



**Post-Hearing Questions for the Record
Submitted to Chuck Grimes,
Chief Operating Officer, U.S. Office of Personnel Management
From Senator Daniel K. Akaka**

**“Contractors: How much are they costing the government?”
March 29, 2012**

- 1. You testified that Strategic Alignment is an essential part of effective workforce planning. How can agencies make sure that insourcing evaluates human capital needs to fulfill an agency’s mission and is not driven by quotas?**

The strategic alignment process initiates the crosswalk between an agency’s mission to its strategic plan to help determine the human capital (quantity of staff, staffing requirements and/or competencies) required to ensure mission accomplishment. In conjunction, through a strategic workforce planning process, agencies assess the composition of their current workforce by an analysis of their current personnel in the context of agency mission and specific strategic goals to calculate staffing and/or competency gaps.

In short, the strategic alignment and strategic workforce planning processes determine agencies’ human capital needs enabling agencies to build their workforce to ensure mission fulfillment.

- 2. The Congressional Budget Office (CBO) recently issued a report comparing Federal and private sector compensation. However, it compared individual employee characteristics rather than occupations. Additionally, some of the data may have mistakenly come from contractors, possibly making Federal compensation appear higher. What impact does CBO’s methodology have on the reliability of the study’s results?**

The CBO study compared compensation (both pay and benefits) per hour worked of Federal employees with the compensation of private sector employees with similar characteristics in large establishments. The employee characteristics CBO considered included broad occupational group, estimated years in the labor market, education level, age, gender, race, whether the employee was in a metropolitan area, etc. The CBO study did not compare similar jobs at the same levels of work within each locality pay area as required by both the General Schedule locality pay system and the Federal Wage System. CBO used 24 very broad occupational groupings, and the distribution of Federal versus private sector employees across specific occupations within those groupings may be very different. However, CBO’s findings did not change substantively when they used narrower occupational groups. CBO did not consider



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the employee's tenure with the specific employer. CBO also included private sector workers in the Leisure and Hospitality industry which tends to provide fewer benefits to its employees. The Federal Government has few employees in many of the jobs found in the Leisure and Hospitality industry and including these employers likely understates the value of benefits provided to private sector employees in jobs similar to Federal jobs.

More generally, it is worth reiterating, as noted in OPM's written testimony, that a simple comparison of labor costs alone is not likely to answer the question of which sector would be more cost-effective and efficient in performing a given task in a specific circumstance. For example, a cost comparison to consider in-house performance as an alternative to continued contract performance might be beneficial if requirements tend to be managed best through an employer-employee relationship, the agency has experience performing the work in-house, the ability to recruit for the skill is high, and the government has historically had challenges with contractor performance. By contrast, the benefit of a cost comparison may be lower if the agency is looking to meet a surge, short term, capacity that would be costly to address through a long-term hiring, the agency currently lacks an in-house capability to perform the work, and the agency has had considerable success in getting good performance at a reasonable cost from its contractors. All of these factors may have a role in determining when a cost comparison is likely to be most effective in achieving best value for the taxpayer.

- 3. In his Plan for Economic Growth and Deficit Reduction, the President proposed a cap on contractor pay equal to the top of the Federal Executive Schedule –approximately \$200,000 per year. Under the current formula, taxpayers may have to pay up to \$700,000 for contractor employees. What are your thoughts on the President's proposal and should it be implemented?**

The Administration's efforts to limit the amount reimbursed for contractor compensation will improve fiscal management and better contain procurement costs.