscal Year benefits rate. The Overhead Rate used was derived from the FY 2012 OPM-FIS Cost Allocation Model (CAM) and is solely representative of overhead costs in FY 2012.

The Inflation Factor was assigned a value of 2.5%. Table 7, below, illustrates the FY2012 Base Salary Cost with these measurements applied. The Inflation Factor was used to project costs for FY 2013 – FY 2015.

Step	Measurment	Amount	Calculation
1	Base Salary	$ 31.46 M	From Table 6 for FY 2012
2	Benefit Cost	$ 9.91 M	Base Salary * Benefit Rate (31.5%)
3	Salary & Benefit Cost	$ 41.36 M	Base Salary + Benefit Cost
4	Overhead Cost	$ 7.82 M	Salary & Benefit Cost * Overhead Rate (18.9%)
5	FY12 Total Staff Cost	$ 49.18 M	Salary & Benefit Cost + Overhead Cost
6	FY13 Total Staff Cost	$ 50.41 M	FY12 Total Staff Cost * Inflation Factor (2.5%)
7	FY14 Total Staff Cost	$ 51.67 M	FY13 Total Staff Cost * Inflation Factor (2.5%)
8	FY15 Total Staff Cost	$ 52.96 M	FY14 Total Staff Cost * Inflation Factor (2.5%)

Table 7 – Total estimated Federal costs[2]

STEP 5: The total Federal costs for Fiscal Years 2013-2015, were divided by the FTE number (942) to arrive at a normalized per FTE cost, per Fiscal Year. Normalizing the FTE was done to account for overall fluctuations in all staff and, in addition, fluctuations of staff within each contractor position type. As a result, OPM-FIS was able to derive the most accurate average cost per FTE. Table 8, below, illustrates the per FTE calculation.

Fiscal Year	FTE	Total Staff Cost	Avg Staff Cost/FTE
FY 2013	942	$ 50.41 M	$ 53,520.13
FY 2014	942	$ 51.67 M	$ 54,858.14
FY 2015	942	$ 52.96 M	$ 56,229.59

Table 8 – Per FTE cost calculation[2]

STEP 6: Once an accurate cost per FTE was derived in step 5, OPM-FIS needed to evaluate the optimal number of FTE needed to run a fully efficient and productive operation. According to the Technical Proposal of the Support Services Contract, the requisite CME needed to meet workload demands is 994 (current SSC staffing level is 999). Therefore, multiplying the normalized per FTE cost by994, provides the appropriate comparison of the costs generated by the SSC and the hypothetical costs generated by a similar Federal effort. Table 9, below, illustrates the total Federal equivalent costs for FY 2013 –FY 2015.

Fiscal Year	Avg Staff Cost/FTE	FTE (per SSC Tech Proposal)	Total Staff Cost
FY 2013	$ 53,520.13	994	$ 53.20 M
FY 2014	$ 54,858.14	994	$ 54.53 M
FY 2015	$ 56,229.59	994	$ 55.89 M

Table 9 – Total Federal Equivalent Costs[2]

The Analysis section will examine these differences next, but first, the assumptions made during this analysis will be addressed.

Assumptions

The methodology above includes several assumptions. They are as follows:

1) Based on the recent workload trends, we assumed workload will remain constant until contract expiration (FY 2015).
2) Costs compare only the years until expiration (FY 2015); years beyond contract expiration were not factored in (especially important for future Federal costs).
3) Federal personnel estimates will be one-to-one, rather than some existing SSC positions being absorbed by current organization structure.

Analysis

	Support Services Contract (SSC)			Federal Equivalent			Savings from Federal Equivalent	
	CME	Cost per CME	Total Cost	FTE	Cost per FTE	Total Cost	Cost per CME/FTE	Total Cost
FY 2013	994	$ 46,293.52	$ 46.02 M	994	$ 53,520.13	$ 53.20 M	$ 7,226.61	$ 7.18 M
FY 2014	994	$ 47,631.83	$ 47.35 M	994	$ 54,858.14	$ 54.53 M	$ 7,226.31	$ 7.18 M
FY 2015	994	$ 49,008.82	$ 48.71 M	994	$ 56,229.59	$ 55.89 M	$ 7,220.77	$ 7.18 M
Total			**$ 142.08 M**			**$ 163.62 M**		**$ 21.54 M**

Table 10 – SSC Costs vs. Federal Costs[6]

As explained in the last paragraph of the Methodology section, the normalized per FTE cost was multiplied by 994 to arrive at a basis for comparison with the SSC. Table 10, above, illustrates the results of the analysis.

According to the analysis, in FY 2013 a Federal Equivalent support function would cost $53.20M, which results in a $7.18M (16%) increase to current costs. Similar increases can be expected in FY 2014 ($7.18M) and FY 2015 ($7.18M). Overall, based on the methodology outlined above, it is estimated that from FY 2013 –FY 2015 total savings by continuation of the SSC as compared to a Federal Equivalent operation would be $21.54M.[1]

OPM used available data in calculating costs, such as benefits and overhead, so as not to over- or under-inflate costs. While OPM prefers to use factors shaped by available cost experience to the

[1] Another significant factor and important consideration is the additional federal retirement costs for added federal staff. While these costs may not directly show in OPM-FIS's bottom line, a cost would still be incurred within the Federal Government, which means the savings to the taxpayer from contract performance are likely to be larger than indicated by this methodology.

general assumption made in Circular A-76, it recognizes that the longstanding overhead rate (12%) and benefits rate (36.45%) in the Circular are different than that in OPM's model. For this reason, OPM performed additional analysis using the lower overhead rate and higher benefits rate to see if it affects the bottom-line conclusion. Table 11, below, summarizes the analysis with incorporated A-76 figures for benefits and overhead.

	Support Services Contract (SSC)			Federal Equivalent			Savings from Federal Equivalent	
	CME	Cost per CME	Total Cost	FTE	Cost per FTE	Total Cost	Cost per CME/FTE	Total Cost
FY 2013	994	$ 46,293.52	$ 46.02 M	994	$ 52,311.98	$ 52.00 M	$ 6,018.45	$ 5.98 M
FY 2014	994	$ 47,631.83	$ 47.35 M	994	$ 53,619.78	$ 53.30 M	$ 5,987.95	$ 5.95 M
FY 2015	994	$ 49,008.82	$ 48.71 M	994	$ 54,960.27	$ 54.63 M	$ 5,951.45	$ 5.92 M
Total			**$ 142.08 M**			**$ 159.93 M**		**$ 17.85 M**

Table 11 – SSC Costs vs. Federal Costs Applying A-76 Guidance

OPM found that continued use of contract support would still provide savings over federal performance even using the A-76 rates -- i.e., $142.08M for contract performance from FYs 13-15 vs. $159.93M for performance by federal employees (a nearly 13% savings).

Having a portion of the background investigation function performed by contract support provides other benefits beyond that which is reflected in the figures above. Of particular note, contract support allows OPM to better manage the fluctuation in workload, since it can increase or decrease the amount of investigation work in real time that it tasks to the contractor. According to the SSC, beginning in FY 2012 through May 2013, personnel fluctuated from 824 to 994- a difference of 170 personnel. [7] Since the same flexibility to increase and decrease labor based on existing workload doesn't exist when using full-time federal employees, OPM would need to consider the cost impact if all background investigation work were performed by federal employees. For example, since FIS prices its products to fully recover the cost to produce those products, it could potentially need to raise prices to mitigate the risk and cover costs in situations where workload diminishes.

In short, OPM believes the above analysis supports the continued use of contract support as part of a strategy that relies on a mix of contract and federal employees to perform background investigations. However, as explained above, OPM intends to continually analyze its workforce mix, both from a cost and human capital perspective. It will revisit this cost analysis based on any alternative methodologies that may result from OMB's efforts to develop government-wide guidance on cost-comparisons as well as any other programmatic changes that may be made over time to its approach to performing background investigations.

In addition, OPM remains committed to ensuring that when work is performed by a contractor, there is effective oversight and management of the contractor's activities. This oversight is critical to holding contractors to the terms of their contract and making sure they act with appropriate business ethics and integrity. This oversight is also critical to making sure that the responsibilities of the contractor do not expand to include activities which are inherently governmental. For example, under any scenario involving performance by an SSC, OPM will

continue to ensure that all decisions on whether or not to grant a clearance shall be made only by government officials.

References

1) Actual Support Costs were pulled from our Billing file via reporting software; Estimated Support Costs over the contract period were pulled from the SSC's Technical Proposal. Both costs were combined on an Excel spreadsheet – "ContractorCosts_by_CaseType_FY11-13_Final_20130709".
    a. The FY2013 projection is located in the spreadsheet "ContractorCosts_by_CaseType_FY11-13_Final_20130709", within the sheet called, "FY13-Data".
2) Federal calculations were derived using Microsoft Excel – "Fed_Data_Final_20130709".
3) WG Hourly information obtained in an email from OPM Human Resources – "USIS Support Positions GS Equivalents (WG Hourly Table)".
   WG Hourly to Salary conversion information obtained in an email from OPM Human Resources – "USIS Support Positions GS Equivalents (Salary Conversion)".
4) The Support Contractor Provided an Excel spreadsheet with personnel numbers – "USIS_Support_Staff 2008 to May 31 OPM Confidential_Final_20130709" (information is proprietary to contractor).
5) Benefits & Overhead Rates (obtained from FY12 Cost Allocation Model) calculated using Microsoft Excel – "Federal FTE cost calc_Final_20130709". The CAM identified non-labor overhead costs for FY 2012, including equipment, supplies, space, and other tasks related to headquarters management, accounting, human resources support, legal support, IT support, and similar common services performed external to but in support of the background investigation work performed within FIS.
6) The cost comparison of the SSC and the Federal effort was created using Microsoft Excel – "CBA Table_CostCompare_Final_20130709".
7) The Month-to-Month fluctuations were obtained from the SSC via an email – "SSC Month-to-Month Fluctuations".