Testimony of POGO's Scott Amey, General Counsel
before the Senate Committee on Homeland Security
and Governmental Affairs, Subcommittee on
Contracting Oversight

I want to thank Chairman McCaskill, Ranking Member Portman, and the Subcommittee for asking the Project On Government Oversight (POGO)[1] to submit written testimony about the important, but often ignored, issue of service contracting costs. Although there are many initiatives in place to cut federal agency spending and reduce the costs associated with the federal workforce, the cost of contractor services has escaped scrutiny. Such avoidance is extremely disturbing because the government annually spends more taxpayer dollars on contractor services than it spends on goods, over $320 billion and $210 billion in FY 2011, respectively.[2] To put that level of spending in perspective, total contract spending was $205 billion in FY 2000, of which services accounted for $128 billion of the total.[3] This hearing, titled "Contractors: How Much Are They Costing the Government?" will cast a light on one of the most, if not the most, important topics for the government today.

The Subcommittee will have trouble reaching a definitive answer about whether the hundreds of billions of dollars spent on services are being spent wisely. The reason is simple: except in very limited circumstances, the federal government does not have accurate data about service contracts and the contractors performing those services. Moreover, the government does not have a government-wide cost modeling system that compares the life-cycle cost of in-house and contractor personnel. As a result, the government often turns to service contractors under the misguided assumption that market economies enable contractors to be more cost efficient than the government.

As a matter of introduction, I will strongly encourage this Subcommittee to avoid that trap. A POGO study empirically confirmed that, in essence, there are three labor markets (the private sector, the public sector, and the contractor sector) and that salaries, compensation, overhead, and profit differ among the three. POGO's findings have been confirmed by isolated cases, which we highlight in our report, *Bad Business: Billions of Taxpayer Dollars Wasted on Hiring Contractors*.[4] POGO's report convincingly dispels the myth that private sector market economies

[1] Founded in 1981, POGO is a nonpartisan independent watchdog that champions good government reforms. POGO's investigations into corruption, misconduct, and conflicts of interest achieve a more effective, accountable, open, and ethical federal government. For more information about POGO, please visit www.pogo.org.
[2] USAspending.gov.
[3] USAspending.gov.
[4] See Appendix A for a copy of the report, excluding its appendices. POGO Report, *Bad Business: Billions of Taxpayer Dollars Wasted on Hiring Contractors*, September 13, 2011. http://www.pogo.org/pogo-files/reports/contract-oversight/bad-business/co-gp-20110913.html (hereinafter POGO *Bad Business* report)

necessarily allow contractors to perform government services at a cost savings to the government. The reality is that there are no generalizations that withstand scrutiny as to which market sector provides the optimal cost efficiency for any service area, no less all service areas. As a result, the federal government must, on a case-by-case basis, analyze whether it is more appropriate and cost efficient to employ government or contractor employees.

The purpose of this hearing is to examine whether and how cost information is used by government agencies to make decisions about whether work should be performed by federal employees or contractors. Throughout this testimony, I will expand on the lack of personnel and cost data and what needs to be done to improve the system. POGO truly believes that if simple fixes are made, the government will save billions of dollars without expanding or reducing the size of the total federal workforce, which includes government and contractor employees.

Today, witnesses will likely testify about two comparative cost models that are currently used to determine whether it is less costly to have private contractors perform government services, OMB Circular A-76 and the Defense Department's Directive-Type Memorandum (DTM) 09-007, "Estimating and Comparing the Full Costs of Civilian and Military Manpower and Contract Support."[5] Those models are utilized, however, in only a small percentage of cases where the government contracts for services. In a vast majority of those instances, the models demonstrated that contractors were unable to accord any savings; indeed, were the government to transfer government services to contractors, the government would incur excessive costs. But even these models have been the subject of criticism for their failure to provide the government with an effective cost modeling system that accurately reflects all the relevant cost factors.[6] Because it does not approach the state-of-the-art systems employed by sophisticated business enterprises, the government limits its ability to make competent human capital planning decisions.

I hope that this written testimony provides the Subcommittee with useful information about the government's current inability to evaluate service contracting costs. More importantly, I hope this testimony will make clear what is missing in the current system and how to begin rectifying systematic flaws that cost taxpayers billions of dollars each year. So much is unknown about the true size and cost of both the government and contractor workforce. Congress must pass legislation that will create an effective government-wide cost modeling system and overhaul

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[5] Federal law requires that the "Secretary of Defense shall use the least costly form of personnel consistent with military requirements and other needs of the Department," which includes considering converting work from military, civilian, or private contract. 10 U.S.C. 129a. http://uscode.house.gov/uscode-cgi/fastweb.exe?getdoc+uscview+t09t12+75+1++%28%29%20%20AND%20%28%2810%29%20ADJ%20USC%29%3ACITE%20AND%20%28USC%20w%2F10%20%28129a%29%29%3ACITE

[6] Congressional Research Service, *Defense Outsourcing: The OMB Circular A-76 Policy* (RL30392), June 30, 2005, pp. 4-6. http://www.fas.org/sgp/crs/natsec/RL30392.pdf (Downloaded April 20, 2011); In addition, a Center for Strategic and International Studies (CSIS) report highlights the inherent problems with government life-cycle cost comparison models and appropriate overhead rates, and proposed a cost-estimating methodology. Although the report discusses a comprehensive cost estimation methodology that should be used to create a baseline for making more accurate cost comparisons, it is silent on all the costs the government incurs, above and beyond fixed billing rates, associated with the award, administration, and oversight of service contracts. Center for Strategic and International Studies, *DoD Workforce Cost Realism Assessment*, May 2011, pp. 11-19. http://csis.org/files/publication/110517_Berteau_DoDWorkforceCost_Web.pdf (Downloaded May 18, 2011) (hereinafter DoD Workforce Cost Realism Assessment)

service contract inventories.[7] Such legislation will enable decision makers to identify costly service contracts and provide agencies with the tools necessary to avoid transferring government services to contractors at unjustifiable costs.

Service Contracting Myths

POGO has watched federal contract award dollars dramatically increase from just over $200 billion in FY 2000 to over $530 billion in FY 2011.[8] At the same time, service contract dollars have also been escalating at a rapid pace. There is no doubt that the increase in contract spending is the direct result of 9/11, Hurricanes Katrina, Rita, and Wilma, and the wars in Iraq and Afghanistan. However, the problem is more long-standing, and is the direct result of multiple administrations moving functions from the public to the private sector under the guise of cost savings.

Both political parties have taken issue with the proper size of the federal civilian workforce and the proper balance between government employees and contractor employees.[9] Initiatives to make the government run like the private sector and shrink the size of the federal government became very popular in the 1980s and 1990s. Even today, there are calls in Congress to reduce the size of government and freeze federal employee salaries.[10]

The first myth of service contracting involves the notion that when the federal government outsources work to contractors, contractor employees are not part of "big government," although many are retired federal employees, are paid with taxpayer dollars, work inside government offices, and/or perform government missions. Because they are generally not seen as part of the total government workforce, they are spared the wrath of budget hawks calling for personnel reductions and cuts in benefits. The number of contractor employees in the federal workforce is in excess of 7 million, nearly four times the size of the federal employee workforce (which is over 2 million).[11] The actual number of service contractors is, at best, an estimate,[12] although

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[7] GAO found differing methodologies among the services and data was not complete. Government Accountability Office, *Defense Acquisitions: Observations on the Department of Defense Service Contract Inventories for Fiscal Year 2008 (*GAO-4 10-350R), January 29, 2010, pp. 1-5. http://www.gao.gov/assets/100/96539.pdf (Downloaded March 27, 2012)

[8] According to data compiled by POGO from the Federal Procurement Data System – Next Generation and USAspending.gov for fiscal years 2000 and 2011. http://www.usaspending.gov/

[9] Ed O'Keefe, "Eye Opener: Homeland Security has more contractors than feds," *The Washington Post*, February 24, 2010. http://voices.washingtonpost.com/federal-eye/2010/02/eye_opener_homeland_security_h.html (Downloaded September 27, 2010)

[10] For example, the House Budget Committee is seeking to "[b]oost private-sector employment by slowing the growth of the public sector, achieving a 10 percent reduction over the next three years in the federal workforce through attrition, coupled with a pay freeze until 2015 and reforms to government workers' fringe benefits. House Budget Committee, *The Path to Prosperity: A Blueprint for American Renewal*, March 20, 2012, p. 32. http://budget.house.gov/UploadedFiles/Pathtoprosperity2013.pdf (Downloaded March 26, 2012)

[11] U.S. Office of Personnel Management, Federal Employment Statistics, "Historical Federal Workforce Tables: Executive Branch Civilian Employment Since 1940." http://www.opm.gov/feddata/HistoricalTables/ExecutiveBranchSince1940.asp (Downloaded March 27, 2012)

[12] When the contractor workforce is combined with civilians, military personnel, U.S. Postal Service employees, and grantees, the size of the blended federal workforce was estimated at 14.6 million people in 2005. Paul C. Light, The New True Size of Government, New York University, August 2006, p. 8. http://wagner.nyu.edu/performance/files/True_Size.pdf (Downloaded March 27, 2012); Paul C. Light, "The real

there are efforts underway to improve those estimates.[13] Recent legislation designed to create inventories of service contracts and identify the precise number of contractor employees has failed to be implemented in a manner that would achieve its intent.[14] As a result, no one has a better understanding of the size of the contractor workforce today than we did before the legislation was adopted. Congress should amend the laws creating service contract inventories to mandate a full and comprehensive account of precisely how large a contractor workforce each federal agency maintains. Further, it must include all tiers of subcontractors, broken out by the types of services they provide, the billing rates the government must pay, and the costs it must incur to maintain that workforce.

The second myth is that the private sector is in all ways more cost efficient, more innovative, and more flexible than the government. This supposition might be true in certain circumstances, but policymakers have been misled about promised across-the-board savings resulting from hiring service contractors. In fact, long-term service contracts (which began as short-term quick fixes) remove government flexibility and result in cost inefficiencies rather than savings over the lifetime of the contract.[15] Consequently, recent GAO reports sought to discuss areas where agencies could achieve better cost savings, but not a single report attempted to identify the government's over-bloated reliance upon service contracts as an area for cost savings.[16] The excessive costs associated with service contracts such as those documented in POGO's *Bad Business* report do not appear on the radar screen of Congress' primary auditing and investigative organization. This institutional failure reflects the power of the aforementioned myth. Congress must bust this myth and bring focus and attention to maybe the most critical source of government waste and administrative inefficiencies.

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crisis in government," The Washington Post, January 12, 2010, p. A17. http://www.washingtonpost.com/wp-dyn/content/article/2010/01/11/AR2010011103255.html (Downloaded March 29, 2011); Hearing Statement of Paul C. Light, New York University/The Brookings Institution, before the U.S. Senate Subcommittee on Oversight of Government Management, the Federal Workforce and the District of Columbia, "An Update on the Bush Administration's Competitive Sourcing Initiative," July 24, 2003. http://wagner.nyu.edu//faculty/publications/files/lightCompetitiveSourcing.pdf (Downloaded September 27, 2010); Government Accountability Office, Defense Acquisitions: Observations on the Department of Defense Service Contract Inventories for Fiscal Year 2008 (GAO-10-350R), January 29, 2010, pp. 2-4. http://www.gao.gov/new.items/d10350r.pdf (Downloaded March 26, 2012)

[13] Government Accountability Office, *OMB Service Contracts Inventory Guidance and Implementation* (GAO-11-538R), May 27, 2011, p. 4. http://www.gao.gov/new.items/d11538r.pdf (Downloaded March 26, 2012)

[14] National Defense Authorization Act for Fiscal Year 2008 (Pub. Law 110-181), § 807(a), January 28, 2008; Consolidated Appropriations Act for FY 2010 (Pub. Law 111-117), § 743, December 16, 2009.

[15] For instance, the Army logistics support LOGCAP IV contract award to three different contractors has one base year and nine option years. U.S. Army Sustainment Command Public Affairs, "ASC selects LOGCAP IV contractors," June 28, 2007. http://www.army.mil/article/3836/asc-selects-logcap-iv-contractors/ (Downloaded May 31, 2011)

[16] Government Accountability Office, *2012 Annual Report: Opportunities to Reduce Duplication, Overlap and Fragmentation, Achieve Savings, and Enhance Revenue* (GAO-12-342SP), February 2012. http://www.gao.gov/assets/590/588818.pdf (Downloaded March 26, 2012); Statement of Cathleen A. Berrick, Managing Director Homeland Security and Justice Issues Government Accountability Office, "*Department of Homeland Security: Actions Needed to Reduce Overlap and Potential Unnecessary Duplication, Achieve Cost Savings, and Strengthen Mission Functions* (GAO-12-464T)," March 8, 2012. http://www.gao.gov/assets/590/589125.pdf (Downloaded March 27, 2012)

An attempt by a private sector think tank to study the issue of comparative costs was flawed, as the report compared public and private sector salary or compensation and projected their findings onto the costs of transferring services to the contractor sector without a shred of evidence that such projections are valid. Indeed, such projections are both theoretically and factually flawed. Moreover, POGO is aware of a GAO study that is underway that is reviewing public and private sector pay comparability. However, it is our understanding that GAO will not address whether or how such comparisons inform the cost effectiveness of contracting for government services.[17]

Additionally, last year, the House Subcommittee on Federal Workforce, U.S. Postal Service, and Labor Policy held a hearing titled "Are Federal Workers Underpaid?"[18] The hearing discussed the findings of a study funded by the Heritage Foundation comparing public and private sector pay.[19] The Heritage study suffered from a number of methodological problems that call into question the validity of its findings and recommendations, including its recommendation that the government hire more contractors.[20] Despite Heritage's claim that federal employees are compensated at higher rates than private sector employees, Heritage did not empirically determine whether or not those savings would, in fact, be realized were the government to transfer its services to the contractor sector.

A recent report by the Congressional Budget Office (CBO), "Comparing the Compensation of Federal and Private-Sector Employees,"[21] also compared public and private sector pay. CBO found that, overall, "federal workers tend to be older, more educated, and more concentrated in professional occupations than private-sector workers," and, on average, are paid 16 percent more than similar employees in the private sector. However, that trend occurs mostly in the lower education levels. Public servants with advanced degrees were paid 18 percent less in total compensation than the private sector.[22] POGO found a very similar disparity in our *Bad Business* report. However, our report also found that contractors cost, on average, 83 percent more than federal employees and over 100 percent more than their peers in the private sector for 35 comparable occupations.

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[17] POGO staffers have met on two occasions with GAO personnel who are conducting a congressionally requested study of public and private sector pay. "Comparability" of federal employee compensation with private sector compensation is legislatively mandated. Office of Personnel Management, "Federal Employees Pay Comparability Act of 1990". http://www.opm.gov/feddata/html/paystructure/2004/fepca1990.asp (Downloaded March 26, 2012)

[18] Hearing of House Oversight and Government Reform Subcommittee on Federal Workforce, U.S. Postal Service, and Labor Policy, "Are Federal Workers Underpaid?", March 9, 2011. http://oversight.house.gov/hearing/are-federal-workers-underpaid/

[19] James Sherk, *A Report of the Heritage Center for Data Analysis: Inflated Federal Pay: How Americans Are Overtaxed to Overpay the Civil Service* (Report # 10-05), July 7, 2010, p. 1. http://thf_media.s3.amazonaws.com/2010/pdf/CDA10-05.pdf (Downloaded September 27, 2010) (hereinafter Heritage Study). The Heritage Foundation "is a research and educational institution—a think tank—whose mission is to formulate and promote conservative public policies based on the principles of free enterprise, limited government, individual freedom, traditional American values, and a strong national defense." http://www.heritage.org/About

[20] Heritage Study, p. 16.

[21] Congressional Budget Office, *Comparing the Compensation of Federal and Private-Sector Employees*, January 2012. http://www.cbo.gov/sites/default/files/cbofiles/attachments/01-30-FedPay.pdf (Downloaded March 26, 2012) (hereinafter CBO Pay Study)

[22] CBO Pay Study, p. vii-ix.

We should also consider the data that has been analyzed by the Office of Personnel Management (OPM). OPM data compares various occupations, including those set and adjusted in the General Schedule (GS) rates of pay, documenting that compensation for many white collar jobs is lower in the federal government than in the private sector. One example provided by OPM clearly shows that federal pay for a government engineer is lower than private sector pay.[23]

Studies comparing public and private sector pay are only useful for limited purposes, but they will continue to drive policy decisions until Congress mandates that cost comparisons include the aforementioned third market: contractor costs. This includes salary, full fringe benefits, all overhead to house federal and contractor employees, accurate data on contractor personnel, and fully loaded costs. Without taking the full universe of costs into account, the government risks wasting billions of dollars and jeopardizing the quality of government services.[24]

POGO's Study Proves a More Complete Picture is Needed

For the first time, POGO's study introduced into discussions concerning public-private compensation the issue of costs associated with transferring government jobs to contractors. POGO compared total annual compensation for federal and private sector employees with federal contractor billing rates in order to determine whether the current costs of federal service contracting serve the public interest. POGO found that the government pays service contractors at rates exceeding the cost of employing federal employees to perform comparable functions and far exceeding (more than double) the cost of employing private sector workers.

POGO's study analyzed the total compensation paid to federal and private sector employees, and annual billing rates for contractor employees across 35 occupational classifications covering over 550 service activities.[25] (See Table 1) Our findings were shocking—POGO determined the government pays billions more to hire contractors than it would spend to hire federal employees to perform the same service. Specifically, POGO's study shows that the federal government approves service contract billing rates—deemed fair and reasonable—that pay contractors **1.83 times** more than the government pays federal employees in total compensation, and more than **2 times** the total compensation paid in the private sector for comparable services.

We also found:

- Federal government employees were less expensive than contractors in **33 of the 35** occupational classifications POGO reviewed.

- In one instance, contractor billing rates were **nearly 5 times** more than the full compensation paid to federal employees performing comparable services.

[23] Office of Personnel Management, "Use of Bureau of Labor Statistics Data for Setting General Schedule Pay." http://www.opm.gov/oca/pay/html/UsingBLSData.asp (Downloaded March 27, 2012)
[24] Howard Risher, "Analysis: Politics of federal pay obscures the facts," *Government Executive*, May 25, 2011. http://www.govexec.com/story_page.cfm?articleid=47870&oref=todaysnews (Downloaded May 26, 2011)
[25] The complete methodology is included in POGO's *Bad Business* report. http://www.pogo.org/pogo-files/reports/contract-oversight/bad-business/co-gp-20110913-1.html

- Private sector compensation was lower than contractor billing rates in **all 35** occupational classifications we reviewed.

- Most importantly, the federal government has failed to determine how much money it saves or wastes by outsourcing or insourcing/retaining services, and has no methodology for doing so.

POGO's investigation highlights two basic facts about outsourcing government work to contractors. First, comparing federal to private sector compensation reveals nothing about what it actually costs the government to outsource services. Second, the federal government is not doing a good job of obtaining genuine market prices[26] and is therefore not realizing the savings often promised in connection with outsourcing services. The argument for outsourcing services states that free market competition will result in efficiencies and save taxpayer dollars, but our study showed that using contractors to perform services may actually waste taxpayers dollars.

POGO's report has not escaped criticism.[27] We acknowledge that we were very limited in conducting our survey based on the lack of contracting cost data, comparable occupational data, and government overhead rates for work performed by government and contractor employees. However, since the release of our report, our findings have been validated by several federal agencies. Additionally, POGO has submitted numerous Freedom Of information Act requests for additional data about service contract rates and labor hours, the contractor workforce, and the implementation of Circular A-76 or other cost comparison procedures. (Appendix B)

Because the POGO study is based upon data reflecting only a subset of government contracts, we do not contend that our findings can, or should, be projected across the entire federal government. That is why we strongly advocate that Congress direct GAO to conduct a similar analysis of government-wide contracting that would provide a valid basis for estimating precisely how many billions of dollars the government is wasting each year by relying so heavily upon service contractors.

Before directing GAO conduct such a study, however, it would be imperative for Congress to legislate critical changes in government data systems. Failures in government procurement practices and employment data systems limit the government's and the public's ability to assess costs. Failures include the lack of standards for producing cost estimates; the lack of data related to negotiated service contract billing rates; the lack of data about the actual number of contractor

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[26] Steve Kelman, "How agencies can cut contracting costs," *Federal Computer Week*, August 9, 2011. http://fcw.com/articles/2011/08/08/comment-kelman-save-money-for-government.aspx (Downloaded August 11, 2011); Steve Kelman, "GSA schedules: Are agencies paying too much?," *Federal Computer Week*, July 29, 2010. http://fcw.com/Blogs/Lectern/2010/07/Steve-Kelman-GSA-schedules-pricing-July-29.aspx (Downloaded June 23, 2011); Steve Kelman, "Are agencies paying too much through the GSA schedule? Readers respond," *Federal Computer Week*, August 3, 2010. http://fcw.com/Blogs/Lectern/2010/08/Steve-Kelman-GSA-schedule-pricing-reaction.aspx (Downloaded June 23, 2011); One recent story indicated that cost is emerging as major factor in federal contracting. Sarah Chacko, "Feds driving harder bargain at procurement table," *Federal Times*, July 25, 2011, p. 1. http://www.federaltimes.com/article/20110724/ACQUISITION03/107240302/1009/ACQUISITION (Downloaded July 26, 2011)

[27] Scott Amey, "Outsourcing Savings - Myth BUSTED!," *POGO Blog*, September 16, 2011. http://pogoblog.typepad.com/pogo/2011/09/outsourcing-savingsmyth-busted.html

employees holding a specific occupational position under any given contract; and the lack of a universal job classification system.

The expanding "shadow government" wastes billions of dollars annually. The focus on comparing federal and private sector salaries is a distraction from determining what the government actually pays for services. Instead, the focus should be on the full costs of paying service contractors, which accounts for approximately one-quarter of all discretionary spending.[28]

Agencies' Service Contracts are Costly[29]

Instead of a comprehensive cost comparison that analyzes the life-cycle costs of hiring or retaining federal employees as compared to contractors, government comparisons have been limited to isolated cases, which POGO discussed in its *Bad Business* report. Since that report was released, a few additional cost comparison audits have been made public.

For example, in 2011, the Department of Defense (DoD) reported that in fiscal year 2010 it had established (insourced) nearly 17,000 new government civilian positions to perform services that had been performed by contractors.[30] Of the reasons cited by the Pentagon for insourcing those services, cost savings was cited **50 percent** of the time.[31] However, DoD did not report the number of contractor employees whose functions were insourced because, as was later noted by the GAO, the Department does not have access to this data.[32] "[DoD] contracts for services to be performed, so the number of employees used to perform these services is not a decision of the department but is at the discretion of the contractor," the GAO reported.[33] The GAO warns that more comprehensive and reliable contracting data is needed to ensure that DoD officials are able to manage and oversee insourcing and meet Department workforce goals.[34]

Despite growing evidence of the excessive costs associated with service contracts, DoD has proposed cuts to its civilian workforce. According to media reports, the Army and Air Force are

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[28] In 2010, service contracts accounted for $320 billion of the nearly $1.26 trillion discretionary spending total. According to data compiled by POGO from the Federal Procurement Data System – Next Generation (FPDS-NG), the federal government awarded $320 billion in service contracts in fiscal year 2010. https://www.fpds.gov/fpdsng_cms/; Office of Management and Budget, *Budget of the United States Government,* Fiscal Year 2012, p. 200. http://www.whitehouse.gov/sites/default/files/omb/budget/fy2012/assets/budget.pdf (Downloaded August 18, 2011)

[29] Additional examples of cost comparisons are found in POGO's *Bad Business* report, some of which show that in-house workers are more cost efficient while others show that service contractors are cheaper. POGO *Bad Business* report. http://www.pogo.org/pogo-files/reports/contract-oversight/bad-business/co-gp-20110913.html#Government%20Cost%20Studies

[30] Department of Defense, Office of the Under Secretary of Defense for Personnel and Readiness, "Report to the Congressional Defense Committees on the Department of Defense's FY 2010 In-sourcing Actions," September 2011. http://www.pogo.org/resources/contract-oversight/co-gp-20110913.html (Downloaded March 26, 2012)

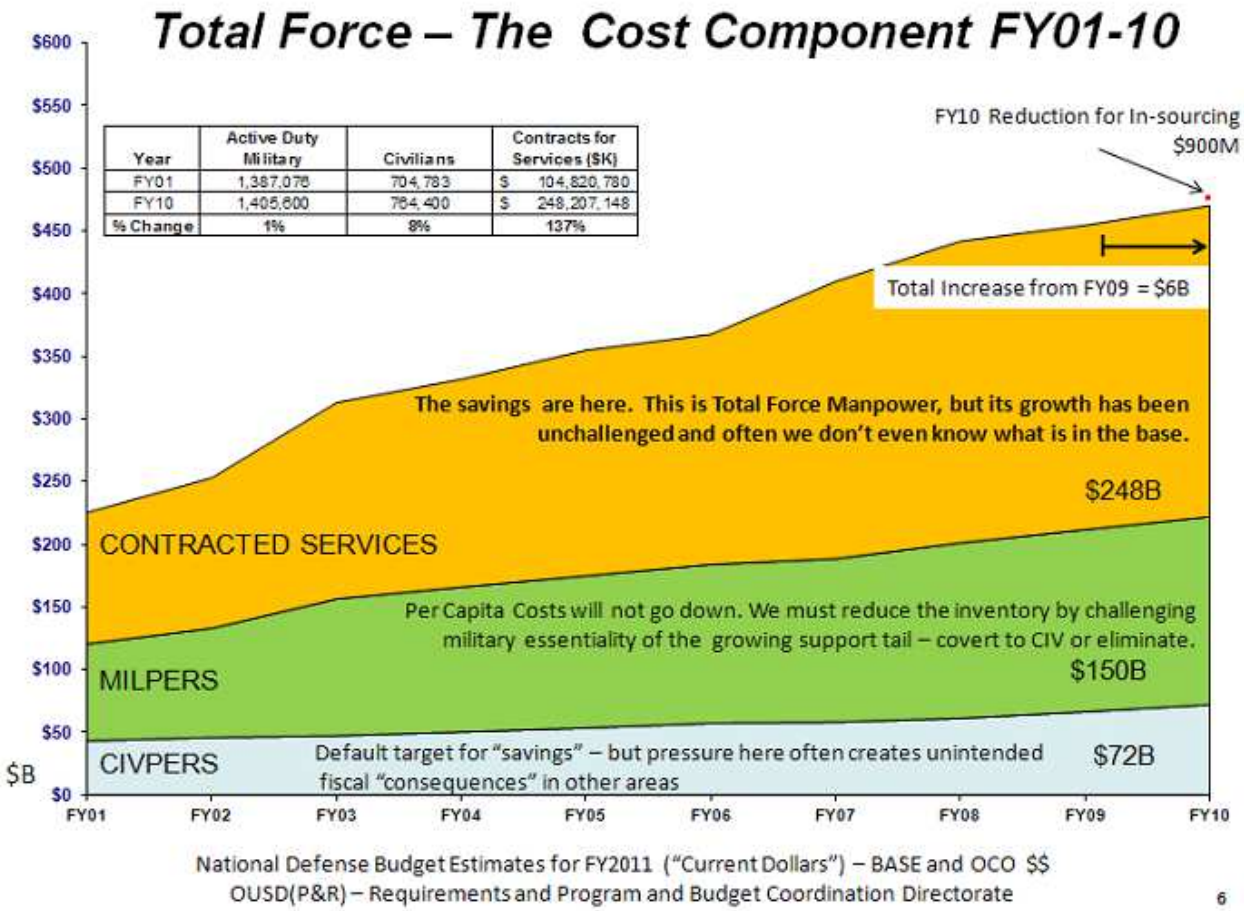
[31] Id. at 5.

[32] Government Accountability Office, *DOD Needs to Better Oversee In-sourcing Data and Align In-sourcing Efforts with Strategic Workforce Plans*, (GAO-12-319), February 2012. http://www.gao.gov/assets/590/588425.pdf (Downloaded March 26, 2012)

[33] Id., at 14.

[34] Id., at 1.

cutting thousands of civilian jobs.[35] Internal DoD documents, however, reveal that the civilian workforce is less costly when compared to military and contractor personnel. As the following chart indicates, civilian personnel cost DoD $72 billion in FY 2010 as compared to $150 billion for military personnel and nearly $250 billion for contractors.[36]



[35] Amber Corrin, "Army to hit civilian workforce with nearly 9,000 cuts—Impending budget cuts drive workforce reduction," *Defense Systems*, December 12, 2011. http://defensesystems.com/articles/2011/12/09/army-cutting-8700-jobs.aspx (Downloaded March 27, 2012); Markeshia Ricks, "Air Force to shed 13,500 civilian jobs," *Federal Times*, November 5, 2011. http://www.federaltimes.com/article/20111105/DEPARTMENTS01/111050301/ (Downloaded March 27, 2012)

[36] Department of Defense, American Society of Military Comptrollers, "Service Support Contractors One of the FY 2012 Budget Efficiencies, October, 2011, p. 6. http://www.google.com/url?sa=t&rct=j&q=&esrc=s&source=web&cd=1&ved=0CCYQFjAA&url=http%3A%2F%2Fwww.asmconline.org%2Fwp-content%2Fuploads%2F2011%2F10%2FASMCBreakfastServiceSupportContractors.pptx&ei=aLhxT6mSB8Ws0AGTnO3kAQ&usg=AFQjCNEh0nL-p93KKWbfhJPC2GT9bs79HQ (Downloaded March 27, 2012)

In another example, the Securities and Exchange Commission (SEC) has awarded millions of dollars to federal contractor Booz Allen Hamilton for management support services.[37] According to *Reuters*, some lawmakers and SEC insiders are questioning the fiscal wisdom of the SEC's decision. Booz Allen consultants are costing the SEC anywhere from $100 an hour to over $300 an hour and are being paid an average of $140 per hour as compared to $93 per hour for SEC staff.[38] That's a differential of over 50 percent, which over a year is a cost premium of nearly $100,000 per employee.[39]

Congressional Involvement is Needed

Not many people can grasp the big picture—fully understanding how the total workforce has dramatically increased with the increased hiring of contractors; how service contracts operate; and how limitations have reduced flexibility in government hiring, all of which have resulted in increased government spending. Accordingly, there have been many missed opportunities to realize savings that would result from cost analyses matching specific federal occupations to comparable contractor occupations. Government reports or policies are published each year promoting competition,[40] cost realism,[41] and partnering with cost-conscious contractors.[42] Unfortunately, those reports or policies fail to include a comprehensive cost comparison as proposed by POGO prior the awarding renewal, or extension of federal service contracts.

Oversight agencies like the GAO occasionally examine the cost aspects of service contracts, but largely squander the opportunity to conduct meaningful comparative cost analyses of service contracts. For instance, the GAO now publishes an annual report providing examples where federal programs may be able to achieve greater efficiencies or become more effective in providing services by eliminating duplication, overlap, and fragmentation.[43] The most recent report identified 51 such examples, but only three directly address service contract costs.[44] Furthermore, the report only recommended ways to streamline, reevaluate or renegotiate these

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[37] Sarah N. Lynch, "Critics question cost as consultants nip and tuck SEC," Reuters, March 1, 2012. http://www.reuters.com/article/2012/03/01/sec-consultants-idUSL2E8E12Y120120301 (Downloaded March 27, 2012); Booz Allen Hamilton, Inc. received $1.6 billion in FY 2010. USAspending.gov. http://www.usaspending.gov/explore?&tab=By+Prime+Awardee&overridecook=yes&&carryfilters=on&fromfiscal=yes&contracts=Y&fiscal_year=2010&val=&contractorid=14806

[38] Sarah N. Lynch, "Critics question cost as consultants nip and tuck SEC," Reuters, March 1, 2012. http://www.reuters.com/article/2012/03/01/sec-consultants-idUSL2E8E12Y120120301 (Downloaded March 27, 2012)

[39] To calculate the cost premium, POGO multiplied the hourly rates by 2080.

[40] Government Accountability Office, *Opportunities to Reduce Potential Duplication in Government Programs, Save Tax Dollars, and Enhance Revenue* (GAO-11-318SP), March 2011, p. 211. http://www.gao.gov/new.items/d11318sp.pdf (Downloaded March 27, 2012)

[41] Defense Contract Audit Agency, "Master Document – Audit Program," Version No. 1.6, updated January 2012**.** http://www.dcaa.mil/sap/27010_AP_NA.pdf (Downloaded March 27, 2012)

[42] Sarah Chacko, "DoD looking for 'cost-conscious' contractors, Assad says," *Federal Times*, March 23, 2012. http://www.federaltimes.com/article/20120323/ACQUISITION03/203230301/1001 (Downloaded March 27, 2012)

[43] Government Accountability Office, "Improving Efficiency & Effectiveness: GAO's body of work on duplication, overlap, and fragmentation across the federal government." http://www.gao.gov/duplication (Downloaded March 27, 2012)

[44] Government Accountability Office, *2012 Annual Report: Opportunities to Reduce Duplication, Overlap and Fragmentation, Achieve Savings, and Enhance Revenue* (GAO-12-342SP), February 2012. http://www.gao.gov/assets/590/588818.pdf (Downloaded March 26, 2012)

contracts in order to save money. It did not conduct a comprehensive cost analysis in order to answer the most basic of procurement questions: whether contractors cost less than government employees.

Senators Joseph Lieberman (I-CT) and Susan Collins (R-ME) have examined service contracts, but that has not resulted in government-wide policy change. On February 23, 2010, Senators Lieberman and Collins sent a letter to Department of Homeland Security (DHS) Secretary Janet Napolitano expressing concerns about the number of DHS contractors, the costs, and whether contractors were performing inherently governmental functions.[45] Specially, the letter stated:

> We also note that DHS's FY 2011 budget request reflects several instances of **cost savings** resulting from the **conversion of contractor positions to federal employees**. While the fundamental question in deciding whether a federal employee should perform a task, or whether the task may appropriately be assigned to a contractor, should not simply be which option is cheapest but rather whether or not the government's interests are best served by having the work performed by federal employees, **nonetheless it is notable that the shift to a more appropriate employee-to-contractor ratio may well also save the Department and the taxpayers money**. (Emphasis added)

On October 14, 2011, the Senators sent a letter to the Joint Select Committee on Deficit Reduction, proposing many cost savings reforms.[46] The letter included the following proposal:

> As with decisions about the number of federal employees, we believe that the best way to achieve desired cost savings in contracting is through the statutory limits on spending that were put in place under the Budget Control Act. Such an approach to reducing spending will ensure, for example, that **any reductions in the number of federal employees will not merely be offset by increases in the number of contractor employees**, **who may, depending on the services procured, be more expensive than federal employees.** However, control of contractor costs, as well as federal employee costs, must be a key component of deficit reduction. We therefore recommend that the Joint Committee consider requiring that agencies **reduce their reliance on management support services contracts by 15 percent in Fiscal Year 20 12 (as OMB has proposed), for a savings of $6 billion**. (Emphasis added)

Regrettably, Congress has not meaningfully helped federal agencies save money with regard to service contracts. Congress has all too frequently legislated without having the empirical data needed to make informed decisions about whether it would be more cost effective to increase the

[45] Letter from Senators Lieberman and Collins to Secretary of the Department of Homeland Security Janet Napolitano, February 23, 2010. http://www.hsgac.senate.gov/media/minority-media/senators-lieberman-collins-astounded-dhs-contract-workers-exceed-number-of-civilian-employees

[46] Letter from Senators Lieberman and Collins to Secretary of the Joint Select Committee on Deficit Reduction, October 14, 2011, p. 4. http://www.hsgac.senate.gov/download/lieberman-collins-letter-to-super-committee

number of federal employees in order to implement programs.[47] Unfortunately, in many cases, agencies were left no recourse but to hire contractors as permanent- or semi-permanent staff, largely because of congressionally imposed federal personnel ceilings,[48] consequently increasing spending on wasteful service contracts.

Recommendations

POGO's *Bad Business* report included numerous recommendations that would permit the government to compare full life-cycle costs of comparable occupations, ensure promised cost savings are realized, remove federal full-time equivalents ceilings, improve the quality of service contractor data, and increase the practice of using short-term federal employees.[49]

There are two recommendations in particular which deserve heightened attention by this Subcommittee—comparative cost modeling and improved service contract inventories.

Current government cost modeling systems are insufficient. They are not comprehensive because they do not take into consideration all relevant cost data. There is an urgent need for specificity and comparability of all government and contractor costs. For example, such criteria as types of services/occupations, standardized government administrative and overhead costs, including those for awarding, administering, and overseeing service contractors (especially those contractors working in government facilities), administrative costs, revenues (tax consequences), and intangibles (flexibility, quality of performance, education, and service experience) need to be considered. There is also a need for government-wide standards for comparative cost analyses and an independent comparative cost review. Finally, the government needs a comparative tax revenue paradigm that reflects contractor tax obligations/deductions. Some of these criteria are included in Circular A-76 and the Defense Department's cost modeling system, but those systems must be revisited to ensure that all life-cycle costs are included.

The current structure of service contract inventories is insufficient in providing the government and public with comprehensive data about the use of service contractors.[50] POGO recommends

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[47] Federal Workforce Restructuring Act of 1994 (P.L. 103-226); Government Accountability Office, Statement of Timothy P. Bowling, Associate Director, Federal Management and Workforce, *Federal Downsizing: The Status of Agencies' Workforce Reduction Efforts* (GAO/T-GGD-96-124), May 23, 1996. http://www.gao.gov/archive/1996/gg96124t.pdf (Downloaded March 27, 2012)

[48] Congressional Research Service, *Inherently Governmental Functions and Department of Defense Operations: Background, Issues, and Options for Congress* (R40641), June 22, 2009, p. 34. http://prhome.defense.gov/RSI/REQUIREMENTS/docs/CRS_DoDIGCA.pdf (Downloaded September 27, 2010) (hereinafter *Inherently Governmental Functions and Department of Defense Operations: Background, Issues, and Options for Congress* (R40641))

[49] POGO *Bad Business* report, p. 35. http://www.pogo.org/pogo-files/reports/contract-oversight/bad-business/co-gp-20110913.html#Recommendations

[50] In December 2011, POGO published a blog critiquing current service contract inventories entitled "Federal Service Contract Inventories: A Failure to Address Which Contracts Are Cost Justified." It details all the flaws that exist in how these inventories are currently identifying the data upon which Congress intended agencies to rationalize their human resources and cost cutting decisions. http://pogoblog.typepad.com/pogo/2010/12/federal-service-contract-inventories-a-failure-to-address-which-contracts-are-cost-justified.html; Earlier in June 2011, POGO submitted a public comment concerning a proposed amendment to the Federal Acquisition Regulation concerning service contracts reporting requirements, stressing the need to utilize valid data sources and service cataloging systems and to incorporate meaningful cost information; unfortunately, the government determined they

that the government uses a coding/identification system that is comparable to OPM's personnel system, and take into consideration the duration of the contract; the number of all prime and subcontractor personnel (by service/occupation and total); the hours worked; the hourly/annual billing rates for such personnel; the costs that must be incurred to maintain that workforce; and the justification for contracting those services (e.g., cost efficiency, the lack of legislative authority for hiring government personnel, the lack of government expertise, short-term needs, flexibility hours, etc.).

If the government collects enhanced data about the number and cost of service contractors, it will be in a position to ensure that there is a proper balance of the total government workforce and that all potential savings are realized.

Thank you for inviting me to submit written testimony for this very important hearing. I look forward to working with the Subcommittee to further explore how service contracting can be improved and how costs can be appropriately factored into any government human capital planning.

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lacked legislative authority to make such improvements. http://www.pogo.org/pogo-files/letters/contract-oversight/co-t-20110620.html,

Table 1: Cost Analyses

POGO's study evaluated whether the current practice of outsourcing federal services to contractors is actually cost beneficial. To do this, POGO compared the average of the General Services Administration's listed annual contractor billing rates (which we referred to throughout the *Bad Business* report as "average annual contractor billing rates") with the full costs of federal employee annual compensation for comparable services. POGO also compared federal employee full annual compensation with private sector employee full annual compensation, as well as average annual contractor billing rates with private sector employee full annual compensation, in order to evaluate the validity of the current private sector versus federal employee debate. These three comparisons are set forth below in Table 1.[51]

OPM Series Description	Federal to Private*	Contractor to Federal†	Contractor to Private‡	Full Federal Annual Compensation	Full Private Sector Annual Compensation	Contractor Annual Billing Rates††
Accounting	1.50	2.40	3.60	$124,851	$83,132	$299,374
Auditing	1.47	2.31	3.40	$122,373	$83,132	$283,005
Budget Analysis	.89	2.75	2.43	$110,229	$124,501	$302,661
Building Management	.62	2.38	1.48	$111,564	$179,740	$265,242
Cartography	1.47**	1.46	2.14**	$116,481	$79,219	$169,520
Cemetery Administration Services	1.12	2.83	3.17	$106,124	$94,485	$299,832
Claims Assistance and Examining	.76	4.83	3.66	$57,292	$75,637	$276,598
Computer Engineering	1.04	1.97	2.04	$136,456	$131,415	$268,653
Contracting	.98	2.29	2.24	$113,319	$115,596	$259,106

[51] Table 1, along with its accompanying "sources" and "notes" descriptions, were pulled directly from POGO's study. Project On Government Oversight, *Bad Business: Billions of Taxpayer Dollars Wasted on Hiring Contractors*, September 13, 2012. http://www.pogo.org/pogo-files/reports/contract-oversight/bad-business/co-gp-20110913.html#Government%20Cost%20Studies

Correctional Officer	2.17	1.15	2.49	$72,977	$33,598	$83,803
Environmental Protection Specialist	1.20	1.40	1.68	$127,247	$105,964	$177,570
Equal Opportunity Compliance	1.40	2.05	2.87	$125,368	$89,394	$256,381
Facility Operations Services	.90	1.66	1.50	$108,060	$119,449	$179,254
Financial Analysis	1.24	1.30	1.61	$132,262	$106,679	$171,288
Financial Management	1.13	2.05	2.32	$164,218	$145,486	$337,002
Fire Protection and Prevention	1.04**	1.25	1.29**	$65,452	$63,105	$81,702
Food Inspection	1.04**	1.29	1.34**	$58,090	$55,883	$74,963
General Attorney	.79	3.17	2.51	$175,081	$220,924	$554,923
General Inspection, Investigation, Enforcement, and Compliance	1.17	1.62	1.90	$104,712	$89,394	$169,666
Groundskeeper	2.00	.80	1.60	$64,896	$32,396	$51,709
Human Resources Management	1.11	2.05	2.27	$111,711	$100,465	$228,488
Information Technology Management	1.09	1.59	1.73	$124,663	$114,818	$198,411
Language Specialist	1.80**	1.92	3.46**	$110,014	$61,010	$211,203

Logistics Management [Deployment]	.94	1.76	1.66	$116,047	$123,349	$204,443
Logistics Management [Planning]	1.19	1.46	1.74	$116,047	$97,269	$168,938
Management and Program Analysis	1.15	2.15	2.48	$124,602	$108,132	$268,258
Mechanical Engineering	1.15	1.50	1.72	$126,177	$109,961	$189,197
Medical Records Technician	1.26	.99	1.24	$58,641	$46,705	$57,782
Nurse	1.16	1.65	1.92	$105,714	$91,042	$174,803
Police	1.24	1.34	1.66	$71,256	$57,533	$95,659
Program Management	.97	1.56	1.50	$173,551	$179,740	$269,901
Quality Assurance	.94	1.09	1.03	$98,939	$104,891	$107,786
Security Guard	1.53	1.36	2.08	$50,257	$32,953	$68,515
Statistics	1.15	1.66	1.91	$125,192	$108,586	$207,563
Technical Writing and Editing	1.25	1.08	1.35	$103,801	$82,873	$112,091
Average Cost Premiums	**1.20**	**1.83**	**2.09**			

Sources:
The full methodology, data descriptions, and complete data tables for how the figures in this table were obtained are provided in the *Bad Business* report at Appendices A, B, C, and D. Appendix B contains a table of the 35 occupational classifications (including OPM, BLS, and GSA identification codes) with the base salaries and full compensation paid to federal employees and private sector employees (according to two BLS surveys), as well as the GSA billing rates for specified contracts. Appendix C contains the job titles and descriptions provided by OPM, BLS, and GSA for the 35 matching GS occupational series, SOC codes, and GSA SINs. Appendix D contains a table of the GSA contracts and the 35 occupational classifications covering over 550 service activities selected for calculating the average hourly and annual contractor billing rates for the various SINs used for comparing costs, along with the listed hourly billing rates. Annual

dollar figures are rounded to the nearest dollar. For the contractor rates, while POGO used an average annual billing rate, agencies do not necessarily purchase services over a full year's period of time.

Notes:
The comparisons in this table are expressed as ratios in accordance with the following calculations:
* The federal to private comparisons are calculated by dividing the average annual full compensation paid to federal employees by the average annual full compensation paid to private sector employees performing similar services.
† The contractor to federal comparisons are calculated by dividing the average annual contractor billing rate for performing these services by the average annual full compensation paid to federal employees performing similar services
‡ The contractor to private sector comparisons are calculated by dividing the average annual contractor billing rate by the average annual full compensation paid to private sector employees performing similar services.
†† Average annual contractor billing rates are typically based on a 2,087-hour conversion method, but for the sake of comparison to total government compensation, POGO used a 2,080-hour conversion. As a result, POGO multiplied the average hourly contractor billing rate by 2,080 to calculate the average annual contractor billing rate.
** No National Compensation Survey data were available for comparison; therefore Occupational Employment Statistics data were used.

Appendix A

Bad Business: Billions of Taxpayer Dollars Wasted on Hiring Contractors

September 13, 2011

Project On Government Oversight

Bad Business:
Billions of Taxpayer Dollars Wasted on Hiring Contractors

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EXECUTIVE SUMMARY

Based on the current public debate regarding the salary comparisons of federal and private sector employees, the Project On Government Oversight (POGO)[1] decided to take on the task of doing what others have not—comparing total annual compensation for federal and private sector employees with federal *contractor* billing rates in order to determine whether the current costs of federal service contracting serves the public interest.

The current debate over pay differentials largely relies on the theory that the government pays private sector compensation rates when it outsources services. This report proves otherwise: in fact, it shows that the government actually pays service contractors at rates far exceeding the cost of employing federal employees to perform comparable functions.

POGO's study analyzed the total compensation paid to federal and private sector employees, and annual billing rates for contractor employees across 35 occupational classifications covering over 550 service activities. Our findings were shocking—POGO estimates the government pays billions more annually in taxpayer dollars to hire contractors than it would to hire federal employees to perform comparable services. Specifically, POGO's study shows that the federal government approves service contract billing rates—deemed fair and reasonable—that pay contractors **1.83 times more** than the government pays federal employees in total compensation, and more than **2 times** the total compensation paid in the private sector for comparable services.

Additional key findings include:

- Federal government employees were less expensive than contractors in **33 of the 35** occupational classifications POGO reviewed.
- In one instance, contractor billing rates were **nearly 5 times** more than the full compensation paid to federal employees performing comparable services.
- Private sector compensation was lower than contractor billing rates in **all 35** occupational classifications we reviewed.
- The federal government has failed to determine how much money it saves or wastes by outsourcing, insourcing, or retaining services, and has no system for doing so.

POGO's investigation highlights two basic facts about outsourcing government work to contractors. First, comparing federal to private sector compensation reveals nothing about what it *actually* costs the government to outsource services. The only analysis that will shed light on the true costs of government is that of contractor billing rates and the full cost of employing federal employees to perform comparable work. The Commission on Wartime Contracting in Iraq and Afghanistan recently completed a fundamental study of costs, and found that, in certain contingency operations, although savings resulted from hiring local or third-country nationals, military and civilian employees can cost less than hiring American contractors.

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[1] For more information on POGO's contract investigations, please visit POGO's website, http://www.pogo.org/investigations/contract-oversight/. POGO also maintains the Federal Contractor Misconduct Database containing instances of criminal, civil, and administrative misconduct involving the largest federal contractors. http://www.contractormisconduct.org/

Second, the federal government is not doing a good job of obtaining genuine market prices, and therefore the savings often promised in connection with outsourcing services are not being realized. The argument for outsourcing services is that, by outsourcing services on which the government holds a monopoly, free market competition will result in efficiencies and save taxpayer dollars. But our study showed that using contractors to perform services may actually increase rather than decrease costs to the taxpayers.

POGO found several failures in government procurement, employment, and data systems that limit the government's and the public's abilities to assess and correct excessive costs resulting from insourcing or outsourcing federal services. Failures included the lack of standards for calculating cost estimates and justifying insourcing or outsourcing decisions; the lack of data related to negotiated service contract billing rates; not publishing government information about the number of actual contractor employees holding a specific occupational position under any given contract; and that there is no universal job classification system.

For decades there have been increasing political pressures to reduce the size of the federal government. In response the government has awarded service contracts, resulting in an expanding "shadow government" that costs hundreds of billions of dollars annually. The focus on comparing federal and private sector salaries needs to shift because they have nothing to do with what the government actually pays for services. Instead, the focus properly belongs on analyzing the full costs of paying contractors to perform federal services. Given the nation's ongoing economic problems, this analysis has become even more relevant—approximately one-quarter of all discretionary spending now goes to service contractors.

POGO's recommendations include:

1. Congress should require all federal agencies, when awarding service contracts, to use service coding systems that are consistent with OPM's job classification system. Congress should also require the collection, reporting, and oversight of life-cycle costs associated with government services performed by federal employees or contractors.

2. Congress should pass legislation requiring greater transparency and improved pricing on GSA Schedule service contracts.

3. Congress should strengthen the FAIR Act to enhance service contract reporting.

4. Congress should remove full-time equivalents ceilings, and decrease the maximum benchmark compensation amount applicable to contractor employees.

5. Agencies should use their existing authorities to hire federal employees for short-term projects.

INTRODUCTION

There is no doubt that contractors play a substantial role in supporting government operations, missions, programs, and projects domestically and abroad. For many years the federal government has increasingly relied on contractors to perform government functions. This shift to outsourcing[2] followed the call to reduce the size of the federal employee workforce, even as the U.S. population and demand for government services grew.[3] Now, in some federal offices contractor employees outnumber federal employees.[4] Unfortunately, the government has turned to contractors without an eye toward cost savings.[5]

Since 1999, the size of the federal employee workforce has remained relatively constant at about 2 million,[6] while the contractor workforce has increased radically—from an estimated 4.4 million to 7.6 million in 2005.[7] In other words, the federal contractor workforce dwarfs the federal employee workforce nearly four-fold.

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[2] "Outsourcing refers to the transfer of an existing federal business or administrative function to the commercial sector, with the government remaining responsible for the affected services. Privatization refers to the transfer of a federal business or administrative function, including the responsibility for the affected services, to the commercial sector." General Accounting Office, *Outsourcing and Privatization: Private-Sector Assistance for Federal Agency Studies* (B-282180), March 26, 1999. http://archive.gao.gov/paprpdf2/161965.pdf (Downloaded June 15, 2011)

[3] Acquisition Advisory Panel, *Report of the Acquisition Advisory Panel to the Office of Federal Procurement Policy and the United States Congress*, January 2007, pp. 2-3. https://www.acquisition.gov/comp/aap/24102_GSA.pdf (Downloaded September 27, 2010) (hereinafter Acquisition Advisory Panel Report)

[4] A specific example is the Department of Defense: "at 15 of the 21 [contracting] offices we reviewed, contractor employees outnumbered DOD employees and comprised as much as 88 percent of the workforce." Government Accountability Office, *Defense Contracting: Additional Personal Conflict of Interest Safeguards Needed for Certain DOD Contractor Employees* (GAO-08-169), March 2008, p. 3. http://www.gao.gov/new.items/d08169.pdf (Downloaded April 28, 2011) (hereinafter GAO-08-169); "DOD relies extensively upon contractors to support overseas contingency operations. As of March 2011, DOD had more contractor personnel in Afghanistan and Iraq (155,000) than uniformed personnel (145,000). Contractors made up 52% of DOD's workforce in Afghanistan and Iraq." Congressional Research Service, *Department of Defense Contractors in Afghanistan and Iraq: Background and Analysis* (R40764), May 13, 2011, Summary. http://www.fas.org/sgp/crs/natsec/R40764.pdf (Downloaded June 9, 2011) (hereinafter *Department of Defense Contractors in Afghanistan and Iraq: Background and Analysis* (R40764)) Another example is Department of Homeland Security (DHS): "Because of the Department of Homeland Security's aggressive Secure Border Initiative program schedule coupled with shortages of government program managers and acquisition specialists...Customs and Border Protection relied on contractors to fill the skills gap and get the program underway...[CBP] continues to rely heavily on contract personnel, who comprise more than 50% of the Secure Border Initiative workforce." Department of Homeland Security, Office of Inspector General, *Better Oversight Needed of Support Services Contractors in Secure Border Initiative Programs* (OIG-09-80), June 2009, p. 1. http://www.dhs.gov/xoig/assets/mgmtrpts/OIG_09-80_Jun09.pdf (Downloaded April 28, 2011)

[5] In addition to cost savings, outsourcing services was premised on the idea that contractors provide a level of flexibility that federal employees do not. Flexibilities include the ability to meet short-term needs, to fire poorly performing contractors, and terminate or not renew a contract.

[6] Office of Personnel Management, "Historical Federal Workforce Tables - Executive Branch Civilian Employment Since 1940," September 30, 2010. http://www.opm.gov/feddata/HistoricalTables/ExecutiveBranchSince1940.asp (Downloaded March 29, 2011); Office of Personnel Management, "Fed Scope Employment Trend." http://www.fedscope.opm.gov/cognos/cgi-bin/ppdscgi.exe?DC=Q&E=/FSe%20-%20Longitudinal/Employment%20Trend%20(Year-to-Year)&LA=en&LO=en-us&BACK=%2Fcognos%2Fcgi-bin%2Fppdscgi.exe%3Ftoc%3D%252FFSe%2520-%2520Longitudinal%26LA%3Den%26LO%3Den-us (Downloaded March 29, 2011); Paul C. Light, *The New True Size of Government*, New York University, August 2006, p. 11. http://wagner.nyu.edu/performance/files/True_Size.pdf (Downloaded March 16, 2011) (hereinafter *The New True Size of Government*); "In 1953, there was one Federal worker for every 78 residents. In 2009, it was one for every 147." Hearing Statement of the Honorable John Berry, Director of the U.S. Office of Personnel Management, before the U.S. House Subcommittee on Federal Workforce, U.S. Postal Service, and Labor Policy, Committee on Oversight and Government Reform, "Are Federal Workers Underpaid?" March 9, 2011, p. 2.

There is currently no way to quantify the *actual* number of contractor employees who perform government functions at a particular department or agency at any given time.[8] Because the federal government does not keep timely and accurate statistics of the actual size of its contractor workforce, Congress mandated that civilian agencies and the Department of Defense (DoD) keep such records.[9] However, as there is no consistency in the methodologies employed by the various agencies, data from these inventories are unreliable and do not provide a complete picture of jobs, functions, or activities being provided by service contractors. In addition, even with the changes, the inventories still fail to provide timely and accurate data on contractor employees or cost information that would be helpful when comparing federal with contractor employees.[10] Improvements are forthcoming—a proposed regulation will require annual disclosures of inventories for service contracts that will include a description of the services, how those services will achieve agency objectives, the total dollar amount obligated and invoiced for services under the contract, and additional contract-related information.[11]

This is important because the federal government currently spends over $320 billion on service contracts each year.[12] Often, those expenditures rest on the claim that the private sector can provide services at substantial cost savings to the government and taxpayers[13] because of the free market's ability to conduct business more cost-effectively than the government.[14]

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http://oversight.house.gov/images/stories/Testimony/Berry_Testimony.pdf (Downloaded March 17, 2011) (hereinafter Berry 2011 Testimony)

[7] When the contractor workforce is combined with civilians, military personnel, U.S. Postal Service employees, and grantees, the size of the blended federal workforce was estimated at 14.6 million people in 2005. *The New True Size of Government*, p. 11; Paul C. Light, "The Real Crisis in Government," *The Washington Post*, January 12, 2010, p. A17. http://www.washingtonpost.com/wp-dyn/content/article/2010/01/11/AR2010011103255.html (Downloaded March 29, 2011); Hearing Statement of Paul C. Light, New York University/The Brookings Institution, before the U.S. Senate Subcommittee on Oversight of Government Management, the Federal Workforce and the District of Columbia, "An Update on the Bush Administration's Competitive Sourcing Initiative," July 24, 2003. http://wagner.nyu.edu//faculty/publications/files/lightCompetitiveSourcing.pdf (Downloaded September 27, 2010)

[8] Acquisition Advisory Panel Report, p. 416.

[9] National Defense Authorization Act for Fiscal Year 2008 (Pub. Law 110-181), § 807(a), January 28, 2008. (hereinafter NDAA FY 2008); Consolidated Appropriations Act for FY 2010 (Pub. Law 111-117), Sec. 743, December 16, 2009.

[10] Letter from John P. Hutton, Government Accountability Office, to Congressional Committees, "Defense Acquisitions: Observations on the Department of Defense Service Contract Inventories for Fiscal Year 2008," January 29, 2010, Enclosure I, p. 42. http://www.gao.gov/new.items/d10350r.pdf (Downloaded September 27, 2010); The DHS has begun to keep statistics on the size of its shadow government workforce of contractor employees. It had estimated that the size of its contractor employee workforce was 200,000, as compared with 188,000 DHS employees, but recently changed the estimate to 110,000 contractor employees. Ed O'Keefe, "Eye Opener: Homeland Security Has More Contractors Than Feds," *The Washington Post*, February 24, 2010. http://voices.washingtonpost.com/federal-eye/2010/02/eye_opener_homeland_security_h.html (Downloaded September 27, 2010); Sean Reilly, "Whoops: Estimate on number of DHS contract employees off by 100,000 or so," *Federal Times*, April 11, 2011. http://blogs.federaltimes.com/federal-times-blog/2011/04/11/whoops-estimated-number-of-dhs-contract-employees-off-by-at-least-100000/ (Downloaded April 12, 2011)

[11] *Federal Register*, Vol. 76, No. 76, April 20, 2011, p. 22070.

[12] According to data compiled by POGO from the Federal Procurement Data System – Next Generation (FPDS-NG), the federal government awarded $336 billion and $320 billion in service contracts in fiscal years 2009 and 2010, respectively. https://www.fpds.gov/fpdsng_cms/; "Civilian agencies obligated over $135 billion in fiscal year 2010 for services—80 percent of total civilian spending on contracts." Government Accountability Office, *Acquisition Planning: Opportunities to Build Strong Foundations for Better Services Contracts* (GAO-11-672), August 2011, p. 1. http://www.gao.gov/new.items/d11672.pdf (Downloaded August 11, 2011)

[13] Statement by Jacques S. Gansler, Ph.D., Before the Commission on Wartime Contracting in Iraq and Afghanistan, "Implementing Improvements to Defense Wartime Contracting," April 25, 2011, pp. 12-13. http://www.wartimecontracting.gov/docs/hearing2011-04-25_testimony-Gansler.pdf (Downloaded April 28, 2011) Dr. Gansler is the Chairman of the Commission on Army Acquisition and Program Management in Expeditionary Operations, Chairman of the Defense Science Board Task Force on Improvements to Services Contracting, and a professor at the

POGO's study tested the accuracy of the cost-savings claim. A few other studies have compared specific jobs and the associated costs, but POGO has gone one step further by looking at a larger sampling of comparable jobs and their costs when they are performed by government, private sector, and *contractor* employees.[15]

POGO's investigation into the costs of outsourcing seems particularly timely in light of recent efforts to reduce government spending and considering that government spending on services now eclipses its spending on goods.[16] If POGO's recommendations are implemented, government officials, both legislative and executive, will be better informed in deciding when insourcing or outsourcing services is cost-justified. They also will be better informed when debating what legislative or regulatory reforms to institute to eliminate billions of dollars in waste each year.[17]

BACKGROUND

Reducing the size of the federal employee workforce and increasing budgetary savings have been pet projects of policymakers for decades.[18] Yet it wasn't until the 1950s during the Eisenhower administration that there emerged a formalized policy favoring the outsourcing of federal services if it could be shown that those services were commercially available at a cost savings to the taxpayer.[19]

In 1966, the Office of Management and Budget (OMB) incorporated this policy in its Circular

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University of Maryland. He served as Under Secretary of Defense (Acquisition, Technology, and Logistics) from 1997 to 2001.

[14] Reliance on service contractors is sometimes justified by the claim that they provide enhanced performance and innovation. This report does not address the validity of that claim.

[15] See Table 1. There have been a few limited government studies, which we examine later in this report, that have compared contractor costs to federal employee compensation.

[16] According to data compiled by POGO from the Federal Procurement Data System – Next Generation and USAspending.gov, service contract award dollars accounted for 62 percent and 60 percent of all contract spending in fiscal years 2009 and 2010 respectively; Acquisition Advisory Panel Report, pp. 2-3. "Almost 80 percent of contract obligations made by civilian agencies in fiscal year 2010 were for service contracts." Government Accountability Office, *OMB Service Contracts Inventory Guidance and Implementation* (GAO-11-538R), May 27, 2011, p. 1. http://www.gao.gov/new.items/d11538r.pdf (Downloaded May 27, 2011) (hereinafter GAO-11-538R)

[17] For example, "The [FY 2010] Budget proposes reducing spending on contractor services in the Department of Defense (DOD) in 2010 to achieve net savings of $0.9 billion by bringing some contracted services in house." Office of Management and Budget, *Terminations, Reductions, and Savings: Budget of the U.S. Government Fiscal Year 2010*, p. 78. http://www.gpoaccess.gov/usbudget/fy10/pdf/trs.pdf (Downloaded April 12, 2011)

[18] According to the organization In the Public Interest, states are facing budget constraints similar to those of the federal government, and are outsourcing work and privatizing public assets, including education systems, toll roads, road and bridge construction and maintenance, prisons, parking meters, libraries, and trash collection/recycling. Those efforts have at times seen higher costs and a decline in mission performance. In the Public Interest, "What's at stake." http://inthepublicinterest.org/whats-at-stake (Downloaded June 17, 2011); Craig Gustafson, "Ambulance deal shorted city, whistle-blower says: Former head of San Diego operation says $12 million could be at stake," *San Diego Union-Tribune*, April 25, 2011. http://www.signonsandiego.com/news/2011/apr/25/ambulance-service-contract-questioned/ (Downloaded April 26, 2011)

[19] Bulletin from Rowland R. Hughes, Executive Office of the President, Bureau of the Budget, to the Heads of Executive Departments and Establishments, "Commercial-industrial activities of the Government providing products or services for governmental use," Bulletin 55-4, January 15, 1955, pp. 1, 3. http://www.governmentcompetition.org/uploads/Bureau_of_the_Budget_Bulletin_55-4_January_15_1955.pdf (Downloaded May 5, 2011); GAO-11-538R, p. 1.

A-76, an administrative vehicle for handling personnel needs by competing agency work between government offices and contractors.[20] OMB has supplemented the A-76 Circular with a handbook that includes procedures for determining which government jobs should remain in-house, and which could be transferred to contractors by either cost comparison[21] generally depending on which bid was more cost-efficient[22] or by direct conversion.[23] As part of the public-private competition process, the government identifies the work, prepares an in-house cost estimate (which can include a mix of federal and contractor employees), and compares the agency's bid to the best offer from contractors.[24]

Both political parties have taken issue with the proper size of the federal civilian workforce and the proper balance between government employees and contractor employees.[25] In the 1980s, the Reagan administration was a strong advocate for a smaller government. In its attempt to shrink the size of government, the administration frequently clashed with Congress over whether the government or private industry should perform certain functions.[26] When President Reagan was sworn into office in 1981, he declared, "In this present crisis, government is not the solution to our problem; government is the problem,"[27] and his administration began pushing agencies to outsource commercial functions.[28]

When President Clinton took office in 1993, he also took up the mantle of "small government," promising to reduce the federal workforce by 300,000 employees.[29] The Clinton administration instituted the "reinventing government" initiative and oversaw the implementation of the Federal Activities Inventory Reform (FAIR) Act[30] with the goal of increasing the outsourcing of commercial functions. The FAIR Act was originally introduced as the Freedom from Government Competition Act, which would have prohibited agencies from engaging in any activity producing goods or services that could be provided by the private sector.[31]

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[20] OMB issues instructions and information to federal agencies about various policy issues. Office of Management and Budget, "OMB Circular A-76." http://www.whitehouse.gov/omb/circulars_default (Downloaded June 17, 2011) (Hereinafter OMB Circular A-76); Government Accountability Office, *Commercial Activities Panel: Improving the Sourcing Decisions of the Federal Government* (GAO-02-847T), September 27, 2002, p. 2. http://www.gao.gov/new.items/d02847t.pdf (Downloaded September 27, 2010) (hereinafter GAO-02-847T)

[21] The A-76 competition process (also known as public-private competition) allows government employees to bid for the work against contractors. POGO avoids the use of the term "public-private" competitions through most of this report so that there is no confusion between the contractor and private sector data that is presented.

[22] GAO-02-847T, p. 2.

[23] Under a process called "direct conversion," the federal government can outsource government jobs without competition and cost comparisons. GAO-02-847T, pp. 2-3.

[24] GAO-02-847T, p. 3.

[25] Ed O'Keefe, "Eye Opener: Homeland Security Has More Contractors Than Feds," *The Washington Post*, February 24, 2010. http://voices.washingtonpost.com/federal-eye/2010/02/eye_opener_homeland_security_h.html (Downloaded September 27, 2010)

[26] Congressional Research Service, *Inherently Governmental Functions and Department of Defense Operations: Background, Issues, and Options for Congress* (R40641), June 22, 2009, p. 5. http://prhome.defense.gov/RSI/REQUIREMENTS/docs/CRS_DoDIGCA.pdf (Downloaded September 27, 2010) (hereinafter *Inherently Governmental Functions and Department of Defense Operations: Background, Issues, and Options for Congress* (R40641))

[27] Ronald Reagan, First Inaugural Address, January 20, 1981. http://www.reaganfoundation.org/pdf/Inaugural_Address_012081.pdf (Downloaded June 17, 2011)

[28] Acquisition Advisory Panel Report, p. 399, n. 18.

[29] Testimony of Dan Guttman, Fellow at the Johns Hopkins' Washington Center for the Study of American Government, before the Senate Committee on Governmental Affairs, "Who's Doing Work for Government? Monitoring, Accountability and Competition in the Federal and Service Contract Workforce," March 6, 2002. http://hsgac.senate.gov/030602guttman.htm (Downloaded September 27, 2010)

[30] Federal Activities Inventory Reform Act of 1998 (Pub. Law 105-270), § 2(d) and (e), October 19, 1998.

[31] *Inherently Governmental Functions and Department of Defense Operations: Background, Issues, and Options for Congress* (R40641), pp. 5, 8 n. 37.

The George W. Bush administration continued the Clinton administration's pro-outsourcing agenda. In his President's Management Agenda, President Bush announced early in his first term his intention of making the federal government more "market-based."[32] The Bush administration also "proposed amending OMB Circular A-76 so that all functions were presumed to be commercial unless agencies justified why they were inherently governmental."[33] The Bush administration employed contractors in the military and reconstruction operations in Iraq[34] and Afghanistan,[35] and in the cleanup efforts after Hurricanes Katrina and Rita in the Gulf region.[36] In May 2003, the Bush administration revised OMB Circular A-76 to emphasize competition of services with "streamlined cost comparisons."[37]

In 2002, the Commercial Activities Panel[38] concluded that A-76 competitions had achieved significant savings and efficiencies for the government.[39] The panel "strongly supported a continued emphasis on competition as a means to improve economy, efficiency, and effectiveness of the government."[40]

Six years later in May 2008, OMB reported that from FY 2003 through FY 2007 the federal government conducted 1,375 A-76 competitions, which, at the time of the report, resulted in accrued actual savings of $1.88 billion.[41] OMB projected that, over the long run, there would be $7.2 billion in total savings.[42] In the majority of cases, the savings did not result from outsourcing to contractors, but

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[32] Executive Office of the President, Office of Management and Budget, *The President's Management Agenda: Fiscal Year 2002*, p. 4. http://www.dtic.mil/cgi-bin/GetTRDoc?AD=ADA394421&Location=U2&doc=GetTRDoc.pdf (Downloaded September 27, 2010)

[33] *Inherently Governmental Functions and Department of Defense Operations: Background, Issues, and Options for Congress* (R40641), p. 6.

[34] "DOD obligated approximately $15.4 billion on contracts in the Iraq theater of operations in FY2010, representing 20% of total spending in those regions. From FY2005 to FY2010, DOD obligated approximately $112.8 billion on contracts primarily in the Iraq theater of operations, representing 19% of total obligations for operations in Iraq." *Department of Defense Contractors in Afghanistan and Iraq: Background and Analysis* (R40764), p. 19.

[35] "DOD relies extensively upon contractors to support overseas contingency operations. As of March 2011, DOD had more contractor personnel in Afghanistan and Iraq (155,000) than uniformed personnel (145,000). Contractors made up 52% of DOD's workforce in Afghanistan and Iraq. Since December 2009, the number of DOD contractors in Afghanistan has exceeded the number in Iraq....According to FPDS, DOD obligated approximately $11.8 billion on contracts in the Afghanistan theater of operations in FY2010, representing 15% of total obligations...in the area. From FY2005-FY2010, DOD obligated approximately $33.9 billion on contracts primarily in the Afghanistan theater, representing 16% of total DOD obligations for operations in that area." *Department of Defense Contractors in Afghanistan and Iraq: Background and Analysis* (R40764), pp. Summary, 13.

[36] Hearing Statement of David E. Cooper, Government Accountability Office, Director, Acquisition and Sourcing Management, Before the Senate Committee on Small Business and Entrepreneurship, "Hurricanes Katrina and Rita: Preliminary Observations on Contracting for Response and Recovery Efforts," GAO-06-246T, November 8, 2005, pp. 2-3. http://www.gao.gov/new.items/d06246t.pdf (Downloaded April 27, 2011)

[37] The revised circular in 2003 stated: "The longstanding policy of the federal government has been to rely on the private sector for needed commercial services. To ensure that the American people receive maximum value for their tax dollars, commercial activities should be subject to the forces of competition." OMB Circular A-76, Revised May 2003. http://www.whitehouse.gov/omb/circulars_a076_a76_incl_tech_correction (Downloaded September 27, 2010).

[38] Commercial Activities Panel was chaired by David M. Walker, Comptroller General of the United States, to study the policies and procedures governing the transfer of commercial activities from federal employees to contractors.

[39] GAO-02-847T, p. 8.

[40] GAO-02-847T, p. 9.

[41] Executive Office of the President, Office of Management and Budget, *Report on Competitive Sourcing Results: Fiscal Year 2007*, May 2008, pp. 4, 13-14. http://www.whitehouse.gov/sites/default/files/omb/assets/procurement/comp_sourc_fy2007.pdf (Downloaded April 5, 2011) (hereinafter *Report on Competitive Sourcing Results*)

[42] *Report on Competitive Sourcing Results*, pp. 2, 4, 11-12. The project savings require independent validation to determine if the benefits and cost savings promised during the A-76 competition process were or will be realized. *Report on Competitive Sourcing Results*, pp. 14-15; Memorandum from Clay Johnson III, Deputy Director for Management, Executive Office of the President, Office of Management and Budget, to the President's Management Council, "Validating

rather from keeping the work in-house. In fact, **83 percent of the competitions were won by federal employees (as a percentage of total FTEs competed).**[43] Consequently, the vast majority of projected savings might not be a function of private sector efficiencies, but may instead have been due to the government's structural reengineering of the federal employee workforce.[44] In many instances, government agencies cut their workforces through measures "including buyouts, early retirements, [and] reassignment to priority programs within the agency or at another agency."[45]

Despite the cost savings associated with the A-76 process, it has been criticized by both government officials and contractor trade groups for a number of reasons. For instance, both sides claim the process favors the other side.[46] Additionally, some agencies have been criticized for their inability to effectively administer the competitions and document the actual savings achieved.[47] Other criticisms include the fact that, generally speaking, the A-76 process only provides a small look into overall outsourcing activities and that it is a political vehicle to place government services in the hands of contractors.[48]

The Obama administration's policy on the issue of outsourcing has fluctuated. President Obama issued a March 4, 2009, memo on government contracting that expressed concerns about federal contract spending, including the level of competition, the use of risky contracts, and the need to protect functions that should be performed by federal employees.[49] The President directed OMB to develop and issue government-wide guidance to assist agencies in reviewing "existing contracts in order to identify contracts that are wasteful, inefficient, or not otherwise likely to meet the agency's needs, and

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the Results of Public-Private Competition," April 13, 2007. http://www.fai.gov/pdfs/MemonValidatingResultsCompetitions.pdf (Downloaded May 24, 2011)

[43] *Report on Competitive Sourcing Results*, p. 2. "As part of this process, the government identifies the work to be performed (described in the performance work statement), prepares an in-house cost estimate on the basis of its most efficient organization, and compares it with the winning offer from the private sector." A footnote related to this text stated, "The most efficient organization is the government's in-house plan to perform a commercial activity. It may include a mix of federal employees and contract support." GAO-02-847T, p. 3.

[44] *Report on Competitive Sourcing Results*, p. 10.

[45] *Report on Competitive Sourcing Results*, p. 10.

[46] Congressional Research Service, *Defense Outsourcing: The OMB Circular A-76 Policy* (RL30392), June 30, 2005, pp. 4-6. http://www.fas.org/sgp/crs/natsec/RL30392.pdf (Downloaded April 20, 2011); In addition, a Center for Strategic and International Studies (CSIS) report highlights the inherent problems with government lifecycle cost comparison models and appropriate overhead rates, and proposed a cost-estimating methodology. Although the report discusses a comprehensive cost estimation methodology that should be used to create a baseline for making more accurate cost comparisons, it is silent on all the costs the government incurs, above and beyond fixed billing rates, associated with the award, administration, and oversight of service contracts. Center for Strategic and International Studies, *DoD Workforce Cost Realism Assessment*, May 2011, pp. 11-19. http://csis.org/files/publication/110517_Berteau_DoDWorkforceCost_Web.pdf (Downloaded May 18, 2011) (hereinafter DoD Workforce Cost Realism Assessment)

[47] For instance, GAO found that in one competition, DOL reported projected savings to Congress that overestimated its actual savings due to the fact that its costs were underreported by 100 percent. Government Accountability Office, *Department of Labor: Better Cost Assessments and Departmentwide Performance Tracking Are Needed to Effectively Manage Competitive Sourcing Program* (GAO-09-14), November 21, 2008, pp. 4-5. http://www.gao.gov/new.items/d0914.pdf (Downloaded September 27, 2010).

[48] American Federation of Government Employees, "Public Comments on the Presidential Memorandum on Government Contracting," July 15, 2009. http://www.afge.org/index.cfm?page=Privatization&Fuse=Content&ContentID=1953 (Downloaded July 12, 2011)

[49] Memorandum from President Barack Obama, to the Heads of Executive Departments and Agencies, "Government Contracting," March 4, 2009. http://www.whitehouse.gov/the_press_office/Memorandum-for-the-Heads-of-Executive-Departments-and-Agencies-Subject-Government/ (Downloaded May 11, 2011) (hereinafter Obama Contracting Memo)

to formulate appropriate corrective action in a timely manner."[50] As a result, agencies received guidance to improve the insourcing process and better manage the multi-sector workforce.[51]

The insourcing effort was short-lived and, despite the concerns about government contracting President Obama expressed in his March 2009 memo, the administration appears to have backed away from that policy.[52] Specifically, President Obama signed into law a two-year freeze on federal employee salaries,[53] which could have the effect of harming the government's ability to hire and retain federal employees and thus increase the need for contractors.[54] In addition, the government has temporarily banned new A-76 competitions at DoD,[55] and has made little effort to identify and eliminate any excessive costs of outsourcing the over $320 billion in services contracts awarded each year while this ban is in effect.[56] In fact, only one federal agency has taken any meaningful steps to rein in contractors during this period of time. The Department of Energy (which is uniquely positioned because of its significant contractor workforce) has taken the unprecedented move of freezing

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[50] Obama Contracting Memo.

[51] Memorandum from Director Peter R. Orszag, Executive Office of the President, Office of Management and Budget, "Managing the Multi-Sector Workforce," OMB Memo M-09-26, July 29, 2009, pp. 1-2. http://www.whitehouse.gov/sites/default/files/omb/assets/memoranda_fy2009/m-09-26.pdf (Downloaded September 27, 2010); Stephen Losey, "Huge Federal Staffing Planned in 2010," *Federal Times*, May 12, 2009. http://www.federaltimes.com/article/20090512/PERSONNEL02/905120301/1050/PERSONNEL04 (Downloaded September 27, 2010); Ashton Carter, "A Message from the Under Secretary of Defense For Acquisition, Technology and Logistics." https://acc.dau.mil/adl/en-US/365272/file/50295/2%20-%20ActionMemo%20TAB%20A%20Carter%20Memo%20v17%20Publish%20D.pdf (Downloaded April 11, 2011); Alice Lipowicz, "DHS draws flak for review of services contracts," *Federal Computer Week*, June 5, 2009. http://fcw.com/Articles/2009/06/08/NEWS-DHS-contracts.aspx (Downloaded April 11, 2011)

[52] Memorandum from Secretary of the Army John M. McHugh to Principal Officials of Headquarters—Department of the Army, and others, "Reservation of In-Sourcing Approval Authority," February 1, 2011. http://www.pscouncil.org/AM/Template.cfm?Section=Home1&TEMPLATE=/CM/ContentDisplay.cfm&CONTENTID=6796 (Downloaded May 18, 2011); Marjorie Censer, "The Pentagon retreats on insourcing as spending slows," *The Washington Post*, April 3, 2011. http://www.washingtonpost.com/business/capitalbusiness/the-pentagon-retreats-on-insourcing-as-spending-slows/2011/03/28/AFsJJxWC_story.html (Downloaded on April 11, 2011)

[53] Continuing Appropriations and Surface Transportation Extensions Act, 2011 (Pub. Law 111–322), § 1 (b) and (c), December 22, 2010; Memorandum for President Barack Obama, to the Heads of Executive Departments and Agencies, "Freezing Federal Employee Pay Schedules and Rates That Are Set By Administrative Discretion," December 22, 2010. http://www.whitehouse.gov/the-press-office/2010/12/22/memorandum-adjustments-certain-rates-pay (Downloaded April 3, 2011). The Republicans' FY 2012 budget resolution seeks to extend the pay freeze through 2015. Emily Long and Kellie Lunney, "GOP budget resolution calls for pay freeze through 2015," *Government Executive*, April 5, 2011. http://www.govexec.com/story_page.cfm?articleid=47515&dcn=todaysnews (Downloaded on April 11, 2011)

[54] There are differing viewpoints on the result of freezing federal employees salaries. Howard Risher, "The true cost of a 5-year pay freeze," *Federal Times*, May 1, 2011. http://www.federaltimes.com/article/20110501/ADOP06/105010306/ (Downloaded May 3, 2011); "News Digest: May 9—Pay freeze unlikely to hurt retention, official says," *Federal Times*, May 9, 2011, p. 4. http://www.federaltimes.com/article/20110508/DEPARTMENTS05/105080301/ (Downloaded June 1, 2011)

[55] Department of Defense Appropriations Act, 2010 (Pub. Law 111-118), § 8117 (hereinafter Department of Defense Appropriations Act, 2010); National Defense Authorization Act for Fiscal Year 2010 (Pub. Law 111-84), § 325; Omnibus Appropriations Act, 2009 (Pub. Law 111-8), § 737. DoD is seeking to have it's A-76 authority restored. Sarah Chacko, "DoD report seeks return to A-76 job competitions," *Federal Times*, July 19, 2011. http://www.federaltimes.com/article/20110719/DEPARTMENTS01/107190307/1023/DEPARTMENTS01 (Downloaded July 22, 2011). DoD is prohibited from undertaking direct conversions "unless the conversion is based on the result of a public-private competition...." 10 U.S.C. § 2461; Department of Defense and Full-Year Continuing Appropriations Act, 2011 (Pub. Law 112-10), § 8015.

[56] "Since fiscal year 2006, civilian agencies have obligated over $100 billion annually to obtain a range of services from contractors." GAO-11-538R, p. 1.

contractor employees' salaries.[57] Although this is a good move, other agencies may be less effective in controlling excessive contract prices.[58] Generally, most contracts include annual escalation clauses or increased rates for each option year of the contract—and, in some instances, those contracts include options for nine years or more.[59]

The 112th Congress is even taking steps to promote the government's hiring of contractors, no matter the cost. The House version of the FY 2012 Defense Authorization bill includes a "sense of Congress" provision that states that insourcing should only occur when it involves inherently governmental functions.[60]

No matter the reasons for shifts in policies, the fact remains that the overall size of the blended federal workforce and the dollars spent on service contracts have dramatically increased. As budgets decrease, federal employee total compensation will receive increased scrutiny despite policymakers not having all the facts.[61]

SUMMARY OF METHODOLOGY[62]

POGO reviewed 35 occupational classifications for this study. We employed two critical selection criteria: (1) whether the occupational classifications involved a "special interest function,"[63] and (2) whether the occupational classification had been converted to a "commercial" function for the purposes of a FAIR Act inventory or subject to outsourcing pursuant to Circular A-76.[64] POGO analyzed classification systems from the Office of Personnel Management's (OPM) General Schedule (GS) and Job Grading Standards for Trades, Craft, and Labor Positions (WG) series (which we refer to throughout the report as GS series),[65] Bureau of Labor Statistics' (BLS) Standard Occupational

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[57] Alyah Khan, "DOE holds unique power to freeze contractor pay," *Washington Technology*, December 22, 2010. http://washingtontechnology.com/articles/2010/12/22/unique-arrangement-allows-doe-to-freeze-contractor-pay.aspx (Downloaded April 3, 2011)

[58] Congress has made an control contract costs with DoD. The Senate's National Defense Authorization Act for Fiscal Year 2012 (S. 981) includes Section 807 applying allowable senior executive benchmark compensation limits to all contractor employees, and Section 301 freezes DoD's operation and maintenance funding at 2010 levels. Emily Long, "Pain of Defense service contractor cuts might not be felt evenly," *Government Executive*, June 20, 2011. http://www.govexec.com/story_page.cfm?articleid=48047&sid=60 (Downloaded June 23, 2011)

[59] For instance, the Army logistics support LOGCAP IV contract award to three different contractors has one base year and nine option years. U.S. Army Sustainment Command Public Affairs, "ASC selects LOGCAP IV contractors," June 28, 2007. http://www.army.mil/article/3836/asc-selects-logcap-iv-contractors/ (Downloaded May 31, 2011) (hereinafter ASC selects LOGCAP IV contractors)

[60] Sarah Chacko, "House bill urges DoD to halt insourcing," *Federal Times*, May 27, 2011. http://www.federaltimes.com/article/20110527/ACQUISITION03/105270302/1001 (Downloaded May 31, 2011)

[61] Howard Risher, "Analysis: Politics of federal pay obscures the facts," *Government Executive*, May 25, 2011. http://www.govexec.com/story_page.cfm?articleid=47870&oref=todaysnews (Downloaded May 26, 2011)

[62] The complete methodology can be found in Appendix A.

[63] "Special interest functions are functions that require increased management attention due to heightened risk of workforce imbalance." Memorandum from Daniel I. Gordon, Administrator, Office of Federal Procurement Policy, to Chief Acquisition Officers, "Service Contract Inventories," November 5, 2010, Attachment, pp. 3-4. http://www.whitehouse.gov/sites/default/files/omb/procurement/memo/service-contract-inventories-guidance-11052010.pdf (Downloaded July 13, 2011)

[64] The occupational classifications selected by POGO would pass the "Yellow Book Test," indicating that they are services easily found in a phone book. Those types of services have been targeted by Members of Congress for outsourcing. Matthew Weigelt, "Lawmakers want competitive sourcing on the table," *Federal Computer Week*, July 19, 2011. http://fcw.com/articles/2011/07/19/competitive-sourcing-appropriations-committee-letter.aspx (Downloaded July 22, 2011)

[65] The GSA Schedule program provides agencies with a "simplified process for obtaining commercial supplies and services at prices associated with volume buying." Federal Acquisition Regulation Subpart 8.402. Service contracts often are

Classification (SOC) system, and General Services Administration's (GSA) service activities as classified in its Special Item Number (SIN) system to establish comparable occupational services. (Appendix C) POGO then identified appropriate data tables published by each agency that allowed POGO to determine and compare the average rate of full annual compensation paid to federal and private sector employees with the average annual billing rates for contractor employees performing comparable services at government sites. (Appendices B and D) Because the contractor billing rates published by GSA include not only salaries but also other costs including benefits contractors provide their employees,[66] POGO added OPM's 36.25 percent benefit rate to federal employee salaries[67] and BLS's 33.5 percent loading to private sector employee salaries to reflect the full fringe benefit package paid to full-time employees in service-providing organizations that employ 500 or more workers.[68] All supporting data for this study are found in Table 1 and Appendices B through D.[69]

POGO is aware that its methodology does not incorporate some governmental cost factors: i.e., non-directly associated overhead (e.g., executive management and administration, information technology, and legal support), material and supplies (e.g., insurance and maintenance), or facilities (e.g., depreciation, rent, insurance, maintenance and repair, utilities, capital improvements).[70] However, given the fact that POGO relied exclusively on GSA's listed contractor billing rates for performance at government sites, many of those cost factors would essentially be canceled out.[71] In fact, when contractors perform work at contractor sites, POGO found that contractor billing rates were, on average, 15 percent higher than rates for work performed at government sites. In addition, POGO did not include in its comparative analysis additional costs that the government incurs as a result of

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awarded through high-risk labor-hour contracts, a type of time and material contract, that is considered a last resort. FAR Subpart 16.601(d); Sarah Chacko, "White House orders agencies to cut spending on services contracts," *Federal Times*, July 11, 2011, p. 3. http://www.federaltimes.com/article/20110707/ACQUISITION03/107070308/ (Downloaded July 12, 2011) Labor-hour contracts are generally more susceptible to waste, fraud, and abuse than fixed price or cost-type contracts, and therefore the rates provided in GSA Schedule contracts tend to be higher than the equivalent amounts that would otherwise be paid by the government under fixed price and cost-type contracts.

[66] GSA contracts supply hourly billing rates. Those rates are not just the salaries contractor employees are paid, but include benefits, overhead, administrative costs, and profit. There is no way to determine the portion of those rates that are designated as salary.

[67] Memorandum from Jim Nussle, Director, Office of Management and Budget, to the Heads of Executive Departments and Agencies, "Update to Civilian Position Full Fringe Benefit Cost Factor, Federal Pay Raise Assumptions, and Inflation Factors used in OMB Circular No. A-76, 'Performance of Commercial Activities,'" M-08-13, March 11, 2008, p. 2. http://www.whitehouse.gov/sites/ default/files/omb/memoranda/fy2008/m08-13.pdf (Downloaded September 27, 2010) (hereinafter Update to Civilian Position Full Fringe Benefit Cost Factor)

[68] Because the vast majority of contract service providers are large corporate entities, POGO thought it appropriate to calculate benefits based on this workforce classification. Bureau of Labor Statistics, "Table 14. Private industry workers, by establishment employment size: employer costs per hours worked for employee compensation and costs as a percentage of total compensation, 2004-2010, 500 workers or more," March 9, 2011, pp. 187-189. ftp://ftp.bls.gov/pub/special.requests/ocwc/ect/ececqrtn.pdf (Downloaded March 28, 2011)

[69] In preparing this study, POGO utilized certain data modeling of Avue Technologies Corporation, a provider of automated management platform solutions. However, POGO remains solely responsible for the ultimate analysis and conclusions presented.

[70] OMB Circular A-76 outlines numerous costs, including a 12 percent overhead rate, that must be added to full compensation labor costs in order to accurately compare the total cost to the government when making public-private cost comparisons. OMB Circular A-76, Revised May 2003, B-17. http://www.whitehouse.gov/omb/circulars_a076_a76_incl_tech_correction (Downloaded September 27, 2010); DoD Workforce Cost Realism Assessment, pp. 16-19.

[71] For instance, within the Defense Finance and Accounting Service the DoD Inspector General stated that it "found no relationship or any instances where general and administrative costs would be reduced by the conversion of work from in-house to contract performance." Department of Defense, Office of the Inspector General, *Infrastructure and Environment: Public/Private Competition for the Defense Finance and Accounting Service Military Retired and Annuitant Pay Functions* (D-2003-056), March 21, 2003, pp. 19, 22. http://www.dodig.mil/audit/reports/fy03/03-056.pdf (Downloaded May 19, 2011)

outsourcing services to contractors. Those costs would only add to the costs associated with outsourcing documented in this report.

POGO made every effort to ensure that its study is as accurate as possible. However, there are a number of factors that potentially limit the accuracy of POGO's findings. For instance, over the course of our investigation, we discovered some disturbing limitations to the federal databases available to us. The most critical limitations are that: 1) the government's coding, classification, and data collection systems are inconsistent and do not allow for reliable cost analyses[72]; 2) government websites do not provide access to agency documents that detail cost estimates and the justifications for outsourcing decisions; 3) the government does not publish information on the number of actual contractor employees holding a specific occupational position under any given contract; 4) the government only lists the ceiling prices that it can be billed by contractors for the specific occupational positions—the government is at liberty to negotiate prices that are lower than those listed, but it does not publish those negotiated rates (however, based on POGO's review of GSA contracts, and anecdotal evidence, the government tends to pay the listed billing rates rather than negotiating lower rates[73]); and 5) government websites do not disclose what the expected cost savings for service contracts are, nor the actual savings (or lack of savings) that result from those contracts. These shortcomings prevent government officials, as well as the public, from accurately assessing outsourcing costs. There are other factors that may limit the accuracy of POGO's findings, and we detail those in the full methodology in Appendix A.

POGO's Cost Analysis

POGO's study evaluates whether the current practice of outsourcing federal services to contractors is actually cost beneficial.[74] To do this, POGO compared the average of GSA's listed annual contractor billing rates (which we refer to throughout the report as "average annual contractor billing rates")[75] with the full costs of federal employee annual compensation for comparable services. POGO also compared federal employee full annual compensation with private sector employee full annual compensation, as well as average annual contractor billing rates with private sector employee full annual compensation, in order to evaluate the validity of the current private-sector versus federal-employee debate. These three comparisons are set forth below in Table 1.

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[72] For example, two OPM documents provide inconsistent data for matching its GS Series of job classifications with the BLS's SOC job classification codes; specifically, in more than a third of the occupations POGO compared, OPM's GS job classification codes conflicted with the data utilized in the annual U.S. Pay Agent reports (located in Appendix VII of the 2002 report) to establish comparable compensation for federal civilian employees and private sector employees.

[73] Steve Kelman, "How agencies can cut contracting costs," *Federal Computer Week*, August 9, 2011. http://fcw.com/articles/2011/08/08/comment-kelman-save-money-for-government.aspx (Downloaded August 11, 2011); Steve Kelman, "GSA schedules: Are agencies paying too much?," *Federal Computer Week*, July 29, 2010. http://fcw.com/Blogs/Lectern/2010/07/Steve-Kelman-GSA-schedules-pricing-July-29.aspx (Downloaded June 23, 2011); Steve Kelman, "Are agencies paying too much through the GSA schedule? Readers respond," *Federal Computer Week*, August 3, 2010. http://fcw.com/Blogs/Lectern/2010/08/Steve-Kelman-GSA-schedule-pricing-reaction.aspx (Downloaded June 23, 2011); One recent story indicated that cost is emerging as major factor in federal contracting. Sarah Chacko, "Feds driving harder bargain at procurement table," *Federal Times*, July 25, 2011, p. 1. http://www.federaltimes.com/article/20110724/ACQUISITION03/107240302/1009/ACQUISITION (Downloaded July 26, 2011)

[74] This study was a quantitative rather than qualitative study, and did not look at outcomes of contractor or federal employee performance. In general, cost comparisons should be a factor—but not the only factor—when assigning service tasks to either federal or contractor employees.

[75] In some instances, the listed billing rates can be negotiated down to a lower rate. POGO has no access to how many rates are negotiated or for how much.

Table 1: Cost Analyses

OPM Series Description	Federal to Private*	Contractor to Federal†	Contractor to Private‡	Full Federal Annual Compensation	Full Private Sector Annual Compensation	Contractor Annual Billing Rates††
Accounting	1.50	2.40	3.60	$124,851	$83,132	$299,374
Auditing	1.47	2.31	3.40	$122,373	$83,132	$283,005
Budget Analysis	.89	2.75	2.43	$110,229	$124,501	$302,661
Building Management	.62	2.38	1.48	$111,564	$179,740	$265,242
Cartography	1.47**	1.46	2.14**	$116,481	$79,219	$169,520
Cemetery Administration Services	1.12	2.83	3.17	$106,124	$94,485	$299,832
Claims Assistance and Examining	.76	4.83	3.66	$57,292	$75,637	$276,598
Computer Engineering	1.04	1.97	2.04	$136,456	$131,415	$268,653
Contracting	.98	2.29	2.24	$113,319	$115,596	$259,106
Correctional Officer	2.17	1.15	2.49	$72,977	$33,598	$83,803
Environmental Protection Specialist	1.20	1.40	1.68	$127,247	$105,964	$177,570
Equal Opportunity Compliance	1.40	2.05	2.87	$125,368	$89,394	$256,381
Facility Operations Services	.90	1.66	1.50	$108,060	$119,449	$179,254
Financial Analysis	1.24	1.30	1.61	$132,262	$106,679	$171,288
Financial Management	1.13	2.05	2.32	$164,218	$145,486	$337,002
Fire Protection and Prevention	1.04**	1.25	1.29**	$65,452	$63,105	$81,702
Food Inspection	1.04**	1.29	1.34**	$58,090	$55,883	$74,963
General Attorney	.79	3.17	2.51	$175,081	$220,924	$554,923
General Inspection, Investigation, Enforcement, and Compliance	1.17	1.62	1.90	$104,712	$89,394	$169,666
Groundskeeper	2.00	.80	1.60	$64,896	$32,396	$51,709
Human Resources Management	1.11	2.05	2.27	$111,711	$100,465	$228,488
Information Technology Management	1.09	1.59	1.73	$124,663	$114,818	$198,411
Language Specialist	1.80**	1.92	3.46**	$110,014	$61,010	$211,203
Logistics Management [Deployment]	.94	1.76	1.66	$116,047	$123,349	$204,443

Logistics Management [Planning]	1.19	1.46	1.74	$116,047	$97,269	$168,938
Management and Program Analysis	1.15	2.15	2.48	$124,602	$108,132	$268,258
Mechanical Engineering	1.15	1.50	1.72	$126,177	$109,961	$189,197
Medical Records Technician	1.26	.99	1.24	$58,641	$46,705	$57,782
Nurse	1.16	1.65	1.92	$105,714	$91,042	$174,803
Police	1.24	1.34	1.66	$71,256	$57,533	$95,659
Program Management	.97	1.56	1.50	$173,551	$179,740	$269,901
Quality Assurance	.94	1.09	1.03	$98,939	$104,891	$107,786
Security Guard	1.53	1.36	2.08	$50,257	$32,953	$68,515
Statistics	1.15	1.66	1.91	$125,192	$108,586	$207,563
Technical Writing and Editing	1.25	1.08	1.35	$103,801	$82,873	$112,091
Average Cost Premiums	**1.20**	**1.83**	**2.09**			

Sources:
The full methodology, data descriptions, and complete data tables for how the figures in this table were obtained are provided in Appendices A, B, C, and D. Appendix B contains a table of the 35 occupational classifications (including OPM, BLS, and GSA identification codes) with the base salaries and full compensation paid to federal employees and private sector employees (according to two BLS surveys), as well as the GSA billing rates for specified contracts. Appendix C contains the job titles and descriptions provided by OPM, BLS, and GSA for the 35 matching GS occupational series, SOC codes, and GSA SINs. Appendix D contains a table of the GSA contracts and the 35 occupational classifications covering over 550 service activities selected for calculating the average hourly and annual contractor billing rates for the various SINs used for comparing costs, along with the listed hourly billing rates. Annual dollar figures are rounded to the nearest dollar. For the contractor rates, while POGO used an average annual billing rate, agencies do not necessarily purchase services over a full year's period of time.

Notes:
The comparisons in this table are expressed as ratios in accordance with the following calculations:

* The federal to private comparisons are calculated by dividing the average annual full compensation paid to federal employees by the average annual full compensation paid to private sector employees performing similar services.

† The contractor to federal comparisons are calculated by dividing the average annual contractor billing rate for performing these services by the average annual full compensation paid to federal employees performing similar services.

‡ The contractor to private sector comparisons are calculated by dividing the average annual contractor billing rate by the average annual full compensation paid to private sector employees performing similar services.

†† Average annual contractor billing rates are typically based on a 2,087-hour conversion method, but for the sake of comparison to total government compensation, POGO used a 2,080-hour conversion. As a result, POGO multiplied the average hourly contractor billing rate by 2,080 to calculate the average annual contractor billing rate.

** No National Compensation Survey data were available for comparison; therefore Occupational Employment Statistics data were used.

The result of POGO's analysis was shocking. In 94 percent (33 of the 35) of the occupational series POGO analyzed, the average annual contractor billing rate was much more than the average annual full compensation for federal employees: on average, contractors may be billing the government approximately **1.83 times** what the government pays federal employees to perform similar work.[76] When the average annual contractor billing rates were compared with the average annual full compensation paid to private sector employees in the open market, POGO found that in all occupational classifications studied, **the contractor billing rates were, on average, more than twice the costs incurred by private sector employers for the same services.**

The most egregious example of an outsourced occupational classification that resulted in excessive costs rather than cost savings is claims assistance and examining—administrative support positions that involve examining, reviewing, developing, adjusting, reconsidering, or recommending authorization of claims by or against the federal government. To provide these services, on average, federal employees are fully compensated at **$57,292** per year, private sector employees are fully compensated at **$75,637** per year, and the average annual contractor billing rate is **$276,598** per year. POGO found the government may therefore be paying contractors, on average, nearly **5 times** what it pays government employees to perform the same services.[77] Put another way, the government may be paying the contractor providing support services for claims assistance and examining more than it does federal judges or administrative law judges, who earn less than **$200,000** per year.[78] Contractors may be billing the government, on average, approximately **3.66 times** what private sector employees are compensated for performing similar services.

General attorney services often involve the resolution, management, or disposition of assets held by the federal government. To provide these services, a federal government attorney is paid on average **$175,081** per year,[79] a private sector attorney is paid on average **$220,924** per year, and a contractor attorney may be billing the government on average **$554,923** per year. In other words, contractors may be billing the federal government up to **3.17 times more**, on average, what the government pays a federal attorney, and up to **2.51 times** what private sector employees are compensated. It is hard to discern how the government can justify these excessive costs. In fact, contractor legal assistants or law clerks who lack the advanced education and skills of an attorney cost more than federal attorneys.[80]

When POGO analyzed accounting, auditing, and budget analysis occupational positions (some of which fall on the line between inherently governmental and closely associated with inherently

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[76] While the policy of downsizing the federal government by outsourcing services failed to generate the cost savings advocates of outsourcing have promised, POGO acknowledges that not all federal service contracts impose unreasonable costs; indeed, some as yet indeterminable percentage of these contracts may result in cost savings to the government.

[77] Throughout this report, whenever we refer to "pay" or "is paid," we are referring to the fully loaded compensations (base salary plus benefits), which are listed in detail in Appendix B.

[78] U.S. Courts, "Federal Judicial Pay Increase Fact Sheet." http://www.uscourts.gov/JudgesAndJudgeships/JudicialCompensation/JudicialPayIncreaseFact.aspx (Downloaded April 12, 2011)

[79] A recent media report detailed that numerous government lawyers earned more than $180,000 per year, which is similar to the average government attorney salary found in this study. Kevin McCoy, "Doctors, lawyers, dentists tops in fed jobs that pay $180K-plus," *USA Today*, May 3, 2011. http://www.usatoday.com/money/economy/2011-05-02-highest-paid-federal-workers_n.htm (Downloaded May 3, 2011)

[80] The legal assistant or law clerk rate was $89 per hour in 2009, which is an annual rate of $185,120. General Services Administration, eLibrary, "Sullivan Cove Consultants, LLC, Contract Number GS-23F-0181S SIN 520-6 Professional Legal Services," May 17, 2006 – May 16, 2011, p. 3. http://www.gsaelibrary.gsa.gov/ElibMain/contractorInfo.do?contractNumber=GS-23F-0181S&contractorName=SULLIVAN+COVE+CONSULTANTS+LLC&executeQuery=YES (Downloaded April 13, 2011)

governmental functions),[81] we found that federal employees are paid on average **$119,000** per year, private sector employees are paid less than **$100,000** a year, and contractors may be billing the government nearly **$300,000** per employee per year, on average. This means that, on average, it can cost the government approximately **2.5 times** more to use contractor employees for these services than federal employees, and that contractors may be billing the government **3 times** on average what private sector employees are compensated.

Information technology work is widely outsourced throughout the federal government because of the assumption that IT companies provide vastly superior skills and cost savings.[82] But the cost savings are not being realized. POGO found that the federal government may be paying contractors to provide computer engineers, on average, **$268,653** per year, nearly **twice** what it costs to use federal employees at **$136,456** per year. For information technology management services, on average, the government may be paying annual rates of **$198,411** for contractor employees, which is **1.59 times** what the government pays federal employees at **$124,663**,[83] and **1.73 times** what private sector companies compensate their employees at **$114,818** to perform comparable services.

With regard to human resources management, POGO found that the government may be paying contractors, on average, annual rates of **$228,488**, **more than twice** what the government compensates federal employees (**$111,711**). Contractors' average annual billing rates are **2.27 times** what private sector companies compensate their employees (**$100,465**).

Contracting functions, which are closely associated with inherently governmental functions,[84] are critical to maintaining a balanced and effective federal acquisition workforce that helps agencies meet their missions. Federal agencies are becoming increasingly dependent on contractors to provide those services.[85] POGO found that the federal government may be paying contractors, on average, **$259,106** per year, **2.29 times** what it pays federal employees at an average of **$113,319**, to perform comparable

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[81] FAR Subpart 7.503(c) and (d). https://www.acquisition.gov/far/current/html/Subpart%207_5.html#wp1078196 (hereinafter FAR Subpart 7.5); POGO will be releasing a report that focuses on the questionable use of contractors to perform inherently governmental functions, which are functions that *must* be performed by government employees.

[82] IT contracts have been the subject of allegations of overbilling, improper payments, and kickbacks which have surfaced in federal and state IT contracts. Project On Government Oversight, "Federal Contractor Misconduct Database." http://www.contractormisconduct.org/index.cfm/1,73,222,html?CaseID=1233, http://www.contractormisconduct.org/index.cfm/1,73,222,html?CaseID=1085, http://www.contractormisconduct.org/index.cfm/1,73,222,html?CaseID=738; and Chad Vander Veen, "Is IT Outsourcing Still In?" Governing Magazine, June 2010. http://www.governing.com/topics/technology/Is-IT-Outsourcing-Still-In.html (Downloaded September 27, 2010)

[83] Recent commentary by Howard Risher, "a managing consultant for the studies that led to pay reform in the Federal Employees Pay Comparability Act of 1990," offered some thoughts on comparing salaries, stating that "Federal technology specialists would benefit most from a market-sensitive salary system....The comparisons are striking. The lowest pay among selected federal technology jobs is 20 percent below market, while the highest is 27 percent above the market level. The comparisons are all over the place, which is not surprising because federal salaries have never been aligned with market levels." Howard Risher, "The barriers to market pay for the federal IT workforce," *Federal Computer Week*, May 3, 2011. http://fcw.com/articles/2011/05/09/comment-howard-risher-it-job-classifications.aspx (Downloaded May 4, 2011)

[84] FAR Subpart 7.503(d).

[85] For example, "at 15 of the 21 [contracting] offices we reviewed, contractor employees outnumbered DOD employees and comprised as much as 88 percent of the workforce." GAO-08-169, p. 3; Government Accountability Office, *Defense Contracting: Army Case Study Delineates Concerns With Use of Contractors as Contract Specialists* (GAO-08-360), March 2008, p. 3. http://www.gao.gov/new.items/d08360.pdf (Downloaded April 28, 2011); Government Accountability Office, *Department of Homeland Security: Improved Assessment and Oversight Needed to Manage Risk of Contracting for Selected Services* (GAO-07-990), September 2007, pp. 1, 8. http://www.gao.gov/new.items/d07990.pdf (Downloaded April 28, 2011)

services. We found that contractors may be billing the federal government **2.24 times** on average what private sector employers are compensating their workers to perform similar services, at **$115,596** per year on average.

Safety and security services are another area in which the federal government has a substantial commitment to awarding service contracts. For instance, the Department of Justice relies on contractors to provide correctional officers.[86] Similarly, the Department of Homeland Security's Federal Protective Service (FPS), which is responsible for providing security for government buildings, outsources over 90 percent of its security guard services.[87] POGO found that the federal government may be billed by contractors on average **1.15 times** and **1.36 times**, respectively, more than what it pays federal correctional officers (**$72,977**) and security guards (**$50,257**).[88] Similarly, the federal government may be billed on average **1.25 times** and **1.34 times**, respectively, more than what it compensates federal employees for fire protection (**$65,452**) and police services (**$71,256**).[89] Contractors may be billing the federal government on average **1.29** to **2.49 times** the full compensation costs associated with private sector employees performing similar services on the open market.

Many of the job classifications POGO analyzed are typically characterized as "commercial" in nature—services that can be found in the phone book. The federal government also outsources functions and activities that are critical to our nation's security. For example, the Office of the Director of National Intelligence has reported that the government has outsourced 28 percent of its intelligence workforce[90] and is paying contractors 1.66 times what it costs to have this work performed by federal employees ($207,000 annually for a contractor employee versus $125,000 for a federal employee).[91] POGO's analysis supports this. POGO analyzed the costs associated with outsourcing language specialists, who are frequently used to perform intelligence functions, and found that contractors may be billing the government, on average, **$211,203** per year, **more than 1.9 times** the **$110,014** per year the government compensates a federal employee. And contractors may be billing the federal government **nearly 3.5 times**, on average, the **$61,010** per year private sector language specialists are compensated on the open market.

While nearly all of the occupations POGO analyzed revealed excessive outsourcing costs, POGO did find two where utilizing contractors was more cost-effective. POGO found that the government incurs excessive costs by keeping groundskeeper services in-house. Specifically, federal groundskeeper

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[86] Government Accountability Office, *Cost of Prisons: Bureau of Prisons Needs Better Data to Assess Alternatives for Acquiring Low and Minimum Security Facilities* (GAO-08-6), October 2007, p. 1. http://www.gao.gov/new.items/d086.pdf (Downloaded April 28, 2011)

[87] Department of Homeland Security, "About the Federal Protective Service." http://www.dhs.gov/xabout/structure/gc_1253889058003.shtm (Downloaded April 11, 2011). "In recent years, [GAO's] work has identified significant weaknesses in FPS's oversight and management of its security workforce, including the failures to ensure that its contract security guards maintain required training and certifications and to annually evaluate security guard performance. Such oversight gaps have raised questions about FPS's reliance on a contract workforce. Footnote omitted. Government Accountability Office, *Federal Facility Security: Staffing Approaches Used by Selected Agencies* (GAO-11-601), June 2011, p. 1. http://www.gao.gov/new.items/d11601.pdf (Downloaded August 16, 2011) (hereinafter GAO-11-601)

[88] The GAO found that base pay for in-house security is $36,822. GAO-11-601, p. 14.

[89] The GAO found that base pay for in-house police positions is $48,737. GAO-11-601, p. 14.

[90] Office of the Director of National Intelligence, "Key Facts About Contractors," p. 2. http://www.dni.gov/content/Truth_About_Contractors.pdf (Downloaded April 11, 2011)

[91] Conference Call with Dr. Ronald Sanders, Associate Director of National Intelligence for Human Capital, "Results of the Fiscal Year 2007 U.S. Intelligence Community Inventory of Core Contractor Personnel," August 27, 2008, p. 8. http://www.asisonline.org/secman/20080827_interview.pdf (Downloaded April 28, 2011)

employees are compensated,[92] on average, **$13,187** per year more than what contractors may be billing the government. POGO estimates that a **20 percent savings** results when the government outsources groundskeeper services, which closely matches government estimates.[93] Average annual contractor billing rates are **1.6 times** what private sector groundskeepers are compensated. In addition, POGO found that the government pays federal employees operating as medical record technicians **.01 times** more than the average annual contractor billing rates (**$58,641** and **$57,782**, respectively).

By shifting the focus from comparing federal with private sector employee compensation to comparing contractor billing rates with federal employee full compensation, POGO was able to examine the comparable costs of hiring federal and contractor employees. POGO's findings confirm the basic premise that government employees are *generally* compensated at a higher rate than private sector employees.[94] However, in the 35 occupational classifications and 550 specific jobs POGO analyzed, reliance on contractor employees costs significantly more than having federal employees provide similar services. As a result, taxpayers are left paying the additional costs associated with corporate management, overhead, and profits that the government has no need to incur.

Contractors make profits by providing services,[95] and that is a sound business practice. The federal government also provides services, but does so without making any profit. The critical question is not whether contractors are entitled to earn profits but whether the government is paying higher costs to contractors for comparable services that could be provided by federal employees.

Because POGO's cost analyses were limited to contracts for services entered into under GSA's Schedule program, we did not address the issue of contractors' executive compensation.[96] Federal law currently permits a contractor to bill the federal government a portion of executive compensation. For example during FY 2010, contractors were allowed to bill the government up to $693,951[97] of a

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[92] The full federal annual compensation for Groundskeeper is listed in FedScope pursuant to OPM's Job Grading Standards for Trades, Craft, and Labor Positions (WG) series under the occupation of "Gardening." Office of Federal Personnel Management, "Federal Wage System Job Grading Standard for Gardening," WG Series 5003. http://www.opm.gov/fedclass/fws5003.pdf (Downloaded August 11, 2011)

[93] "Apparently, DOD saves 20 percent by privatizing food service, grass cutting, civilian personnel administration, and similar functions." Captain John R. Withers, "Contracting for Depot-Level Maintenance," *Army Logistician*, Vol. 32, Issue 1, January-February 2000. http://www.almc.army.mil/alog/issues/JanFeb00/MS453.htm (Downloaded April 20, 2011)

[94] There may be a number of reasons federal employees generally receive higher rates of compensation than do employees in the private sector, including that federal employees are, on average, older, in management and professional positions, more experienced, more tenured, and more educated than the private sector workforce. Congressional Research Service, *Selected Characteristics of Private and Public Sector Workers* (R41897), July 1, 2011, pp. 7-15. http://www.govexec.com/pdfs/071911kl1.pdf (Downloaded July 22, 2011); Office of Management and Budget, Blog Posted by Peter Orszag, "Salary Statistics," March 10, 2010. http://www.whitehouse.gov/omb/blog/10/03/10/salary-statistics/ (Downloaded September 27, 2010) (hereinafter Peter Orszag Blog)

[95] According to an industry survey, 40 percent of survey participants reported profit rates before interest and taxes of 1–5% as a percentage of revenue; 35 percent reported profit rates of 6–10%; 9 percent reported profit rates of 11–15%; and 6 percent reported profit rates above 15%. The remaining 10 percent reported profit rates of zero or experienced a loss. Grant Thornton LLP, *16th Annual Government Contractor Industry Survey Highlights Book: Industry survey highlights 2010*, January 17, 2011, pp. 6-7. http://www.grantthornton.com/staticfiles/GTCom/Government%20contractors/Government%20contractor%20files/16th_HighlightsBook.pdf (Downloaded April 6, 2011)

[96] POGO addressed the issue of excessive compensation for contractor executives in an April 22, 2010, letter to OMB Director Peter Orszag. http://www.pogo.org/pogo-files/letters/contract-oversight/co-cas-20100422.html

[97] Federal Register Office of Management and Budget, "Office of Federal Procurement Policy Cost Accounting Standards Board Executive Compensation, Benchmark Maximum Allowable Amount." http://www.whitehouse.gov/omb/procurement_index_exec_comp/ (Downloaded May 25, 2011) (hereinafter Office of Federal Procurement Policy Cost Accounting Standards Board Executive Compensation) This is the amount of executive

contractor's executive compensation.[98] While that rate may reflect only a partial level of an executive's corporate compensation, it constitutes approximately **three times** the level of actual salary the federal government pays its top executives. For example, in 2010, the President was paid $400,000 per annum, the Speaker of the House was paid $223,500 per annum, the Senate Majority Party Leader and the Senate Minority Party Leader, as well as the House Majority and Minority Leaders, were each paid $193,400 per annum, and Cabinet Members were paid $199,700 per annum.[99] The fact that high-level executives in the private sector often receive seven-figure salaries and benefit packages should not have any bearing on how much those executives should bill federal taxpayers, which should not exceed the salary paid to senior federal employees performing comparable work.

GOVERNMENT COST STUDIES

Despite numerous reports highlighting the government's lack of in-house capabilities[100] and studies mandated by law comparing federal and private sector compensation,[101] reviews of federal and contractor employee compensation and costs are not as abundant as the public might think.

Contingency Operations

The most recent comparison was conducted by the Commission on Wartime Contracting in Iraq and Afghanistan (CWC). (Appendix E) In its final report released on August 31, 2011, the CWC stated:

> For lower- and mid-level-worker skills, contractors employing local or third-country nationals are less costly than military or federal civilian employees. However, when contractors employ U.S. citizens in higher-skill positions (as may be the case with communications support and professional services), their costs are roughly equivalent to military and federal civilians in comparable grade levels. The military is substantially more expensive when the contingency extends beyond rotation cycles and dwell costs are recognized. Commission on Wartime Contracting in Iraq and Afghanistan, *Final Report to Congress*, August 2011, p. 226.

The CWC's cost study is timely based on the dramatic increase in the use of contractors supporting the troops in the battlefield and conducting reconstruction operations. There is no denying that the use of local and third-country nationals saves the government money. However, despite a methodology closely mirroring POGO's, the CWC's study misses the mark on a few vital points. First, the CWC

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salary that may be priced into, or reimbursed under, government contracts. The contractor typically pays executives much higher salaries and other compensation in the form of benefits.

[98] 75 Federal Register, 19661, *Determination of Benchmark Compensation Amount for Certain Executives*, April 15, 2010. http://edocket.access.gpo.gov/2010/pdf/2010-8641.pdf (Downloaded August 11, 2011)

[99] The payments listed are salaries and do not include additional compensation in the form of benefits. TheCapitol.Net, Inc., "Pay and Perquisites of Members of Congress, Including A History of House and Senate Salaries." http://www.thecapitol.net/FAQ/payandperqs.htm (Downloaded July 22, 2011); Office of Personnel Management, "Salary Table No. 2010-EX: Rates of Basic Pay for the Executive Schedule." http://www.opm.gov/oca/10tables/pdf/ex.pdf (Downloaded June 17, 2011)

[100] Department of Defense Contractors in Afghanistan and Iraq: Background and Analysis (R40764), p. 1; Office of the Under Secretary of Defense for Acquisition, Technology, and Logistics, *Report of the Defense Science Board Task Force on Improvements to Services Contracting*, March 2011, p. 23. http://www.acq.osd.mil/dsb/reports/2011-05-Services.pdf (Downloaded June 17, 2011); Government Accountability Office, *Contingency Contracting: Improvements Needed in Management of Contractors Supporting Contract and Grant Administration in Iraq and Afghanistan* (GAO-10-357), April 2010, p. 11. http://www.gao.gov/new.items/d10357.pdf (Downloaded June 17, 2011); Government Accountability Office, *Department of Homeland Security: Risk Assessment and Enhanced Oversight Needed to Manage Reliance on Contractors* (GAO-08-142T), October 17, 2007, p. 4. http://www.gao.gov/new.items/d08142t.pdf (Downloaded June 17, 2011)

[101] 5 U.S.C. § 5301 *et seq.*; Federal Employees' Pay Comparability Act of 1990 (Pub. Law 101-509), § 101.

described the costs of prolonged operations as being "roughly equivalent," but in fact, its own table showed that hiring "higher-skill" American contractor employees costs up to 30 percent more than DoD civilian employees. Second, the CWC did not include the cost to the government for the *U.S. citizens* in middle-skill positions, including plumbers and electricians, which were hired by Kellogg Brown and Root and Services Employees International, Inc.—the primary employers of workers on the Army's LOGCAP III contract. The inclusion of only local and third-county nationals for the middle tier ignores the fact that the government was paying a premium that might exceed the cost of using military or DoD civilian workers for those jobs.

In 2008, GAO reported that over the past 20 years DoD had increasingly relied on contractors for maintenance and logistics support of weapons systems.[102] This move was driven in large part by a change in DoD "guidance and plans" in the mid-1990s that placed greater emphasis on outsourcing logistics functions.[103] DoD's new policy "*assumed large cost savings* would result from increased privatization."[104] (Emphasis added) DoD was projecting cost savings of $20 billion to $30 billion per year, despite subjecting only 9 percent of these contracts to a competitive bidding process.[105] Although increased reliance on contractors for these activities was based on the *assumption* that there would be significant cost savings, GAO was "*uncertain to what extent cost savings have occurred or will occur.*"[106] (Emphasis added)

DoD is one of the leading agencies that rely on contractor support,[107] but other agencies are also facing similar problems.[108] To assess the cost consequences of outsourcing, it is essential to compare the total compensation paid federal employees in a specific occupation with the rates *contractors actually bill* the federal government for comparable occupations. Only then is it possible to determine if savings are being realized, and if the current level of service contracting is in the public interest. What follows is a survey of government reports that review the costs of federal and contractor employees.

Domestic Security Work

In June 2011, the GAO released its review of the government's use of in-house and contract security employees. GAO found both benefits and challenges when it came to cost, personnel flexibility, staff selections, and staff development and retention for in-house and contractor staffing decisions. As with many cost issues, the GAO found wide ranging opinions:

> Smithsonian officials reported it uses contract security guards at lower-risk areas of its facilities which has enabled it to staff five posts with contract security guards for the same cost as three posts staffed with federal security guards. In addition, the use of an in-house security workforce increases the number of FTEs an agency must recruit, train, schedule, and manage, and adds to the in-house administrative responsibilities and associated costs that could otherwise be handled by a contractor. However, Army

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[102] Government Accountability Office, *Defense Management: DoD Needs to Reexamine Its Extensive Reliance on Contractors and Continue to Improve Management and Oversight* (GAO-08-572T), March 11, 2008, pp. Summary, 1, 21. http://www.gao.gov/new.items/d08572T.pdf (Downloaded September 27, 2010) (hereinafter GAO-08-572T)
[103] GAO-08-572T, pp. 22-23.
[104] GAO-08-572T, pp. 22-23.
[105] GAO-08-572T, pp. 27-28.
[106] GAO-08-572T, p. 4.
[107] Congressional Budget Office, *Contractors' Support of U.S. Operations in Iraq* (Pub. No. 3053), August 2008, p. 13. http://www.cbo.gov/ftpdocs/96xx/doc9688/08-12-IraqContractors.pdf (Downloaded September 27, 2010) (hereinafter CBO Iraq Report)
[108] Dana Priest and William M. Arkin, "Top Secret America," *The Washington Post*, 2010. http://projects.washingtonpost.com/top-secret-america/ (Downloaded June 17, 2011)

> officials reported that an Army analysis for fiscal year 2009 showed that while contract security guards would have offered savings over in-house security guards in the first 2 years of an insourcing decision, in-house security guards would be more cost effective over time as start-up costs for training, equipment, and uniforms are reduced. They noted it had sufficient administrative capacity to absorb the increased workload without additional administrative staff.[109]

Federal and contractor representatives raised additional issues with GAO about federal employee health and retirement benefits, as well as overtime, flexibility and budgetary concerns, and the low pay in the private sector that can "present challenges in assembling a qualified security workforce, which could present security risks."[110] GAO did not look at specific contracts to compare actual cost of hiring security contractors to the cost of hiring federal employees, but the report certainly highlights pros and cons of each workforce and the need to look at case-by-case costs when considering insourcing and outsourcing decisions.

Security Work Abroad

On point with POGO's investigative approach are reports issued by the Congressional Budget Office (CBO)[111] and the Government Accountability Office (GAO)[112] analyzing the cost of outsourcing services related to work in Iraq.

The CBO examined contract expenditures in Iraq between 2003 and 2007. They estimated that the government awarded $85 billion in contracts during that period, of which between $6 billion and $10 billion went to private security contractors (PSCs).[113] The only occupation CBO reported was for PSCs, and it found that "the costs of a private security contract are comparable with those of a U.S. military unit performing similar functions."[114]

The CBO analyzed available information on a $332 million security contract between Blackwater and the Department of State for the one-year period beginning in June 2004.[115] The contract award total for that one-year period was $98.5 million. CBO estimated the government's cost for military security to be $88.2 million (POGO assumes for the same one-year period, although CBO did not specify). The analysis attributed 37 percent of those estimated military costs, or $32.8 million,[116] to placing a certain number of military personnel stateside to rotate into action should hostilities extend beyond a set period of time. Given that the period of time for which the comparison was made was limited to one year, POGO finds no logical basis for including the cost of maintaining a rotational military force. The appropriate cost estimate for using military personnel for that one-year period would therefore have been the $55.4 million CBO estimated for deployed units.[117]

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[109] GAO-11-601, p. 16.
[110] GAO-11-601, pp. 16-23.
[111] CBO Iraq Report
[112] Government Accountability Office, *Warfighter Support: A Cost Comparison of Using State Department Employees Versus Contractors for Security Purposes in Iraq* (GAO-10-266R), March 4, 2010. http://www.gao.gov/new.items/d10266r.pdf (Downloaded September 27, 2010) (hereinafter GAO-10-266R)
[113] CBO Iraq Report, p. 2.
[114] CBO Iraq Report, p. 2.
[115] CBO Iraq Report, p. 16. According to POGO's review, the Blackwater PSC contract (S-AQMPD-04-D-0061) was active from June 2004 to January 2010, and totaled over $332 million.
[116] CBO Iraq Report, p. 17. CBO ran costs for two cases which provided a deployed unit and a rotational force of 1.2 and 2.0 soldiers at home for each soldier deployed. POGO's analysis focused on the 1.2 rotational force because that was the estimated ratio from 2004 to 2007. The cost of the 2.0 unit case was $110.1 million.
[117] CBO Iraq Report, p. 17.

Comparing the government's $55.4 million cost for deployed units with the $98.5 million for the Blackwater contract shows the government had to pay **1.78 times more** for outsourcing these security guard functions, rather than the parity finding asserted in the CBO report.[118] Even when the $32.8 million cost for stateside rotational military personnel is included, CBO cost estimates support POGO's findings of lost savings when outsourcing services: military plus rotational costs were $88.2 million, and Blackwater's costs were $98.5 million.[119]

For another study, the GAO was charged with conducting a cost analysis of security services provided by contractors and government employees for both the Defense and State Departments during contingency operations in Iraq, and in 2010 released its findings.[120] GAO's analysis was limited to State Department contracts because DoD was unable to provide data.[121] The analysis was further limited by the fact that State could not provide data on the administrative costs associated with procuring and managing security contracts.[122] GAO studied one contract for Baghdad embassy security and four distinct task orders under the Worldwide Personal Protective Services II contract. The obligations under the Baghdad Embassy contract and the Worldwide task orders totaled $643.6 million annually.[123] The cost analysis focused on the major quantifiable cost components such as salary, benefits, overseas costs, training, recruitment, background screenings, and support.[124]

GAO's cost analysis showed that contractors performed for less cost on the Baghdad Embassy contract as well as on three of the four task orders, saving an estimated $872 million for taxpayers.[125] The fourth task order showed that the use of federal rather than contractor employees would have saved the government nearly $141 million.[126] The results of this study highlight the importance of conducting cost analyses on a contract-by-contract basis prior to award in order to create a realistic baseline for either awarding a service contract or performing the work in-house to achieve cost savings.

In addition to these studies, warnings concerning the blanket claim of outsourcing savings have come from a senior government official. Based on his role and experience on the ground as commander of NATO's International Security Assistance Force and of U.S. forces in Afghanistan, General Stanley McChrystal stated that "the use of contractors was done with good intentions...we thought we could save money....I think it doesn't save money. I actually think it would be better to reduce the number of contractors involved, increase the number of military if necessary, and where we have contractors, in

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[118] The CBO analysis did not evaluate the price the military must pay for breakdowns in communications between contractors and military command personnel, or the costs associated with contract administration and compliance.
[119] CBO Iraq Report, p. 17. The CBO study reviewed the use of military personnel only. The hiring of federal employees to perform private security functions should also have been included, which might provide cost savings.
[120] GAO-10-266R, p. 2. GAO selected data for the year 2005 to conduct this cost analysis.
[121] GAO-10-266R, p. 2.
[122] GAO-10-266R, p. 3.
[123] GAO-10-266R, p. 6.
[124] GAO-10-266R, p. 7. When estimating the cost to deploy a State Department employee to Iraq, GAO determined that only 26 percent of the cost could be attributed to salary and benefits, the remainder being attributed to costs associated with overseas deployment. GAO made no attempt to segregate out comparable cost factors for contractor employees, as the vast majority of contractor employees are foreign nationals (65%). GAO-10-266R, p. 10.
[125] GAO-10-266R, p. 6. The Baghdad Embassy contract saved the government $785.1 million, one Worldwide task order saved $43.7 million, a second Worldwide task order saved $40.3 million, and a third Worldwide task order saved $3.3 million.
[126] GAO-10-266R, p. 6.

many cases, I believe we could stop using foreign contractors and use a greater number of Afghan contractors."[127]

Contractors Overseeing Contracts

According to a March 2008 GAO study of contractor contract specialists, the Army Contracting Agency's Contracting Center of Excellence (CCE) paid contractors more than federal employees would have been compensated. The Army paid

> more on average for contractor-provided contract specialists than for its government contract specialists who are doing equivalent work. [GAO] found that on average and taking into account benefits and overhead rates, the cost of a GS-12 CCE contract specialist is $59.21 per hour, as compared to the contractors' average loaded hourly labor rate of $74.99, or about 17 percent more. The average cost of CCE's GS-13 specialists is $72.15 per hour, while it is paying the contractor specialists $84.38 per hour, or about 27 percent more. [GAO] also reviewed available résumés of six contract employees supporting CCE for at least 6 months and found that they had from 5 to 32 years, or an average of 18 years, of contracting-related experience. In comparison, the five CCE government contract specialists hired in fiscal year 2007 had from 6 to 17 years, or an average of about 12 years, of contracting-related experience. All six contract employees had previously worked for, and were trained by, the federal government before being hired by the contractor.[128]

The cost differential arguably might have been explained by the fact that the contractor employees were more experienced, but the GAO study was silent on whether additional experience was required or necessary to effectively perform the contracted services.

Air Force Logistics

An example of how DoD's historical propensity for outsourcing services has resulted in excessive costs rather than cost savings was recently revealed. In 2009, the Air Force began implementing a DoD policy in support of insourcing services, including services that contractors were not performing at a cost savings to the federal government.[129] In one such case, Santa Barbara Applied Research, Inc. (SBAR) sued the government, challenging an Air Force decision to insource work that SBAR had performed under a 2007 logistics support contract.[130] The court decided the case in the government's favor and highlighted the complexity of government-to-contractor cost analyses.

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[127] Pierre Tran, "NATO Commander: Too Many Contractors in Afghanistan," *Federal Times*, April 20, 2010. http://www.federaltimes.com/article/20100420/DEPARTMENTS01/4200307/1009/ACQUISITION (Downloaded September 27, 2010)

[128] Government Accountability Office, *Defense Contracting: Army Case Study Delineates Concerns with Use of Contractors as Contract Specialists* (GAO-08-360), March 26, 2008, p. 5. http://www.gao.gov/new.items/d08360.pdf (Downloaded September 27, 2010)

[129] *Santa Barbara Applied Research, Inc. v. United States*, Court of Fed. Claims, No. 11-86C, May 4, 2011, p. 5. http://www.uscfc.uscourts.gov/sites/default/files/FIRESTONE.SANTA050411.pdf (Downloaded May 6, 2011) (hereinafter *SBAR*); Memorandum from William Lynn, Deputy Secretary of Defense, to the Secretaries of the Military Departments, "In-sourcing Contracting Services – Implementation Guidance," May 28, 2009. http://www.asamra.army.mil/scra/documents/DepSecDef%20Memo%2028MAY09%20In-sourcing%20Implementation%20Guidance.pdf (Downloaded May 10, 2011) (hereinafter In-sourcing Contracting Services – Implementation Guidance)

[130] *SBAR*, pp. 1-2.

The Air Force contract required SBAR to perform management, operations, and maintenance services at nine locations within the Air Force Space Command.[131] Subsequently, new laws and regulations required DoD to better estimate and compare full costs of keeping work in-house or outsourcing it.[132] Following that requirement, the Air Force identified contracts that were viable for insourcing by using the COMPARE cost-calculating tool.[133] In 2010, after analyzing costs and determining that hiring civilian federal employees would be less expensive than hiring contractors, the Air Force notified SBAR that it was insourcing a portion of the contract.[134] The Air Force originally calculated cost savings of more than $31 million, but after SBAR's challenge, the Air Force conducted a new cost analysis based on the most recent data and found savings of approximately $8.8 million when the work was performed in-house.[135]

Army Operations Research

The guidance DoD issued to better determine whether civilian federal employees or contractor employees can perform functions at a lower cost[136] included an example in which DoD examined the relative costs to the Department of the Army of hiring an operations research analyst or contracting for an analyst to perform at a comparable level.[137] DoD found that the full cost to the government of hiring a civilian federal employee was $168,349, and that the cost of outsourcing the position to a contractor was $218,592.[138] This example demonstrates that outsourcing resulted in excessive costs of $50,243, or 30 percent.

Army Corps of Engineers

In addition to the publicly accessible cost reviews cited above, POGO obtained an Army Corps of Engineers (USACE) review[139] that found contractor employees "consist of 15 percent of the [USACE Engineering and Support Center Huntsville (CEHNC)] workforce" and "there could be an annual potential savings of $874,289 by competitively hiring government civil service employees (GS) versus contractor personnel."[140] The report cited the following concerns:

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[131] SBAR challenged the insourcing decision at four of the nine locations. *SBAR*, pp. 2-3, 9.

[132] NDAA FY 2008, § 324; Ike Skelton National Defense Authorization Act for Fiscal Year 2011 (Pub. Law 111-383), § 323(b), January 7, 2011; In-sourcing Contracting Services—Implementation Guidance; Memorandum from Christine H. Fox, Director of Cost Assessment and Program Evaluation, to the Secretaries of the Military Departments, "Directive-Type Memorandum (DTM) 09-007, 'Estimating and Comparing the Full Costs of Civilian and Military Manpower and Contract Support,'" January 29, 2010, revised October 21, 2010. http://www.dtic.mil/whs/directives/corres/pdf/DTM-09-007.pdf (Downloaded May 10, 2011) (hereinafter DTM-09-007)

[133] COMPARE is a software program used to compare "the relative costs of operating commercial activities by in-house, other Government agency, or commercial entities for purposes of OMB Circular A-76." *SBAR*, pp. 5-6. DoD subsequently updated the COMPARE database with costing procedures outlined in DTM-09-007, which is set to expire on September 1, 2011.

[134] *SBAR*, p. 8.

[135] *SBAR*, pp. 8, 11.

[136] DTM-09-007, p. 5.

[137] DTM-09-007, p. 23. Using a methodology similar to POGO's, DoD's example is based on base pay and benefits for military and civilian personnel, and the contractor hourly rates were from the GSA Federal Services Schedule, which were converted to an annual rate by multiplying the hourly rate by 2,087.

[138] DTM-09-007, pp. 23-25. The full cost to the government includes DoD costs as well as other agency costs. DoD calculated that its cost to hire a civilian federal employee was $157,239. The government's example provides costs for contractors working at a government ($218,592) and contractor ($268,555) site. POGO referred to the government site contractor rate because it corresponded to the rates utilized in our study. The example also found that military personnel ("Military O-5, 20 Years of Service") would cost DoD $210,968 and the government $264,548 (this includes costs that agencies such as Veterans Affairs and the Department of Education incur related to military personnel).

[139] U.S. Army Corps of Engineers, Engineering and Support Center, Huntsville, "Consulting Review of Contractor (In-House) Support Services Contracts," CEHNC-IR-2006-009, July 21, 2005. (hereinafter USACE Huntsville)

[140] USACE Huntsville, p. 1.

- 15 percent of CEHNC workforce is composed of support contractors. 54 percent of the support contractors are located in-house and the other 46 percent are located at the contractor site or the assigned worksite.
- 58 percent of the in-house contractors charge direct while 38 percent charge indirect (overhead).
- CEHNC provides 100 percent of in-house contractor personnel with the tools and equipment needed to perform their tasks.
- Approximately 75 percent of in-house contractor' [*sic*] scope of work does not provide a clear and concise explanation of the services contracted.
- Several instances were noted where the contractor performed work that could highly be considered personal services.
- Distinguishing between civil servants and contractor personnel needs improvement.
- Approximately 95 percent of the contractor personnel work station or cubicle [*sic*] were not clearly distinguishable from Government personnel.
- Contractor personnel have filled the same positions at CEHNC for more than 3 years and some as much as 8 years.
- In-house contractor personnel are located side-by-side with government civil service employees.
- Approximately 80 percent of the 42 contracts reviewed were extended beyond the original performance period.
- 13 (12%) of contractor support was identified as retired or previously employed by CEHNC.
- 14 (13%) of contractors [*sic*] personnel held positions such as Project Control Specialist, Consultant, Project Manager, Senior Investment, etc. These contractor employees' salaries are comparable to GS 14 and 15 salaries. The cost to hire GS government employees in this contracted position would result in an annual savings of $537,573 (61% of the total estimated cost savings).[141]

Many of those concerns echo POGO's findings, including the long-term period of work for service contracts and the lack of cost savings. Additional concerns were raised in the USACE report relating to conflicts of interest and poor contract planning and administration that also place taxpayer funds at risk. If the government were to investigate whether these conditions permeate the USACE and other agencies, it would be in a position to determine if billions are being wasted.

Protesting West Point Outsourcing

The aforementioned studies actually test the belief that outsourcing results in cost savings, but more frequently the government acted on this belief without ever testing it, as documented by a variety of bid protests. For example, in 2006, the Army began preliminary planning for an A-76 competition at West Point for public works jobs.[142] In 2008, the Army issued a request for proposal (RFP)[143] that contemplated either the issuance of a performance agreement with a "most efficient organization" (MEO) of federal employees or the award of a cost-plus fixed-fee contract to a contractor.[144] The RFP indicated a number of critical factors that would be considered, and that the "lowest-cost technically-

[141] USACE Huntsville, pp. 1-2.

[142] Government Accountability Office, "Decision in the matter of Frank A. Bloomer – Agency Tender Official, B-401482.2; B-401482.3," October 19, 2009, p. 2. http://www.gao.gov/decisions/bidpro/4014822.pdf (Downloaded September 27, 2010) (hereinafter Bloomer Bid Protest)

[143] Bloomer Bid Protest, p. 2. Federal Business Opportunities, "West Point A-76 Department of Public Works – Custodial Support Services Solicitation Number: W911S0-08-R-0009," March 26, 2009. https://www.fbo.gov/?s=opportunity&mode=form&tab=core&id=82c7cdc05420770eb2a3c0c85d022dcf&_cview=0 (Downloaded April 5, 2011)

[144] Bloomer Bid Protest, p. 2.

acceptable proposal" would prevail.[145] It was expected that a significant portion of the work under this contract would be done by issuing about 20,000 standard operating orders and 340 individual job orders per year, involving 16 different trades.[146]

The RFP required the submission of a cost proposal and indicated that the Army would conduct a "cost realism" analysis.[147] The cost proposals were required to provide detailed fringe benefit cost information,[148] direct labor costs, overhead costs, administrative costs, subcontracts, and profit.[149] The Army cost evaluator deemed both the agency and winning contractor prices to be "realistic, reasonable, and complete."[150]

The contractor claimed it would perform the work 10 percent more efficiently than the government. The contractor based this claim on similar projects and services it had performed in the past. The contractor's cost estimate was approximately $58 million. The federal employees' cost estimate was approximately $68 million. The award went to the contractor, and federal employees filed a bid protest with the GAO.[151]

In the end, GAO sustained the federal employees' protest on the basis that the Army's cost realism analysis, on which the cost review relied, was "materially flawed."[152] The GAO found that the record provided no reasonable basis for the Army to accept the contractor's performance estimates, because the contractor did not provide "factual support for its increased efficiency assumption."[153]

The Army's decision to outsource work highlights the government's willingness to operate on the belief that outsourcing results in cost savings without any evidence to substantiate that belief. To ensure GAO's advisory decision was not circumvented, Congress mandated that no activities performed at West Point be outsourced to private contractors pursuant to an A-76 study.[154]

IRS Contractors Tax Public

Outsourcing work at the Internal Revenue Service (IRS) has been a hotly debated issue for years. In 1996, the IRS conducted a pilot private debt collection program to reduce the gross tax gap,[155] but canceled the program after one year.[156] The cancellation occurred because both the IRS and the OMB considered tax collection to be inherently governmental work.[157] Additionally, the program was not

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[145] Bloomer Bid Protest, p. 2.
[146] Bloomer Bid Protest, p. 3.
[147] Bloomer Bid Protest, pp. 1, 4.
[148] Health-benefit and retirement-benefit costs were to be consistent with the costs in the agency tender. Bloomer Bid Protest, p. 4.
[149] Bloomer Bid Protest, p. 4.
[150] Bloomer Bid Protest, p. 7.
[151] Bloomer Bid Protest, p. 9.
[152] Bloomer Bid Protest, pp. 1, 10.
[153] Bloomer Bid Protest, pp. 13-14.
[154] Department of Defense Appropriations Act, 2010.
[155] "The gross tax gap is the amount of tax that is imposed by law for a given tax year but not paid voluntarily or timely." Internal Revenue Service, *National Taxpayer Advocate: 2004 Annual Report to Congress*, Vol. I, December 31, 2004, p. 226. http://www.irs.ustreas.gov/pub/irs-utl/ntafy2004annualreport.pdf (Downloaded May 4, 2011) (hereinafter National Taxpayer Advocate 2004)
[156] Government Accountability Office, *Tax Debt Collection: IRS Is Addressing Critical Success Factors for Contracting Out but Will Need to Study the Best Use of Resources* (GAO-04-492), May 2004, p. 6. http://www.gao.gov/new.items/d04492.pdf (Downloaded April 28, 2011) (hereinafter GAO-04-492)
[157] General Accounting Office, *Internal Revenue Service: Issues Affecting IRS' Private Debt Collection Pilot* (GAO/GGD-97-129R), July 18, 1997, p. 2. http://archive.gao.gov/paprpdf1/159007.pdf (Downloaded June 17, 2011); United States

producing the desired results—the amount of revenue collected by the private collectors was offset by the costs of the program.[158] The IRS continued to experience an expanded annual gross tax gap, which by 2001 reached over $300 billion in unpaid taxes.[159]

Collection staffing shortages in the early 2000s again compelled the IRS to seek help from contractors in recovering billions of dollars in delinquent federal taxes.[160] The IRS envisioned hiring contractors called private collection agencies (PCAs) to work on "simple" collection cases.[161] By 2004, in response to the degradation of IRS' debt collection efforts, Congress passed the American Jobs Creation Act of 2004, authorizing the IRS to proceed with its Private Debt Collection (PDC) initiative, a pilot program for outsourcing elements of its responsibility for collecting delinquent taxes.[162] PCAs would be given slightly more discretion in resolving cases[163] and would be paid up to 25 percent[164] of the amount of taxes they recovered.[165] The new program was instituted in 2006.[166]

In 2008, the benefits of this cost savings initiative were called into question. The IRS's National Taxpayer Advocate reported that in FY 2007, the IRS collected $2.7 trillion in taxes, while the PDC initiative brought in only $37 million in FY 2008 (before subtracting the operating costs of the program, commissions paid to the contractor of up to 25 percent, and indirect payments).[167] The National Taxpayer Advocate report concluded that the PDC program was "probably causing a net reduction in federal revenue, which obviously defeats the purpose of the program. IRS data now show that the IRS's Collection function outperforms the PCAs in almost every way."[168]

In March 2009, the IRS published the results of its cost effectiveness study of the PDC.[169] In one sample, the study compared the cost effectiveness of contractors and the IRS's Automated Collection

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Constitution, Art. I, sec. 8, cl. 1 ("The Congress shall have Power to Lay and Collect taxes....") http://www.archives.gov/exhibits/charters/constitution_transcript.html (Downloaded June 17, 2011); In its landmark 1819 decision in *McCulloch v. Maryland*, the U.S. Supreme Court ruled that the power to tax "is an incident of sovereignty, and is coextensive with that to which it is an incident." 17 U.S. 316 (1819), p. 429. http://www.law.cornell.edu/supct/html/historics/USSC_CR_0017_0316_ZO.html (Downloaded June 17, 2011); OMB Circular A-76, as it existed in 1999, specifically listed the collection of taxes as an inherently governmental function. Executive Office of the President, Office of Management and Budget, *Circular No. A-76: Revised Supplemental Handbook: Performance of Commercial Activities*, March 1996, updated through transmittal memorandum 20, June 1999, p. 60. http://www.whitehouse.gov/sites/default/files/omb/assets/agencyinformation_circulars_procurement_pdf/a076supp.pdf (Downloaded June 17, 2011)

[158] Government Accountability Office, *Tax Debt Collection: IRS Is Addressing Critical Success Factors for Contracting Out but Will Need to Study the Best Use of Resources* (GAO-04-492), May 2004, p. 6. http://www.gao.gov/new.items/d04492.pdf (Downloaded April 28, 2011) (hereinafter GAO-04-492)

[159] National Taxpayer Advocate 2004, p. 228.

[160] GAO-04-492, pp. 5-6.

[161] GAO-04-492, p. 6.

[162] The American Jobs Creation Act of 2004 (Pub. Law 108-357), § 881, October 22, 2004.

[163] GAO-04-492, p. 6.

[164] Internal Revenue Service, *National Taxpayer Advocate: 2008 Annual Report to Congress*, Vol. I, December 31, 2008, p. 328. http://www.irs.gov/pub/irs-utl/08_tas_arc_intro_toc_msp.pdf (Downloaded June 1, 2011) (hereinafter National Taxpayer Advocate 2008)

[165] GAO-04-492, p. 7

[166] Internal Revenue Service, "IRS Outlines Taxpayer Protections in Private Debt Collection Program," August 23, 2006. http://www.irs.gov/newsroom/article/0,,id=161300,00.html (Downloaded May 4, 2011)

[167] National Taxpayer Advocate 2008, p. 328.

[168] National Taxpayer Advocate 2008, p. 328.

[169] Internal Revenue Service, *Private Debt Collection: Cost Effectiveness Study*, March 2009. http://grassley.senate.gov/news/upload/PDC-Cost-Effectiveness-Study-March-2009-2.pdf (Downloaded April 28, 2011) (hereinafter Private Debt Collection: Cost Effectiveness Study)

System for collecting delinquent taxes. The study found that the cost per delinquent dollar collected was more than three times greater for contractors than for IRS employees. Additionally, IRS employees collected nearly three times more in delinquent taxes and resolved more than twice the number of cases as PCAs.[170] That same month, the IRS announced it was not renewing the collections contracts, thereby ending the PDC program.[171]

TSA's Screening Partnership Program

The Transportation Security Administration's (TSA) airport screening program also provides cost reviews of federal and contractor employees. TSA created the Screening Partnership Program (SPP) to allow commercial airports an opportunity to use contractor screeners instead of federal employees.[172] In 2009, GAO reported on a TSA contractor study that "concluded that passenger screening at [airports staffed by contractors] has historically cost from 9 to 17 percent more than at [airports staffed by federal employees], and [contractor] screeners performed at a level that was equal to or greater than that of federal [employees]."[173] GAO highlighted limitations in TSA's methodology and made recommendations to correct future reviews.[174] Two years later, GAO revisited TSA's cost and performance reviews and reported that TSA claimed that airports with contractor screeners "would cost 3 percent more to operate in 2011 than airports using federal screeners."[175]

Another comparative cost analysis, however, arrived at a different conclusion. The House Committee on Transportation and Infrastructure issued an analysis in June 2011 finding that: 1) taxpayers would save $1 billion over five years if the nation's top 35 airports operated as efficiently as the San Francisco International airport under the SPP program, and 2) SPP screeners are 65 percent more efficient than their TSA federal counterparts.[176]

All of these government study examples illustrate the difficulty in comparing costs, and the contradictory results that can result from disparate methodologies. Until the government creates a system to accurately estimate the cost of performing commercial services, the public will never know the actual savings that could have been realized.

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[170] Private Debt Collection: Cost Effectiveness Study, p. 9.

[171] Internal Revenue Service, "IRS Conducts Extensive Review, Decides Not to Renew Private Debt Collection Contracts – IRS Employees More Flexible, More Cost Effective," March 5, 2009. http://www.irs.gov/newsroom/article/0,,id=205021,00.html (Downloaded April 28, 2011)

[172] Aviation and Transportation Security Act (Pub. L. No. 107-71), § 108, November 19, 2001.

[173] Government Accountability Office, *Aviation Security: TSA's Cost and Performance Study of Private-Sector Airport Screening* (GAO-09-27R), January 9, 2009, p. 5. http://www.gao.gov/new.items/d0927r.pdf (Downloaded June 15, 2011) (hereinafter GAO-09-27R)

[174] GAO-09-27R, pp. 24-30.

[175] Government Accountability Office, *Aviation Security: TSA's Revised Cost Comparison Provides a More Reasonable Basis for Comparing the Costs of Private-Sector and TSA Screeners* (GAO-11-375R), March 4, 2011, p. 4. http://www.gao.gov/new.items/d11375r.pdf (Downloaded June 15, 2011)

[176] House Committee on Transportation and Infrastructure Oversight and Investigations, *Staff Report: TSA Ignores More Cost Effective Screening Model*, June 3, 2011, p. 2. http://republicans.transportation.house.gov/Media/file/112th/Aviation/2011-06-03-TSA_SPP_Report.pdf (Downloaded June 15, 2011); The Committee report appears to be in response to a January decision by TSA Administrator John Pistole that announced that TSA would not expand SPP beyond its current 16 airports "as I do not see any clear or substantial advantages to do so at this time." John S. Pistole, Administrator, Transportation Security Administration, "TSA Statement on Contractor Screening Program," January 28, 2011. http://www.tsa.gov/press/happenings/2011/012811_contractor_screening_program.shtm (Downloaded June 21, 2011); The House Committee on Homeland Security, "King, Rogers, McCaul Introduce Bill to Aid Airports Seeking to Replace TSA Screening with Private Screening Companies," April 15, 2011. http://homeland.house.gov/press-release/king-rogers-mccaul-introduce-bill-aid-airports-seeking-replace-tsa-screening-private (Downloaded June 15, 2011)

Cautionary Notes Relating to Other Cost Analyses

As mentioned previously, POGO's investigation is unique in that we compared federal and private sector employees' full compensation with average annual contractor billing rates for a sampling of occupational classifications. As reflected in Table 1, with a few exceptions, POGO confirms the results of studies that compared the public with the private sector, finding that federal employees generally make approximately 20 percent more in salary and full compensation than do their counterparts in the private sector. While POGO's investigation adds some credibility to the government and private sector comparison studies, POGO has some concerns about those other studies.

For example, *USA Today* analyzed a sample of 40 occupations using BLS data for 2008 and found that the typical federal employee is paid 20 percent more than a private sector employee in the same occupation.[177] The study found that "federal employees earn higher average salaries than private-sector workers in more than eight out of 10 occupations." *USA Today* used median salaries and did not adjust for any other cost factors, including health care and pension benefits. That study was refuted by National Treasury Employees Union President Colleen Kelley, who stated it "compares apples and oranges" because certain government work "has more complexity and requires more skill than...work in the private sector."[178]

A similar opinion has been stated by former OMB director Peter Orszag:

> ...the truth is that a comparison of federal and private-sector pay, even by occupation, is misleading because the employees hired by the federal government often have higher levels of education than their counterparts in the private sector—even within the same occupations. When you factor in the education and experience of the federal workforce, there is no statistically significant difference in average pay levels.[179]

OPM Director John Berry, when he testified before the Senate in March 2010, similarly stated that comparisons showing that federal employees make more than private sector employees are conveying "misinformation" because they are not comparing workers with comparable skills and work experience.[180] Three months later, Berry announced that OPM enlisted outside experts to work with government statisticians to help settle the debate over pay differences.[181] Although OPM has historically employed the methodology found in the annual Pay Agent's Report to make these

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[177] Dennis Cauchon, "Federal pay ahead of private industry," *USA Today*, March 8, 2010. http://www.usatoday.com/news/nation/2010-03-04-federal-pay_N.htm (Downloaded September 27, 2010) (hereinafter "Federal pay ahead of private industry")

[178] "Federal pay ahead of private industry"

[179] Peter Orszag Blog.

[180] Testimony of the Honorable John Berry, Director of the U.S. Office of Personnel Management, Before the U.S. Senate Subcommittee on Financial Services and General Government, Committee on Appropriations, March 24, 2010. http://appropriations.senate.gov/webcasts.cfm?method=webcasts.view&id=11f73d73-2d37-4d41-8f28-4193860f1e80/ (Downloaded April 3, 2011); Stephen Losey, "New OPM Taskforce to Study Pay Gap," *Federal Times*, March 24, 2010. http://www.federaltimes.com/article/20100324/BENEFITS01/3240304/1001 (Downloaded September 27, 2010)

[181] Stephen Losey, "OPM Enlists Outside Experts to Determine Federal-Private Pay Gap," *Federal Times*, June 17, 2010. http://www.federaltimes.com/article/20100617/BENEFITS01/6170302/1001/AGENCY04 (Downloaded September 27, 2010)

comparisons,[182] it is not known what data and methodology the outside experts are using for their comparisons.[183]

Another study comparing federal employee wages to private sector employee wages for comparable services was published by the Heritage Foundation. The Heritage Foundation found that "[t]he federal pay system gives the average federal employee hourly cash earnings 22 percent above the average private worker's, controlling for observable skills and characteristics....Overall, controlling for other factors, federal employees earn approximately 30 percent to 40 percent more in total compensation (wages and benefits) than comparable private-sector workers."[184] In light of that finding, Heritage recommended hiring more contractors.[185]
However, the Heritage study presents a number of methodological problems that call into question the validity of its findings and recommendations. The most critical problem, as it relates to whether outsourcing promotes cost savings, is Heritage's recommendation that the government hire more contractors. Heritage bases this recommendation on its comparative analysis of private-public compensation, despite the fact that the study did not compare federal costs for comparable services performed by contractors. So, despite Heritage's claims that federal employees are costing taxpayers, it is impossible for Heritage to empirically determine whether or not those savings would, in fact, be realized based on its study.

Another problem with the Heritage study is that it used another BLS survey, the Current Population Survey (CPS), to document wage comparisons. There are several concerns with the CPS. First, the CPS is a household employment survey with a sample size significantly smaller in scale than the National Compensation Survey (NCS). The CPS sample constitutes approximately 60,000 households,[186] whereas the NCS sampling frame is made up of more than 5,400,000 business respondents.[187] The NCS's larger sampling frame provides for more valid and reliable results.

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[182] The annual Pay Agent's Report compares rates of federal and private sector pay, identifies areas in which a pay disparity exists and specifies the size of the disparity, and makes recommendations for locality rates. Office of Personnel Management, "President's Pay Agent." http://www.opm.gov/oca/payagent/ (Downloaded June 17, 2011)
[183] It is not known, for instance, whether the experts will take into consideration a June 2010 white paper issued by an American Bar Association task force that highlights a criticism of the methodology used in the cost studies addressed in the Office of Federal Procurement Policy's (OFPP) Proposed Policy Letter dated March 31, 2010: namely, "arbitrarily assigning overhead values...across the board...as well as imposing 'plug' numbers for personnel costs [i.e., fringe benefits] as opposed to actual loaded labor costs." Task Force of the American Bar Association, Public Contract Law Section, Privatization, Outsourcing and Financing Transactions and Battlespace Committees, *Work Reserved for Performance by Federal Government Employees: OFPP Draft Policy Letter dated March 31, 2010 – Issues and Challenges*, June 16, 2010, p. 9. http://meetings.abanet.org/webupload/commupload/PC800100/otherlinks_files/wp061610.pdf (Downloaded September 27, 2010)
[184] James Sherk, *A Report of the Heritage Center for Data Analysis: Inflated Federal Pay: How Americans Are Overtaxed to Overpay the Civil Service* (Report # 10-05), July 7, 2010, p. 1. http://thf_media.s3.amazonaws.com/2010/pdf/CDA10-05.pdf (Downloaded September 27, 2010) (hereinafter Heritage Study). The Heritage Foundation "is a research and educational institution—a think tank—whose mission is to formulate and promote conservative public policies based on the principles of free enterprise, limited government, individual freedom, traditional American values, and a strong national defense." http://www.heritage.org/About
[185] Heritage Study, p. 16.
[186] Bureau of Labor Statistics, "Labor Force Statistics from the Current Population Survey: Overview – Source of data." http://www.bls.gov/cps/cps_over.htm#source (Downloaded June 17, 2011)
[187] Bureau of Labor Statistics, "National Compensation Survey, December 2006 – January 2008," Appendix Table 2. http://www.bls.gov/ncs/ocs/sp/nctb0767.pdf (Downloaded September 27, 2010)

Second, CPS average hourly wage data for private sector employees markedly differs from the comparable NCS data due to CPS's insufficient sample sizes for specific occupations.[188] POGO analyzed a subset of eight occupations reported in the Heritage study and determined that the reliance on CPS data resulted in significant distortions. According to POGO's analysis, the distortions between the CPS and NCS data ranged from negative 19 percent in the case of security guards to 84 percent in the case of financial managers.[189]

Third, CPS average hourly wage data for federal employees differs markedly from the government's official statistics. The CPS data for federal employees results in distortions similar to that found in the private sector employees data because it relies on a less representative sample size when compared with the government's data, which is based on a total population analysis. When CPS data is compared with OPM's FedScope data,[190] POGO found that for the subset of eight occupations,[191] discrepancies ranged from negative 29 percent in the case of security guards to 67 percent in the case of financial managers.[192]

Fourth, when NCS wage data for private sector employees are compared with OPM wage data for federal employees (the proper data comparison for estimating the private-federal wage differential) the differentials for the eight occupations we compared are significantly different from the 30 to 71 percent differentials found by The Heritage Foundation.[193] Indeed, for the eight private-to-federal comparisons we examined, POGO found The Heritage Foundation's claimed wage differentials were distorted anywhere from 21 to 146 percent.[194]

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[188] The CPS data used for comparable occupations in the Heritage study is found in Table 6 of Heritage's report and is based on data from 2006 through 2009. Heritage Study, pp. 5, 7-8. The NCS data for comparison purposes is for December 2007 to January 2009. Bureau of Labor Statistics, "Table 4: Full-time private industry workers: Mean and median hourly, weekly, and annual earnings and mean weekly and annual hours," pp. 4-1 through 4-37. http://www.bls.gov/ncs/ocs/sp/ncbl1311.pdf (Downloaded September 27, 2010)

[189] Specifically, the analysis shows the following discrepancies: Electrical and electronics engineers: $28.50 (CPS) v. $40.51 (NCS), a 42% discrepancy; Statisticians: $25.47 (CPS) v. $37.92 (NCS), a 49% discrepancy; Financial managers: $24.59 (CPS) v. $45.22 (NCS), a 84% discrepancy; Budget analysts: $24.20 (CPS) v. $31.41 (NCS), a 30% discrepancy; Accountants and auditors: $22.60 (CPS) v. $29.55 (NCS), a 31% discrepancy; Human resources: $22.05 (CPS) v. $28.75 (NCS), a 30% discrepancy; Purchasing agents: $21.69 (CPS) v. $28.71 (NCS), a 32% discrepancy; Security guards: $14.02 (CPS) v. $11.37 (NCS), a -19% discrepancy.

[190] FedScope is an OPM dataset of federal salary information for all federal employees.

[191] FedScope only provides data on annual salaries and does not include overtime pay or awards. POGO used the average annual salaries for all federal employees in a specified occupation and divide by 2080, the number of official hours for which federal employees are paid. Appendix A includes directions on where to find the data upon which POGO's comparisons are based.

[192] Specifically, the analysis shows the following discrepancies: Electrical engineers: $37.04 (CPS) v. $47.82 (FedScope), a 29% discrepancy; Statisticians: $33.55 (CPS) v. $42.76 (FedScope), a 27% discrepancy; Financial managers: $32.84 (CPS) v. $54.83 (FedScope), a 67% discrepancy; Budget analysts: $32.36 (CPS) v. $36.95 (FedScope), a 14% discrepancy; Accountants and auditors: $30.26 (CPS) v. $42.15 (FedScope), a 39% discrepancy; Human resources: $30.50 (CPS) v. $37.57 (FedScope), a 23% discrepancy; Purchasing agents: $31.88 (CPS) v. $38.44 (FedScope), a 21% discrepancy; Security guards: $24.03 (CPS) v. $17.04 (FedScope), a -29% discrepancy.

[193] Heritage Study, p. 8 ("total differences" in Table 6).

[194] The True Differential column compares NCS hourly rates with OPM hourly rates. Heritage compared CPS hourly rates. The Heritage Distortion column compares the True Differential with Heritage's CPS Differential. The specific distortions are set forth below:

	NCS Private	OPM Federal	True Differential	CPS Differential	Heritage Distortion
Electrical engineers	$40.51	$47.82	18%	30%	67%
Statisticians	$37.92	$42.76	13%	32%	146%
Financial managers	$45.22	$54.83	21%	34%	62%
Budget analysts	$31.41	$36.95	18%	34%	89%
Accountants and auditors	$29.55	$42.15	43%	34%	-21%

Finally, The Heritage Foundation claims that federal employees get an average annual benefits package worth $32,115, while private sector employees get an average annual benefits package worth only $9,882. In fact, OMB calculates that federal employees receive an estimated annual benefits package that is 36.25 percent of their annual salaries.[195] In comparison, based on NCS data, the BLS calculates that private sector employees who work for large companies receive an estimated annual benefits packages worth 33.5 percent of their annual salaries.[196] The differential in benefits compensation is therefore only approximately 8 percent, not the 325 percent claimed by The Heritage Foundation.

And in yet another study, in a congressional effort to determine whether reducing federal employee compensation is appropriate and an effective way to save taxpayer money, the Congressional Research Service (CRS) was directed to conduct a study comparing the salaries of the 50 state governors with federal employees working in their states.[197] The CRS study documented that 77,057 federal employees earned more in total annual pay than their respective state governors.[198] Although the results of this study are alarming, policymakers should not rush to judgment that federal employees are overpaid. Similar to salary comparisons involving federal and private sector employees, CRS ignores what is most telling—the total cost to the federal government, no matter if the work is performed by federal or contractor employees.

When policymakers use these or similar studies to justify outsourcing, they will miss the mark. Because the major source of excessive costs results from government's reliance on contractors, any such study, without a review of the rates contractors will bill the government, will most likely provide little, if any, useful information about how to achieve cost savings.

SAVINGS RISKED BY LONG-TERM CONTRACTS AND FEDERAL EMPLOYMENT RESTRICTIONS

POGO is also concerned with the number of long-term service contracts, which removes government flexibility and can result in cost increases rather than savings. The federal government regularly enters into contracts that extend over long periods of time—sometimes 10 years or more.[199]

One reason for such long-term contracts is Congress's failure to remove the ceiling on federal employee full-time equivalents (FTE)[200] under the guise of reducing the size of government. But with this freeze, agencies are forced to bring in contractors for support in order to meet their missions and provide flexibility to meet changing government financial situations and demands. POGO agrees that

Human resources	$28.75	$37.57	31%	38%	23%
Purchasing agents	$28.71	$38.44	34%	47%	38%
Security guards	$11.37	$17.04	50%	71%	42%

[195] Update to Civilian Position Full Fringe Benefit Cost Factor, pp. 1, 2.

[196] Bureau of Labor Statistics, "Employer Costs for Employee Compensation: Historical Listing: March 2004 – March 2011," Table 14, 500 workers or more. ftp://ftp.bls.gov/pub/special.requests/ocwc/ect/ececqrtn.txt (Downloaded June 21, 2011)

[197] Memorandum from Wendy Ginsberg, Analyst in American National Government, Congressional Research Service, to Senator Tom Coburn, "Federal Employee Salaries and Gubernatorial Salaries," May 6, 2011. http://coburn.senate.gov/public/index.cfm?a=Files.Serve&File_id=8718cd7d-b243-49bf-8805-e7eb0fdc7709 (Downloaded June 10, 2011) (hereinafter Federal Employee Salaries and Gubernatorial Salaries)

[198] Federal Employee Salaries and Gubernatorial Salaries, p. 3.

[199] "ASC selects LOGCAP IV contractors."

[200] *Inherently Governmental Functions and Department of Defense Operations: Background, Issues, and Options for Congress* (R40641), pp. 33-34.

contractors can provide flexibility, especially in the case of short-term projects. However, if federal hiring restrictions are in place, the government's overall flexibility is undermined while the size of government still increases in the form of a shadow government contractor workforce.

For instance, the Coast Guard's Deepwater program became one of the most egregious examples of excessive costs associated with outsourcing government work. The program was designed to upgrade the Coast Guard's fleet, including efforts to build or modernize five classes of ships and aircraft. In 2002, the Coast Guard contracted with Integrated Coast Guard Systems (ICGS), a joint venture formed by Lockheed Martin and Northrop Grumman, to manage the entire operation. After years of cost overruns, design flaws, and ships and technology that failed to meet contract requirements, the Coast Guard assumed the position as program manager in 2010.[201] As seen in this example, transferring skills and experience from the federal government to contractors is not always in the government's and taxpayers' interest.

According a 2009 *Federal Times* article, 16 intelligence agencies urged Congress to remove caps on staffing at intelligence agencies.[202] Agencies were left no recourse but to hire contractors as semi-permanent staff, largely because of imposed staff ceilings,[203] increasing spending on service contracts. Unfortunately, Congress has all too frequently legislated without empirical data to make informed decisions about whether it would be more cost effective to authorize sufficient numbers of federal FTEs in order to implement government programs, or to authorize agencies to contract out the work.

As noted before, recent efforts by policymakers to freeze federal employee compensation without mandating a freeze on service contract awards or on service contractor billing rates (which often increase annually) will impose additional risks of greater taxpayer costs by limiting the government's ability to hire and retain federal employees. Hiring ceilings and salary freezes might actually widen the existing gap between federal and contractor employee costs, thereby increasing the cost to the government and taxpayers.

In addition to freezing federal employee compensation, Congress is now exploring whether to *reduce* federal employee compensation in an effort to further reduce costs to the federal government and taxpayers. In 2011, the House Committee on Oversight and Government Reform conducted hearings to determine if federal employee compensation was comparable to private sector compensation and whether reductions of the federal workforce are necessary.[204] Testimony focused on recent studies

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[201] Congressional Research Service, *Coast Guard Deepwater Program: Background, Oversight Issues, and Options for Congress*, June 22, 2007, p. 1. http://www.au.af.mil/au/awc/awcgate/crs/rl33753.pdf (Downloaded April 6, 2011) (hereinafter Coast Guard Deepwater Program); Government Accountability Office, *Coast Guard: Update on Deepwater Program Management, Cost, and Acquisition Workforce* (GAO-09-620T), April 22, 2009, p. 2. http://www.gao.gov/new.items/d09620t.pdf (Downloaded September 27, 2010); Testimony of Jane Holl Lute, Deputy Secretary Department of Homeland Security, before the Subcommittee on Homeland Security Committee on Appropriations, "Homeland Security Major Systems Acquisition," *CQ Transcriptions*, March 2, 2010, p. 11; Chris Strohm, "Coast Guard takes control from Deepwater's integrators," *CongressDaily*, March 3, 2010. http://www.govexec.com/story_page.cfm?articleid=44706&sid=61 (Downloaded May 11, 2011)

[202] Stephen Losey and Elise Castelli, "Thousands of intel jobs being insourced," *Federal Times*, July 27, 2009. http://www.federaltimes.com/article/20090728/ACQUISITION02/907280301/-1/RSS (Downloaded June 14, 2011)

[203] CRS IGF and DoD report, p. 34

[204] House Committee on Oversight and Government Reform, Subcommittee on Federal Workforce, U.S. Postal Service and Labor Policy, "Are Federal Workers Underpaid?" March 9, 2011. http://oversight.house.gov/index.php?option=com_content&view=article&id=1175%3A3-9-11-qare-federal-workers-underpaidq&catid=15&Itemid=2 (Downloaded June 17, 2011); House Committee on Oversight and Government Reform, Subcommittee on Federal Workforce, U.S. Postal Service and Labor Policy, "Rightsizing the Federal Workforce," May 26,

claiming federal employees were compensated at higher rates than private sector employees, and should be in line with private sector compensation for comparable work. Unfortunately, with the lone exception of one ranking Congressman, the Committee did not focus on latent costs that could exceed the expected savings that would result from reducing the size of and compensation paid to the federal employee workforce. As testimony by the federal employee union representatives made clear,[205] reducing federal employee compensation would impact the government's ability to retain highly skilled and experienced workers, which in turn would necessitate outsourcing those jobs to contractors. Simply stated, the consequence of reducing federal employee compensation in the service occupations documented in POGO's study would be an increase in government spending on those services.

Need for a Special Pool of Part-Time and Full-Time Federal Employees

The federal government is the country's largest employer—when the contractor workforce is combined with civilians, military personnel, U.S. Postal Service employees, and grantees, the size of the blended federal workforce was estimated at 14.6 million people in 2005.[206] To avoid the dilemma of having to hire contractors for short-term projects, federal agencies must utilize existing authorization to hire short-term at-will federal employees.[207] The government should generate pools of federal employees who would be able to move from program to program, agency to agency, on a temporary basis to meet the multitude of short-term needs of the federal government. In addition, there is a constant need for workers who have prior government experience and institutional knowledge to provide services over a short period of time, but existing regulations impose impediments and disincentives to exploiting these resources, resulting in myriad service contracts that pay high-level retirees at far higher rates than if they were allowed to be rehired back into the government.[208]

CONCLUSION

Contrary to popular belief, many government services are not performed by federal employees, but by contractors. The government spends hundreds of billions of dollars annually on services—in fact,

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2011. http://oversight.house.gov/index.php?option=com_content&view=article&id=1300%3A5-26-11-qrightsizing-the-federal-workforceq&catid=15&Itemid=26 (Downloaded June 17, 2011)

[205] Testimony of Colleen M. Kelley, National President, National Treasury Employees Union, before the Subcommittee on Federal Workforce, U.S. Postal Service and Labor Policy, House Committee on Oversight and Government Reform, "Are Federal Workers Underpaid?" March 9, 2011, pp. 6-8. http://oversight.house.gov/images/stories/Testimony/Kelley_Testimony.pdf (Downloaded June 10, 2011); Statement of William R. Dougan, National President, National Federation of Federal Employees, and Chairman, Federal Workers Alliance, before the House Subcommittee on Federal Workforce, U.S. Postal Service and Labor Policy, "Rightsizing the Federal Workforce," May 26, 2011, pp. 6-8. http://oversight.house.gov/images/stories/Testimony/5-26-11_Dougan_FedWorkforce_Testimony.pdf (Downloaded June 10, 2011)

[206] *The New True Size of Government*, p. 11; "With about 2.0 million civilian employees, the Federal Government, excluding the Postal Service, is the Nation's largest employer." Department of Labor, Bureau of Labor Statistics, "Career Guide to Industries, 2010-11 Edition." http://www.bls.gov/oco/cg/cgs041.htm (Downloaded April 26, 2011)

[207] Authority for temporary and term appointments resides at 5 CFR Part 316 for competitive service and at 5 CFR part 213 for excepted service appointments.

[208] Reemployment by the federal government can cause an employee's salary to be offset by the amount of his or her annuity or, depending on the type of retirement, their annuity will stop. Agency heads have the discretion to rehire federal retirees on a limited, part-time basis without offset of annuity. Generally, annuitants may not work more than 520 hours for the first six months and no more than 1040 hours during any 12-month period, and are limited to 3,120 hours total. The total number of annuitants that can be rehired this way may not exceed 2.5 percent of the total number of FTEs of the agency. National Defense Authorization Act for Fiscal Year 2010 (Pub. Law 111-84), § 1122, October 28, 2009; National Defense Authorization Act for Fiscal Year 2004 (Pub. Law 108–136), § 1101, November 24, 2003; There are a few limited circumstances when retired federal employees can be reemployed by the government without discontinuing their annuity. General Services Administration Modernization Act, Pub. Law 109-313, § 4; 5 C.F.R. §§ 553.201 and 553.202.

approximately one-quarter of all discretionary spending now goes to service contractors[209]—and POGO's analysis found these contracts may be costing taxpayers, on average, **1.83 times more** than if federal employees had done the work. In order to reduce those excessive costs, a government-wide system to conduct federal employee versus service contract cost analyses needs to be created. Instead of directly hiring service contractors without considering hiring federal employees—perhaps from a newly created pool of part-time or temporary federal employees—conducting cost reviews at the start of the process would allow the government to save billions of dollars annually.

Federal agencies should move aggressively to limit or curtail service contracting, unless contractors can show that they both save taxpayer dollars *and* enhance performance as compared to when the work is performed by federal employees. In no event should agencies contract for work that is inherently governmental work, or closely associated with inherently governmental work, and agencies should curtail or eliminate the outsourcing of services that have been poorly performed by contractors—whether due to quality of the work or cost issues, including cost overruns.

Based on POGO's findings, we believe awarding government service contracts is nearly always more expensive than having such work performed by federal employees, even after accounting for the total cost to the government of federal employee fringe benefits and associated overhead costs.

Under the current federal personnel and service contracting systems, waste to the tune billions of dollars a year will continue for the foreseeable future. The government's failure to ameliorate its reliance on service contractors, its failure to base outsourcing actions on cost analyses, and its failure to review existing contracts for potential cost savings have serious budget consequences.

RECOMMENDATIONS

1. Congress should pass legislation requiring:

    a) All federal agencies awarding service contracts to use service coding systems that are consistent with OPM's job classification system. Use of systems consistent with OPM's will help ensure that cost analyses matching specific federal positions to comparable contractor and private sector positions is valid. These systems should be required for all Federal Activities Inventory Reform (FAIR) Act inventories to allow a comprehensive understanding of the services being performed by federal employees and contractors;
    b) The Office of Management and Budget (OMB) to promulgate guidance establishing a uniform set of standards and guidelines for comparing the full lifecycle costs (including contract modifications, amendments, and options) of outsourcing federal services with the costs of having those services performed by federal employees;
    c) Inspectors General of agencies awarding $5 billion or more annually in total contracts to file an annual report detailing amounts awarded in service contracts, and including competition information, a cost analysis of savings resulting from hiring contractors rather than federal employees, and whether insourcing those services would result in cost savings;

[209] In 2010, service contracts accounted for $320 billion of the nearly $1.26 trillion discretionary spending total. According to data compiled by POGO from the Federal Procurement Data System – Next Generation (FPDS-NG), the federal government awarded $320 billion in service contracts in fiscal year 2010. https://www.fpds.gov/fpdsng_cms/; Office of Management and Budget, *Budget of the United States Government,* Fiscal Year 2012, p. 200. http://www.whitehouse.gov/sites/default/files/omb/budget/fy2012/assets/budget.pdf (Downloaded August 18, 2011)

d) Federal agencies to conduct pre-award contract cost analyses to determine whether the use of contractors is less costly and provides enhanced performance over the use of federal employees. These analyses should be conducted by an entity independent of the office responsible for the contracting decision;
e) Federal service contracts be subjected to periodic post-award reviews by the agency's Office of Inspector General (OIG) to certify that the costs of contractor performance is less than if the work were performed by federal employees. If the OIG determines that this is not the case, the contract should be terminated (if practical), and the work should be performed by federal employees;
f) The removal of federal full-time equivalents (FTE) ceilings, and requiring agencies to manage personnel costs (whether incurred by civil servants, the military, or contractors) by budget function or category, rather than by artificially relying on contractors or the military in order to meet civil service personnel ceilings;
g) GSA's Inspector General to annually audit all the agency's Schedule contracts for services to determine whether the billing rates reflect fair and reasonable market prices, and to require the agency to renegotiate any rates the IG certifies fail that standard; and
h) GSA to continuously update its Schedule Sales Query data system to identify for each Schedule service contract the following information: the occupational classification and Special Item Number for each job position offered, the number of contractor employees hired under each occupational classification, the real-time billing rates for each occupational classification under each contract, and the total government expenditures.

2. Congress should amend the FAIR Act's service contracts reporting requirements to include:

   a) The occupational classification(s) of the person(s) performing the service;
   b) The actual number of all contractor and all subcontractor employees performing the service by occupational classification; and
   c) The actual billing rate(s) for each occupational classification of persons performing the service.

3. Congress should pass legislation requiring OMB to submit to Congress and make publicly available an annual report on federal service contracts providing the following information and analysis:

   a) How much money the federal government spent outsourcing services, broken down by agency and legislative program;
   b) How many contractor and subcontractor employees provided services to the federal government, broken down by agency, legislative program, and occupational category;
   c) How much money the federal government actually saved by outsourcing services, broken down by agency, legislative program, and occupational category;
   d) Which inherently governmental or closely associated to inherently governmental functions the agencies insourced (this is especially important as insourcing is about ensuring appropriate federal control of government policies, programs, and missions);
   e) How much money the federal government actually saved by insourcing services, broken down by agency, legislative program, and occupational category; and
   f) Recommendations for legislative reforms for saving more money and for achieving an effective balance in the federal workforce between federal and contractor employees.

4. Congress should amend the Office of Federal Procurement Policy Act (41 U.S.C. § 1127) to ensure that the maximum benchmark compensation amount applicable to contractor employees shall not

exceed the compensation paid to Level I positions pursuant to 5 U.S.C. § 5312 and the Office of Personnel Management's rates of basic pay for the Executive Schedule.

5. Agencies should:

    a) Periodically consider hiring federal employees for short-term projects—existing personnel authorities are very flexible and more than adequate for this purpose; and
    b) Place much more emphasis on cost analyses in their decisions to utilize contractors. Cost analyses will provide significantly greater insight into how much contractors should charge for the work to be performed and will serve as a benchmark for project costing, whether performed by contractors or federal employees.

ACRONYMS AND GLOSSARY

A-76	Office of Management and Budget's Circular A-76
BLS	Bureau of Labor Statistics
CBO	Congressional Budget Office
CCE	Army Contracting Agency's Contracting Center of Excellence
CEHNC	Corps of Engineers Huntsville Center
CPS	Current Population Survey
CRS	Congressional Research Service
CSIS	Center for Strategic and International Studies
CWC	Commission on Wartime Contracting in Iraq and Afghanistan
DHS	Department of Homeland Security
DOE	Department of Energy
DoD	Department of Defense
DOL	Department of Labor
FAIR	Federal Activities Inventory Reform
FAR	Federal Acquisition Regulation
FTE	Full-Time Equivalent
FY	Fiscal Year
GAO	Government Accountability Office
GS	General Schedule
GSA	General Services Administration
IG	Inspector General
IGF	Inherently governmental function
IRS	Internal Revenue Service
IT	Information technology
LOGCAP	Logistics Civil Augmentation Program
MEO	Most efficient organization
NCS	National Compensation Survey
NATO	North Atlantic Treaty Organization
OES	Occupational Employment Statistics
OFPP	Office of Federal Procurement Policy
OMB	Office of Management and Budget
OPM	Office of Personnel Management
PCA	Private Collection Agency
PDC	Private Debt Collection Initiative
PSC	Private Security Contractor
RFP	Request for proposal
SBAR	Santa Barbara Applied Research, Inc.
SIN	Special Item Number
SOC	Standard Occupational Classification system
USACE	U.S. Army Corps of Engineers

Acquisition workforce
Federal contracting officers (COs), contracting officer representatives/contracting officer technical representatives (COTRs), contract specialists (GS-1102 series), purchasing agents (GS-1105 series), procurement assistants (GS-1106 series), auditors, engineers, logistics specialists, and program managers or specialists with responsibilities for planning, defining the requirements of, purchasing, monitoring, and/or evaluating federal contracts and/or contractors.

Bid protest
An actual or prospective bidder's challenge to a contract that has been, or is about to be, awarded alleging a violation of law or regulation that governs the contracting process. Generally, bid protests can be filed with the GAO and the U.S. Court of Federal Claims.

Circular A-76
The OMB policy for the competition of commercial activities between federal employees and contractors.

Closely associated with inherently governmental functions
An activity so integrally related to an inherently governmental function that it may be in the public interest for the activity to be performed by a federal employee. FAR Subpart 7.503(d).

Commercial function
A recurring federal service that could be performed by a contractor employee because it is not so intimately related to the public interest as to mandate performance by a federal employee. One of the designations used in FAIR Act inventories.

Commission on Wartime Contracting
An independent, bipartisan legislative commission established to study wartime contracting in Iraq and Afghanistan. The CWC's final report was issued in August 2011.

COMPARE
The A-76 costing software that allows a comparison of federal employee and contractor bids.

Contractor
An entity that provides goods to or performs services for a federal agency in accordance with a contract.

Cost estimating
Use of various analytical techniques to estimate the prospective cost or price of goods or services.

Cost overrun
Funds expended by an agency for goods or services in excess of the cost or price stated in the originally executed contract, task order, or delivery order.

Cost-plus contract
A contract under which the government reimburses the contractor for allowable costs incurred in providing goods or services. These contracts generally include a fee paid to the contractor in addition to reimbursement of costs. FAR Subpart 16.3.

Current Population Survey
A monthly survey of households conducted by the Bureau of Census for the Bureau of Labor Statistics. It provides data on the labor force, employment, unemployment, persons not in the labor force, hours of work, earnings, and other demographic and labor force characteristics.

Direct conversion
When the federal government outsources government jobs without competition and cost comparisons. DoD is currently prohibited from making such conversions.

Estimated or projected cost savings
The amount of money the government expects to save when comparing government employee full compensation with contractor billing rates for the performance of services.

FedScope
An OPM dataset of federal salary information for all federal employees.

Federal Acquisition Regulation
The government-wide regulation governing federal contracts. The FAR is codified at 48 CFR Chapter 1, which sets forth the policies and procedures used in awarding and administering federal government contracts.

Federal agency
A department of the executive branch of the U.S. government, a sub-unit of a federal department, or an independent entity created by Congress.

Federal workforce
As used in this report, the totality of federal civilian and contractor employees who perform federal government functions. It does not include military personnel, Postal Service employees, or government grantees who also provide services for the government.

Full compensation
Compensation paid to government or private sector employees that includes salary plus a full fringe benefit package, based upon OPM and BLS data respectively.

Full-Time Equivalent
The standard for measuring the time a full time employee is required to be employed during one calendar year. As defined by the federal government, one FTE equals 40 hours per week at 52 weeks per year, or 2080 hours.

Inherently governmental function
A function that is so intimately related to the public interest as to mandate performance by federal employees. It includes activities that require either the exercise of discretion in applying government authority, or the making of value judgments in making decisions for the government. FAR Subparts 2.101 and 7.503(c). See also OMB Circular A-76, Attachment A, which defines inherently governmental functions as, "activities require the exercise of substantial discretion in applying government authority and/or in making decisions for the government."

Insourcing
Transferring performance of government service functions from the contractor workforce to the federal employee workforce.

Logistics Civil Augmentation Program
LOGCAP is an Army Materiel Command program providing support from civilian contractors for military troops operating in wartime and in other contingency situations. Contractors provide laundry, food, maintenance, engineering, construction, medical, and management services. LOGCAP III was competitively awarded in 2001 to Kellogg Brown and Root (KBR). LOGCAP IV was awarded in 2007 to KBR, DynCorp International LLC, and Fluor Intercontinental Inc.

National Compensation Survey
A comprehensive survey of businesses, conducted and analyzed by the Department of Labor's Bureau of Labor Statistics, that generates data on private sector occupational wages, employment cost trends, and employee benefits.

Occupational Employment Statistics
A program of the Department of Labor's Bureau of Labor Statistics that produces employment and wage estimates for job occupations. These estimates include the number of people employed in certain occupations by federal, state, and local government agencies and in the private sector, as well as estimates of the wages and benefits paid to them.

Outsourcing
Transferring performance of government service functions from the federal employee workforce to the contractor workforce (also known as "competitive sourcing" or "conversion"), or hiring contractors to perform work not already performed by federal employees (also known as "direct conversion").

Overhead costs
All costs of doing business except for direct labor, direct materials, and other direct expenses. As used in this report, given that work is performed on government sites, some examples of pertinent expenses might include accounting fees, advertising, insurance, legal fees, and taxes. OMB Circular A-76 outlines numerous costs, including a 12 percent overhead rate, that must be added to federal employees' full compensation labor costs in order to accurately compare the total cost to the government when making public/private cost comparisons.

Public-private competition
The process where federal employees and contractors submit competing bids to perform government service functions. This competition is also known as an A-76 competition or the competitive sourcing initiative.

Privatization
The total transfer of a federal business or administrative function, including the responsibility for the affected services, to the private sector.

Shadow government
The workforce of contractor employees who perform federal government services.

Special interest functions
Functions that require increased management attention due to heightened risk of workforce imbalance.

Special Item Number
The General Services Administration's categorization method that groups together similar goods and services to aid in the acquisition process.

Standard Occupational Classification system
A federal job coding and classification system created by the Department of Labor's Bureau of Labor Statistics to classify workers into occupational categories for the purpose of collecting, calculating, or disseminating data. All workers are classified into one of 840 detailed occupations according to their occupational definition.

Task order
An order for services placed against an established contract or with government sources. FAR Subpart 16.5.

Appendix B

POGO FOIA Request

January 19, 2012

Robert Dickerson
Chief, Freedom of Information Act Office
Attn: AAHS-RDF
7701 Telegraph Road, Suite 144
Alexandria, VA 22315-3905

Re: Freedom of Information Act Request

Dear Sir or Madam:

I am making this request under the Freedom of Information Act ("FOIA"), 5 U.S.C. § 552. Please provide me the following records that reflect operative policies, guidance, orders, and memoranda dating from January 1, 2005 to present:

1. All records requiring and/or explaining how and when cost comparisons are to be conducted to determine whether work would or has cost more if/when performed by service contractors or cost more if/when performed by federal employees.

2. All records that order and/or report the results of any public/contractor cost comparisons.

3. All records that require OMB's 12 percent estimate of government overhead costs to be used in all A-76 competitions.

4. All records that discuss how to calculate, analyze, report, and/or use the data to be included in the agency's annual service contract inventory.

5. A copy of the most recent A-76 COMPARE analysis for a competition that was won by an agency MEO and one won by a private contractor.

6. All records showing the total procurement costs for each year (direct and indirect) that the agency budgeted, expended, and/or obligated as a result of service contracts.

7. All records for each year that:
    a. determine, or explain how to determine, the agency's overhead costs associated with service contracts and/or
    b. show the annual total costs (direct and indirect) that the agency incurred to award, administer, monitor, oversee, and close-out its service contracts.

8. All records showing during each year:
    a. the total number of full-time civilian workers that the agency employed and/or
    b. the total number of part-time civilian workers that the agency employed.

9. All records that address whether and/or how to calculate the total number of full-time equivalent workers employed by contractors and all tiers of subcontractors that perform work on service contracts for the agency.

10. All records for each year showing the total number of full-time equivalent workers employed by contractors and all tiers of subcontractors that perform the work on service contracts and how these contractor employees are stratified by occupation and/or public service code.

11. All records showing for each service contract and task order executed by the agency during the past fiscal year the following information

a. what the agency was billed, and/or

b. what were the total number of hours worked on government premises, and/or

c. what were the total number of hours worked on contractor premises, and/or

d. what costs were incurred by the contractor, segregated by salaries, employee benefits, overhead (direct and indirect), general administrative expenses, and/or

e. what costs were incurred by the agency, segregated by salaries, employee benefits, overhead (direct and indirect), general administrative expenses.

12. All records relating to the agency's implementation of and compliance with OMB's Policy Letter 93-1 (Reissued) on May 16, 1994, as authorized pursuant to section 6(a) of the Office of Federal Procurement Policy Act, as amended, codified at 41 U.S.C. § 405.

13. All records relating to whether and/or how:

a. service contracts were accomplishing what was intended, and/or
b. service contracts were cost effective, and/or
c. inherently governmental functions were being performed by service contractors, and/or
d. service contracts were and/or should be subject to full and open competition, and/or
e. sufficient trained and experienced officials are available within the agency to manage and oversee the procurement and administration of service contracts, and/or
f. effective management practices are used to prevent waste, fraud, and abuse in services contracting, and/or
g. certain service contracts require greater oversight and the nature of that oversight, and/or
h. agency officials ensure that their acquisition strategy for procuring services will result in the acquisition of services from a quality vendor that constitute the best value considering costs and other relevant factors, and yield the greatest benefit to the agency.

14. All records relating to "best practices" the agency has considered, adopted, and/or implemented for the procurement and administration of service contracts.

I request a waiver of all costs associated with fulfilling this submission pursuant to 5 U.S.C. § 552(a)(4)(A)(iii). Disclosure of the requested information will further the "public interest because it is likely to contribute significantly to public understanding of the operations or activities of the government and is not primarily in the commercial interest" of the requester, the Project On Government Oversight (POGO). Specifically, POGO will use the information requested to inform the public about whether and how the federal government is saving taxpayers money by contracting for services. See fee waiver supplement.

Founded in 1981, POGO is a nonpartisan independent watchdog that champions good government reforms. POGO's investigations into corruption, misconduct, and conflicts of interest achieve a more effective, accountable, open, and ethical federal government. POGO disseminates information about its activities to thousands of concerned citizens, policymakers, and the media via email, direct mail, and its web site http://www.pogo.org, which receives approximately 140,000 page views monthly. The information provided by the agency will be used for the following activities: publication by email and on our website; publication in reports and newsletters issued by POGO; publication in the newsletters of affiliated nonprofit organizations; efforts to educate Congress, the Executive Branch, and other policymakers in Washington, D.C.; or investigational projects conducted in conjunction with the news media. POGO's use of all of those actions ensures that the public is well informed about the actions and operations of the federal government.

If this request is denied in full or in part, please cite the exemptions pursuant to 5 U.S.C. § 552(b) that justify the denial. If an exemption applies, however, please consider exercising the agency's discretionary release powers to disclose the information. Additionally, please release all reasonably segregable portions of that information that do not meet an exemption.

I look forward to your response within 20 days of the receipt of this request, unless, in the case of "unusual circumstances," the time limitation is "extended by written notice." I am aware that I have a right to appeal this request if it is wholly or partially denied or if the agency fails to respond within 20 days. I am aware that, if successful, a federal district court may assess "reasonable attorney fees and other litigation costs" per 5 U.S.C. § 552(a)(4)(E).

Please contact me or Scott Amey if this request requires further clarification. We can be reached at 202-347-1122, or via e-mail at pchassy@pogo.org or scott@pogo.org . Thank you for your prompt attention to this matter.

Sincerely,

Paul Chassy

Paul Chassy, Ph.D., J.D.
Investigator

Scott H. Amey

Scott H. Amey
General Counsel