1	CONTRACTORS:
2	HOW MUCH ARE THEY COSTING THE GOVERNMENT?
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4	THURSDAY, MARCH 29, 2012
5	United States Senate,
6	Ad Hoc Subcommittee on Contracting Oversight of the
7	Committee on Homeland Security and Governmental Affairs,
8	Washington, D.C.
9	The Subcommittee met, pursuant to notice, at 10:06
10	a.m., in Room SD-342, Dirksen Senate Office Building, Hon.
11	Claire McCaskill, Chairwoman of the Subcommittee, presiding.
12	Present: Senators McCaskill, Tester, and Portman.
13	OPENING STATEMENT OF SENATOR McCASKILL
14	Senator McCaskill. This hearing will come to order.
15	The Subcommittee on Contracting Oversight is having a
16	hearing today about contractors, and the question of the
17	hearing is, how much are contractors costing the Government?
18	As we have discussed many times in this Committee, and
19	also in the Armed Services Committee where I chair the
20	Readiness Subcommittee, the Government agencies are
21	increasingly reliant on contractors to perform services, and
22	today we are talking about service contracts, not buying
23	things, contracts to actually ask people to work at a
24	service on behalf of the Government.
25	Contractors now perform many of the duties which most

- 1 Americans would assume are done by Government employees,
- 2 from managing and overseeing contracts and programs to
- 3 developing policies and actually writing regulations.
- 4 Contractors sit side-by-side with Federal employees and
- 5 perform many of the same tasks.
- 6 Spending on service contractors has outpaced spending
- 7 on Federal employees. The cost of service contracts has
- 8 increased by 44 percent over the last ten years from \$181
- 9 billion to \$324 billion, while in the same time, spending on
- 10 Federal employees has only increased by 34 percent, \$170
- 11 billion to \$229 billion.
- 12 As with any expense of taxpayer dollars, we have to ask
- 13 whether the Government is getting the most effective use out
- 14 of these dollars. It would seem intuitive that when
- 15 deciding whether to contract out a function the Government
- 16 would figure out how much it will cost and whether it would
- 17 be cheaper for Federal employees to do it instead.
- 18 For too many years now, the Federal Government has
- 19 relied on assumptions and flawed studies to support those
- 20 assumptions. Without good data about the cost of using
- 21 contractors instead of Federal employees, the Government
- 22 simply does not have the information it needs to make smart
- 23 choices.
- 24 For those of us who track these issues closely, we have
- 25 seen many studies over the years that compare the cost of

- 1 Federal employees to the private sector and conclude that
- 2 the private sector is more efficient. However, contractors
- 3 are not comparable to the private sector. Contractors do
- 4 not work for the Government, and some of that work does not
- 5 exist in the private sector--excuse me--contractors work for
- 6 the Government and some of that work does not exist in the
- 7 private sector.
- The overhead cost for contractors may not be the same
- 9 as in the private sector, and this includes situations where
- 10 contractor employees work alongside Federal employees using
- 11 Government-provided equipment and infrastructure. If we are
- 12 going to honestly assess whether contractors are more or
- 13 less expensive for the Federal Government than using Federal
- 14 employees, then we need to look at the cost of contractors,
- 15 not just the cost within the private sector.
- 16 A report issued by the Project on Government Oversight
- 17 in September 2011 was the first study I am aware of to
- 18 actually attempt to compare the cost of Federal employees
- 19 versus Federal contractors. It found that in some
- 20 instances, contractors may be paid, on average, more than
- 21 1.83 times what Federal employees are paid to perform the
- 22 same work. I think this report was a worthwhile and needed
- 23 effort, but as the authors of the report concede, it is
- 24 hampered by inadequate and inaccurate data.
- 25 For the Government to make smart contracting decisions,

- 1 it needs more than assumptions. If the Government is going
- 2 to have the best and most efficient mix of Federal employees
- 3 and contractors to perform its work, it needs to be able to
- 4 assess the true cost of both out-sourcing and in-sourcing.
- 5 This analysis should include overhead costs, how contractor
- 6 compensation should be reimbursed, and when some Government
- 7 functions are inherently governmental or critically impact
- 8 an agency's core mission.
- 9 I am concerned that one agency charged with management
- 10 in the Federal Government does not seem to be providing
- 11 enough guidance on this issue. The Subcommittee did extend
- 12 an invitation to the Office of Management and Budget to be
- 13 here today, but unfortunately, OMB declined to attend.
- 14 They did not have a Senate-confirmed personnel to
- 15 testify today since Jeffrey Zients has been elevated to
- 16 Acting Director of OMB, and the Director of OMB, as my
- 17 Ranking Member is well-aware, had a long-standing policy
- 18 that they do not testify in front of subcommittees. And it
- 19 is a long-standing policy that agencies only send Senate-
- 20 confirmed personnel to testify at these hearings.
- 21 It would seem that OMB is in the best position to
- 22 provide Government-wide guidance on how agencies should look
- 23 at cost and, most importantly, how agencies can gather the
- 24 data to do that analysis. I understand that OMB is planning
- 25 to issue some cost guidance within the next 60 days. If

- 1 this is the case, I look forward to seeing it and hope it
- 2 will take into account the issues we discuss today. We will
- 3 be directing a number of questions to OMB for the record and
- 4 those will be available to the public in connection with
- 5 this hearing.
- I want to say that two of the agencies represented here
- 7 today, the Army and the Department of Homeland Security, are
- 8 making strides on cost and data issues. The work that the
- 9 Army has done on contractor inventory is setting a standard
- 10 for the rest of the Department of Defense, and the
- 11 Department of Homeland Security's balanced workforce
- 12 strategy tool is a promising approach to make contracting
- 13 decisions. I think both of these efforts deserve further
- 14 discussion by both Congress and the Administration.
- Today's hearing is an opportunity to discuss these
- 16 efforts and to consider other possible tools that the
- 17 Government can use to make smart, cost-effective contracting
- 18 decisions. We need to develop a best practices model to
- 19 help determine when contracting will save taxpayer dollars.
- We also need to start collecting data that will help us
- 21 make those determinations. Assuming that contractors cost
- 22 less and that the Federal employees cost more does not help
- 23 this discussion because, frankly, we do not have any idea
- 24 whether that assumption is true or false. Assumptions are
- 25 especially costly in our current budget climate and could

- 1 undermine efforts to save taxpayer dollars.
- I thank the witnesses for being here today and look
- 3 forward to their testimony. I would just add as a note to
- 4 my opening remarks that as we have spent a lot of time in
- 5 Congress talking about freezing the number of Federal
- 6 employees and freezing the pay of Federal employees, there
- 7 has not been enough talk about freezing the size of the
- 8 contracting force and freezing the pay of contractors.
- 9 And, frankly, if people understand that we are spending
- 10 more money on service-related contractors in many agencies
- 11 than we are spending on Federal employees, that is why I
- 12 have been frustrated with these efforts, because it is like
- 13 saying, You have got a problem, but we are going to shut one
- 14 eye and only look at part of it.
- This is an attempt today, this hearing, to make sure
- 16 that the efforts to freeze the size of Federal employees
- 17 does not go on without us taking a hard look at this
- 18 contracting workforce, its efficiencies, and whether or not
- 19 the taxpayers are getting a bang for their buck in this
- 20 regard. I will now turn to my colleague, Senator Portman,
- 21 for his opening remarks.
- 22 OPENING STATEMENT BY SENATOR PORTMAN
- 23 Senator Portman. I thank you, Madam Chair, and it is
- 24 good to have the witnesses here with some expertise from
- 25 some agencies and departments that actually are making some

- 1 progress in this area. It is also good to have your
- 2 grandsons watching over us here. After all, they are the
- 3 ones who are going to have to solve these problems in the
- 4 future, so it is good they are hearing it now.
- 5 And it is an important hearing. It is about an
- 6 important challenge I think the Chair has laid out well.
- 7 And, frankly, I think we need a lot of work right now on how
- 8 to be sure that we do have the ability to evaluate the cost
- 9 effectiveness of using private contractors. I appreciate,
- 10 again, the fact we are going to have some folks here who can
- 11 give us some examples of how that can be done better than it
- 12 is being done Government-wide.
- We spend about \$320 billion a year now on service
- 14 contracts and about \$200 billion to compensate Federal
- 15 employees. Both of those are major expenditures and both
- 16 have to be looked at in this ongoing effort to strike the
- 17 right balance between the Federal workforce and Government
- 18 contractors.
- 19 Evaluating the cost effectiveness of in-sourcing versus
- 20 contracting sounds like a very technical discussion and it
- 21 is, as we will hear from these witnesses, but is an
- 22 extremely important process to go through because it has
- 23 huge consequences, multi-billion dollar consequences. So
- 24 simply put, I think what we are examining here today is how
- 25 agencies should evaluate which option, public option or the

- 1 privately-contracted option, makes the most sense for
- 2 taxpayers. Where can we get the best value for the dollar?
- 3 Those who have followed this in-sourcing versus out-
- 4 sourcing debate know that sometimes this issue has been
- 5 politicized. In fact, during this political campaign, we
- 6 will probably hear more about it. We have got to be careful
- 7 that it does not become political because at a time of \$15
- 8 trillion debts and trillion dollar deficits, Federal
- 9 agencies are going to be under a lot of pressure, as we are
- 10 all spending, and we need to be sure that we are adhering to
- 11 a neutral and an analytically sound cost comparison
- 12 methodology.
- The decision to in-source or contract out any
- 14 Government activity, existing, new, or expanded, should be
- 15 data-driven. And, frankly, I think we do not have the
- 16 methods and data available right now to do that. We need to
- 17 be sure that we do not end up producing cost savings
- 18 projections that need to be reworked.
- 19 This all starts with a fundamental threshold question.
- 20 Chair McCaskill just talked about it. It is the question,
- 21 is this job suitable for contractors to perform or is it
- 22 inherently a governmental or a critical function that should
- 23 remain in-house? OMB and individual agencies have provided
- 24 quidance on that question over the years, including the
- 25 current Administration's 2009 OMB Memorandum entitled,

- 1 Managing the Multi-Sector Workforce.
- Once it is determined whether it is public or private,
- 3 the decision where to place the work, again, should be
- 4 primarily cost-driven, in my view. We get a better value as
- 5 taxpayers when commercial activities are paid for by the
- 6 Federal Government are the subject of competition. This is
- 7 an interesting point because just by having competition, we
- 8 are going to see savings.
- 9 As the Center for Strategic and International Studies
- 10 reported last year, research demonstrates that 65 percent of
- 11 savings achieved from public-private competition is derived
- 12 from the competition itself, not any intrinsic advantage of
- 13 public versus private. So competition does work and that
- 14 should be part of the analysis.
- 15 In-sourcing or contracting decisions based on costs
- 16 depend on the ability, of course, to accurately project
- 17 these comparative costs, and quesswork does not work, it
- 18 will not suffice, and that is one of the overriding concerns
- 19 for me, is that there is an apparent lack of uniform
- 20 guidance on cost comparison methodologies. I will be
- 21 interested to hear from our witnesses on that and see what
- 22 they think.
- 23 But from 1996 to 2009, of course, you had the OMB
- 24 quidance document, Circular A-76, which every OMB employee
- 25 was very familiar with, and that basically governed

- 1 contracting out of commercial activities in various forms.
- 2 Congress told agencies to stop conducting Circular A-76
- 3 competitions, and that is a mistake. I think whatever its
- 4 strengths and weaknesses, A-76 provided detailed guidance
- 5 that is needed on cost comparison.
- 6 Since A-76 was suspended, it appears that agencies have
- 7 been left largely on their own with little oversight or
- 8 quidance. The current Administration has stated that
- 9 agencies faced with sourcing decisions should still, quote,
- 10 perform a cost analysis that addresses the full cost of
- 11 Government and private sector performance. That is fine,
- 12 but again, OMB has provided little if no guidance on how to
- 13 perform that analysis.
- 14 GAO recently found that OMB's new policies have
- 15 created, and I quote, confusion as to when a cost analysis
- 16 is needed and the appropriate procedures to conduct one. As
- 17 Chair McCaskill said, we need to hear from OMB on this.
- 18 When I was OMB Director, I thought that Subcommittee rule
- 19 made a lot of sense. I am now wondering. But seriously, we
- 20 do need to hear directly from OMB, although we appreciate
- 21 the agency input today and their view of it.
- 22 But this lack of guidance is problematic for a lot of
- 23 agencies because the apples-to-apples comparisons between
- 24 contract work and in-house functions are often very complex,
- 25 and the guidance is needed and needs to be uniform.

- On the Government side, the analysis is particularly
- 2 difficult and requires a fine grained analysis. An agency
- 3 has to evaluate the fully burdened cost of using or adding
- 4 Federal employees, overhead costs, equipment use, other
- 5 expenses. Multiple reports have indicated we are not
- 6 getting that right. The contractor side is generally easier
- 7 to price out with the exception of cost-plus contracts,
- 8 which are difficult.
- 9 An important dimension of this problem that agencies
- 10 appear to be overlooking is that in-sourcing can reduce
- 11 flexibility, and as a result, increase long-term costs. And
- 12 this is, again, something that ought to be considered. The
- 13 point is, it is difficult to eliminate or downsize an agency
- 14 program.
- 15 GAO, the Center for Strategic International Studies,
- 16 and others have looked at this problem and have noted that
- 17 terminating a contract is far easier than adjusting the size
- 18 of the Federal workforce. Again, agencies have no guidance
- 19 on how to evaluate that cost of lost flexibility. Whoever
- 20 is doing the Government work, Job 1, of course, is ensuring
- 21 that American taxpayers get the best possible value and that
- 22 is what this hearing is all about.
- 23 Informed sourcing decisions are key to achieving that
- 24 goal. And again, with that, Madam Chair, appreciate you
- 25 holding this hearing. I look forward to hearing from our

- 1 witnesses on this complex but important issue.
- 2 Senator McCaskill. Thank you, Senator Portman. Would
- 3 you like a minute, Senator Tester?
- 4 Senator Tester. Yes, I would.
- 5 OPENING STATEMENT BY SENATOR TESTER
- 6 Senator Tester. Thank you, Madam Chair. Thank you,
- 7 Ranking Member Portman, and thank you to the witnesses who
- 8 are here today. I look forward to your testimony. You
- 9 know, I think we can all say there is probably a lot of
- 10 contractors out there that are doing a job and doing it
- 11 well. I think we can also acknowledge that I think there
- 12 are a number of contractors who are out there that are over-
- 13 eating at the taxpayer trough.
- I think that I appreciate this hearing, it has been one
- 15 of many that Chairman McCaskill has done, because there are
- 16 certain things that, since I have been in the U.S. Senate,
- 17 have been brought to my attention that is somewhat
- 18 disturbing. The concept of no-bid contracts is an amazing
- 19 concept to me.
- The concepts of the Federal Government using somebody
- 21 else as basically their contractor to contract is something
- 22 that is pretty amazing to me. And with the wars in Iraq and
- 23 Afghanistan and the number of contractors we are utilizing
- 24 in those, and I have been over there. I have been protected
- 25 by some of those contractors and I will tell you that they

- 1 did a good job because I made it back here in one piece.
- 2 But the amount of money that we are paying for those
- 3 contractors versus what we are paying our active military
- 4 and if we are actually getting, as Senator Portman said, the
- 5 taxpayers' best value really brings a lot of what is going
- 6 on here into question.
- I do not want to take a lot more time, but I just want
- 8 to state that I do not know--I do not know if there was a
- 9 move some time ago to say we are going to downsize
- 10 Government and we are going to replace those with
- 11 contractors so we can try to dupe the American taxpayer, or
- 12 if there was a real effort that somebody thought this was
- 13 really going to save money.
- 14 But I can tell you that when we talk about \$60 billion
- 15 being gone up in air--and \$60 billion is a lot of change, I
- 16 mean, that is a lot of Montana budgets for a lot of years-
- 17 we are doing something wrong and it is unacceptable. I look
- 18 forward to your statements. I look forward to hearing what
- 19 you have seen.
- In the meantime, in my notes here for my opening
- 21 statement, it says, Tell them you are confident that the
- 22 Federal Government can bring accountability to the process.
- 23 I cannot say that. I have not seen that. And when we are
- 24 talking about deficits -- by the way, this is inappropriate at
- 25 any time, but especially when we are talking about deficits

- 1 like we have now--we have got to get our arms around this
- 2 situation. I want to thank the Chairman once again.
- 3 Senator McCaskill. Thank you, Senator Tester. Let me
- 4 introduce our witnesses. Jay Aronowitz--am I saying it
- 5 correctly?
- 6 Mr. Aronowitz. Yes, ma'am.
- 7 Senator McCaskill. --is Deputy Assistant Secretary of
- 8 Force Management, Manpower and Resources for the United
- 9 States Army. In this position, he advises the Army's
- 10 Assistant Secretary of Manpower and Reserve Affairs on all
- 11 matters pertaining to total force structure and associated
- 12 military, civilian, and contractor manpower in the active
- 13 and reserve components, program objective memorandum
- 14 resources for programs under Manpower and Reserve Affairs
- 15 oversight, and all manpower and personnel issues associated
- 16 with force structure requirements of new weapons systems.
- 17 Mr. Aronowitz also provides direct oversight for the U.S.A.
- 18 Manpower Analysis Agency.
- 19 Debra Tomchek is the Executive Director of the Balanced
- 20 Workforce Program Management Office in the Office of Chief
- 21 Human Capital Officer at the Department of Homeland
- 22 Security. Ms. Tomchek began her Government career as a
- 23 civilian Army intern. Since then, she has held several
- 24 executive positions including Director for Human Resources
- 25 at the Department of Commerce and the Department of Justice,

- 1 Deputy Director for Program Support at the Department of
- 2 Defense, and as Associate Director for Workforce Solutions
- 3 at the United States Mint.
- 4 Chuck Grimes is the Chief Operating Officer at the
- 5 Office of Personnel Management, OPM, where he is responsible
- 6 for managing OPM's human, financial, and other resources.
- 7 He is also responsible for improving the agency's
- 8 performance and achieving the agency's goals through
- 9 strategic planning, measurement, analysis, and progress
- 10 assessment. Prior to joining OPM, Mr. Grimes served as the
- 11 Assistant Director of Compensation Policy in the Strategic
- 12 Human Resources Division at the Internal Revenue Service and
- 13 as Director of the Wage and Salary Division for the
- 14 Department of Defense's Civilian Personnel Management
- 15 Service.
- 16 Thank you all for being here. It is the custom of this
- 17 Subcommittee to swear all witnesses, so if you do not mind,
- 18 I would ask you to stand.
- 19 Do you swear that the testimony that you will give
- 20 before this Subcommittee will be the truth, the whole truth,
- 21 and nothing but the truth, so help you God?
- 22 Mr. Aronowitz. I do.
- Ms. Tomchek. I do.
- 24 Mr. Grimes. I do.
- 25 Senator McCaskill. Thank you all very much. We will

1 begin your testimony, Mr. Aronowitz.

- 1 TESTIMONY OF JAY ARONOWITZ, DEPUTY ASSISTANT
- 2 SECRETARY, FORCE MANAGEMENT, MANPOWER AND
- 3 RESOURCES, U.S. ARMY
- 4 Mr. Aronowitz. Chairwoman McCaskill, Ranking Member
- 5 Portman, distinguished members of this Committee, thank you
- 6 for the opportunity to appear before you today. I am
- 7 honored to have the opportunity to discuss the Army's
- 8 contractor inventory and how we use this information for the
- 9 strategic human capital planning for our total force,
- 10 military, civilian, and contractors.
- 11 To serve as effective stewards of public funds, the
- 12 Army must ensure that we are managing our workforce in the
- 13 most effective and cost-efficient manner possible. To that
- 14 end, we developed our Contractor Manpower Reporting
- 15 Application tool, CMRA, in January of 2005 to increase the
- 16 visibility of the Army's contract workforce, both in terms
- 17 of labor, hours, and costs.
- 18 As part of the development process and in order to gain
- 19 approval under the Paperwork Reduction Act, we met with over
- 20 50 corporations and worked with them in designing a system
- 21 that would minimize the reporting burden on them and the
- 22 cost to the Government.
- 23 The reporting process is so streamlined that most
- 24 contractors do not even separately bill the Government for
- 25 reporting this data. Today we have over 20,000 contractors

- 1 entering data into CMRA. CMRA was developed at a cost of
- 2 approximately \$1 million using commercial off-the-shelf
- 3 software and it is Government owned.
- 4 A staff of five individuals manage the program for the
- 5 entire Army, providing help desk capability, interpreting
- 6 policies, running reports, and coordinating actions across
- 7 our acquisition, manpower, and financial management staffs.
- 8 The Army uses CMRA to collect the direct labor hours and
- 9 labor dollars associated with each service contract, as well
- 10 as the function, location of performance, requiring
- 11 activity, funding source, and type of contract vehicle.
- 12 In fiscal year 2001, we began collecting data on other
- 13 direct non-labor costs which includes supply cost and travel
- 14 expenses, as well as a variety of other expenses charged
- 15 directly to the Government. By collecting this data, the
- 16 Army can now see direct labor and direct non-labor costs,
- 17 and thus, infer overhead costs, though we have just begun to
- 18 analyze these overhead costs.
- 19 The inventory compiled in the CMRA today is primarily
- 20 used to fulfill the statutory requirement to identify
- 21 inherently governmental functions and closely associated
- 22 with inherently governmental functions, authorized personal
- 23 service contracts, and functions appropriate for contract
- 24 performance.
- 25 Beginning in FY11, the Department of Defense was

- 1 required to submit a budget exhibit of service contract
- 2 manpower and costs. The Department of Defense Comptroller
- 3 recently issued guidance that the services inventory of
- 4 contract services would be used to inform the budget
- 5 process, and we have started to work with the Army
- 6 Comptroller to ensure Congress will have the most accurate
- 7 data on contract services in the future, and that our
- 8 program and budget for fiscal year 2014 for contract
- 9 services is built on data from CMRA.
- 10 CMRA, our inventory of contract services, has helped us
- 11 to improve management of our total force by identifying
- 12 inappropriately contracted functions and by collecting cost
- 13 information to help us make informed decisions on the most
- 14 appropriate workforce mix.
- 15 In addition to service contract data, CMRA allows us
- 16 the ability to ensure adequate oversight of service contacts
- 17 by our organic workforce, a statutory requirement, and
- 18 ensure there are no redundancies between the contracted
- 19 functions and the organic Government workforce.
- In December of 2011, in response to the House Armed
- 21 Services Committee concerns over lack of visibility as to
- 22 what DoD spends on contract services, Secretary of Defense
- 23 responded that he was, quote, committed to enable the
- 24 efforts of the rest of the Department of Defense to quickly
- 25 implement the Army's Contract and Manpower Reporting

- 1 Application tool this fiscal year, while also leveraging
- 2 Army processes, lessons learned, and best practices to
- 3 comply with the law in the most cost-efficient and effective
- 4 manner.
- In closing, we believe that the Army's contractor
- 6 inventory process has potential benefits, not only for the
- 7 rest of the Department of Defense, but also for Government-
- 8 wide application. Chairwoman McCaskill and members of the
- 9 Subcommittee, thank you for your support and I look forward
- 10 to your questions.
- 11 [The prepared statement of Mr. Aronowitz follows:]

- 1 Senator McCaskill. Thank you very much, Mr. Aronowitz.
- 2 Ms. Tomchek.

- 1 TESTIMONY OF DEBRA TOMCHEK, EXECUTIVE DIRECTOR,
- 2 BALANCED WORKFORCE PROGRAM MANAGEMENT OFFICE, U.S.
- 3 DEPARTMENT OF HOMELAND SECURITY
- 4 Ms. Tomchek. Chairwoman McCaskill, Ranking Member
- 5 Portman, and distinguished members of the Subcommittee. I
- 6 appreciate the opportunity to speak to you today about the
- 7 Department of Homeland Security's efforts to balance our
- 8 Federal and contractor workforce.
- 9 During the Department's stand-up in 2003, contractors
- 10 played a significant role as leadership worked quickly to
- 11 obtain the capabilities necessary to accomplish our mission.
- 12 By 2007, concerns surfaced about possible over-reliance on
- 13 contractors at DHS. At the request of Congress, the
- 14 Government Accountability Office recommended that DHS take
- 15 action to improve its ability to manage risk and to ensure
- 16 governmental control and accountability.
- 17 To comply with GAO's recommendations, statutory
- 18 requirements, guidance from the President and the Office of
- 19 Management and Budget Policy, DHS established our balanced
- 20 workforce strategy in mid-2010. The strategy has three
- 21 aims.
- One, to ensure compliance with applicable statutes,
- 23 regulations, and policies through a repeatable, documented,
- 24 decision-making process. Two, to determine the proper
- 25 balance of Federal and contractor employees for programs and

- 1 functions. And three, reduce mission risk and, as
- 2 practicable, reduce or control cost.
- 3 The Balanced Workforce Program Management Office was
- 4 established within the Office of the Chief Human Capital
- 5 Officer with an understanding that rebalancing the workforce
- 6 would have to rely on sound workforce planning. Given the
- 7 complexity of decisions related to properly sourcing
- 8 programs and functions, we simultaneously created a
- 9 departmental working group with senior representatives from
- 10 the Office of the Chief Financial Officer, the Office of the
- 11 Chief Procurement Officer, and the Office of the General
- 12 Counsel.
- 13 The departmental working group uses its multi-
- 14 disciplinary expertise to oversee the execution of the
- 15 balanced workforce strategy by components. We also created
- 16 the Balanced Workforce Executive Steering Group comprised of
- 17 representatives from components to provide input and
- 18 direction concerning the strategy.
- 19 In 2010, DHS components began reviewing current service
- 20 contracts using the three-step balanced workforce strategy
- 21 process. The first step, identify the work, involves
- 22 looking at a service contract's statement of work to isolate
- 23 and accurately describe each discrete function that should
- 24 be analyzed.
- 25 The second step, analyze the work, relies on an

- 1 electronic questionnaire entitled, The Balanced Workforce
- 2 Strategy Tool. The tool leads components through a series
- 3 of questions about a function to ensure compliance with law,
- 4 regulations, and relevant policy.
- 5 The tool also includes a method for assessing
- 6 sufficient internal or Federal capability and uses questions
- 7 such as, What is the relationship of a function to the
- 8 Department's core mission? What is the risk to a function
- 9 if all contractors were to leave suddenly? And what is the
- 10 likelihood that a function might evolve into one that is
- 11 inherently governmental?
- 12 The Balanced Workforce Strategy Tool produces a
- 13 suggested ratio of Federal to contractor employees for
- 14 components to use in considering mission control and the
- 15 sourcing of a function. If concerns about mission control
- 16 are identified, components may seek to rebalance the
- 17 workforce for a function. However, components may
- 18 alternatively provide a risk mitigation strategy such as
- 19 enhancing contract oversight or increasing reporting
- 20 requirements.
- 21 If a component's responses to the questionnaire
- 22 indicate that a function can be performed by either the
- 23 public or private sector, the component must then consider
- 24 the cost to DHS. The DHS Balanced Workforce Strategy
- 25 guidance mandates that components perform cost comparison

- 1 analysis to determine the most efficient sourcing solution.
- 2 First, components calculate the cost of Federal workers
- 3 using the OMB-approved, DHS Modular Cost Model. This model
- 4 incorporates a variety of factors to describe the fully-
- 5 loaded cost for Federal employee to DHS. On the contract
- 6 side, the cost of the current contract is used, including
- 7 the cost of contract oversight. If a new requirement is
- 8 being reviewed, an independent Government cost estimate
- 9 serves as the basis for comparison.
- 10 The third step in the Balanced Workforce Strategy
- 11 process is to implement the sourcing decision. If the
- 12 workforce for a function requires rebalancing, numerous
- 13 stakeholders must collaborate to make the change. The
- 14 Department's workforce is responsible for executing our
- 15 complex and important Homeland Security mission to protect
- 16 the American public and the American homeland.
- To meet our mission objectives, we need the expertise
- 18 of both Federal workers and contractor employees. The
- 19 Balanced Workforce Strategy contributes to DHS mission
- 20 readiness through its focus on mission control,
- 21 accountability, and oversight for business decisions and
- 22 cost containment.
- 23 I look forward to answering any questions you might
- 24 have.
- 25 [The prepared statement of Ms. Tomchek follows:]

- 1 Senator McCaskill. Thank you so much, Ms. Tomchek.
- 2 Mr. Grimes.

- 1 TESTIMONY OF CHUCK GRIMES III, CHIEF OPERATING
- OFFICER, U.S. OFFICE OF PERSONNEL MANAGEMENT
- 3 Mr. Grimes. Madam Chairman, Ranking Member Portman,
- 4 and members of the Subcommittee, thank you for the
- 5 opportunity to testify before you today on contracting and
- 6 the multi-sector workforce. The U.S. Office of Personnel
- 7 Management is the central human resources agency for the
- 8 Federal Government, providing leadership and guidance to
- 9 Federal agencies on Government-wide policies for strategic
- 10 management of the Federal workforce.
- 11 The American people expect and deserve a high-
- 12 performing government that can efficiently and effectively
- 13 carry out its missions, such as defending our homeland,
- 14 providing care to our veterans, and ensuring the safety of
- 15 our air and water. Performing this highly challenging and
- 16 complex work depends on an engaged and well-prepared
- 17 workforce with the right mix of knowledge, skills, and
- 18 abilities.
- 19 One of OPM's roles is to set standards for effective
- 20 management of human capital and to assist agencies in
- 21 meeting those standards. OPM evaluates agency performance
- 22 in meeting those standards through an annual reporting,
- 23 evaluation, and feedback process. One of these standards is
- 24 strategic management alignment, that is, having a human
- 25 capital strategy aligned with mission goals and

- 1 organizational objectives.
- 2 Effective workforce planning is critical to meeting the
- 3 strategic alignment standard. Workforce planning is the
- 4 systematic process to identify and document mission-critical
- 5 occupations and associated current or anticipated competency
- 6 gaps, then to address those gaps using strategies and
- 7 techniques such as restructuring, recruitment, redeployment,
- 8 retraining, retention, or technology solutions.
- 9 OPM, however, does not get involved in specific agency
- 10 workforce planning decisions, nor does it get involved in
- 11 agency-specific decisions such as whether or not to
- 12 competitively source or contract particular functions. OPM
- 13 does analyze non-Federal and Federal pay for the purposes of
- 14 comparisons required for setting Federal employee pay under
- 15 the General Schedule pay system, but it does not determine
- 16 whether Federal employees or private contractors are more
- 17 cost-effective in the performance of Government operations.
- 18 Agencies have that responsibility in their specific
- 19 areas of operation. For instance, as agencies consider the
- 20 appropriate size and composition of the workforce necessary
- 21 to carry out their missions, the determination on whether to
- 22 use private sector contractors is best informed by
- 23 application of sound planning principles, such as the level
- 24 of specialization needed for a specific task, the duration
- 25 of need for that specialization, and cost comparisons.

- Other considerations include the availability of
- 2 expertise, the time needed to train new employees
- 3 thoroughly, the urgency of the need, the resultant
- 4 opportunity costs, and the need for institutional memory.
- 5 It is worth emphasizing that a simple comparison of labor
- 6 costs alone is not likely to answer the question of which
- 7 sector would be more cost-effective and efficient in
- 8 performing a given task in a specific circumstance.
- 9 For example, a cost comparison to consider in-house
- 10 performance as an alternative to continued contract
- 11 performance might be beneficial if requirements tend to be
- 12 managed best through an employer-employee relationship, the
- 13 agency has experience in performing the work in-house, the
- 14 ability to recruit for the skill is high, and the Government
- 15 has historically had challenges with contractor performance.
- 16 By contrast, the benefit of a cost comparison may be
- 17 lower if the agency is looking to meet a short-term surge
- 18 that would be costly to address through long-term hiring,
- 19 the agency currently lacks an in-house capability to do the
- 20 work, and the agency has had considerable success in getting
- 21 good performance at a reasonable cost from its contractors.
- 22 All of these factors have a role in determining when a
- 23 cost comparison is likely to be most effective in achieving
- 24 best value for the taxpayer. OPM provides quidance and
- 25 training to assist agencies in identifying workforce

- 1 requirements and conducting training sessions on multi-
- 2 sector workforce planning. OPM has focused on the way our
- 3 human capital management standards apply to multi-sector
- 4 planning.
- 5 OPM has not delivered training on how agencies should
- 6 appropriately compare the cost of a contracted versus
- 7 employed workforce. Agencies may refer to OMB publications
- 8 such as Memorandum M-926, which requires agencies to begin
- 9 the process of developing and implementing policies,
- 10 practices, and tools for managing the multi-sector workforce
- 11 for guidance in making such comparisons.
- 12 Additionally, on September 12th, 2011, OMB's Office of
- 13 Federal Procurement Policy published a policy letter,
- 14 Performance of Inherently Governmental and Critical
- 15 Functions, in order to provide guidance to agencies on
- 16 governmental and critical function management.
- 17 OPM is also co-chairing an interagency working group
- 18 with the Department of Defense to implement the
- 19 Administration's cross-agency priority goal to close skill
- 20 gaps to more effectively achieve agency missions, an
- 21 important workforce planning effort that will require
- 22 agencies to look at recruitment, training, and business
- 23 processes, as well as the use of technology and contractor
- 24 support.
- OPM's support and coordination of effective management

- 1 practice sharing among agencies will be essential to
- 2 achieving this goal. Thank you again for this opportunity
- 3 to testify before you and I look forward to any questions
- 4 you may have.
- 5 [The prepared statement of Mr. Grimes follows:]

- 1 Senator McCaskill. Thank you very much, Mr. Grimes.
- 2 You know, I would like to start by looking at the chart, Mr.
- 3 Aronowitz, the total force mix, military, civilian, and
- 4 contractor, and I wish we had it large, but we do not. But
- 5 you can see, looking at this chart, that the civilian
- 6 personnel has stayed very stable and really has not changed;
- 7 military personnel, while we have had a slow growth, but
- 8 really the real growth has been in this contractor category.
- 9 [The chart follows:]

- 1 Senator McCaskill. The Department has called these
- 2 contracts increasingly unaffordable and says savings are
- 3 here. And I fundamentally believe that, as somebody who has
- 4 had a really 50-yard line seat on contracting for five years
- 5 in the Department of Defense. Anybody, including my friends
- 6 I work with to bring down the cost of Federal Government,
- 7 anybody who believes we cannot find savings in the
- 8 Department of Defense around contracting does not know the
- 9 issue.
- 10 And so, everyone who says we cannot cut one dime from
- 11 the Department of Defense and that, in fact, we need to
- 12 continue to grow that budget is really not taking the time
- 13 to understand how contracting has gone wild. And I do think
- 14 the Army is working very hard to get a handle on this, but I
- 15 find it astonishing that agencies do not consider whether it
- 16 is cheaper to use contractors or Federal employees before
- 17 deciding whether to award a contract.
- 18 Ms. Tomchek, if DHS developed a similar graph, do you
- 19 think the results would be the same?
- 20 Ms. Tomchek. Well, first, our active duty military is
- 21 pretty small because it is in the--
- 22 Senator McCaskill. I mean the comparison between
- 23 civilian and contractors.
- 24 Ms. Tomchek. I do not have specific information, but I
- 25 tend to doubt that it would be as stark as this.

- 1 Senator McCaskill. Well, I would bet that if--it may
- 2 be coming down now, but when I got here, I will never forget
- 3 speaking to Secretary Chertoff in one of the very first
- 4 hearings I had in this Committee, and when I asked the
- 5 question, How many contractors work at the Department of
- 6 Homeland Security, it was like I was speaking a different
- 7 language. No one had any idea.
- 8 And I think people are envisioning contractors
- 9 differently out there than what we know they are. If I go
- 10 to the Department of Homeland Security, as you well know,
- 11 and I go down carrels, everybody is doing the same function,
- 12 everyone having the same job, it is likely to be employee,
- 13 contractor, contractor, employee, contractor, contractor,
- 14 contractor, employee, employee, contractor. Is that not
- 15 accurate?
- 16 Ms. Tomchek. I do believe that when GAO did its report
- 17 in 2007, that was probably very likely accurate. Since that
- 18 time, we have been working diligently to address issues of
- 19 mission risk that were raised by GAO, along those same
- 20 lines, as to why we had so many contractors in place to
- 21 accomplish the mission of the Department.
- The primary purpose of the Balanced Workforce Strategy
- 23 is first to comply with the law. But secondly, it is to
- 24 ensure that we have control of our mission. And I believe
- 25 that GAO pointed out that given that situation, as you

- 1 described it, which I believe was definitely the case in
- 2 2007, that we have tried very hard to make progress to
- 3 reduce that as a result of the Balanced Workforce Strategy.
- 4 Senator McCaskill. Let me also ask DHS, you have
- 5 identified 3,500 contractor positions for in-sourcing and at
- 6 least 2,600 Federal positions were filled as of the end of
- 7 2011. How much as the Department saved by converting
- 8 contractors to Government positions?
- 9 Ms. Tomchek. That effort was the very first effort
- 10 that we had underway. It was done prior to the Balanced
- 11 Workforce Strategy. We did a data call last year and we are
- 12 getting ready to implement our second data call to determine
- 13 what savings there might have been. But information from
- 14 our components as of the data call last year was
- 15 approximately \$28 million.
- 16 Senator McCaskill. So by converting contractor
- 17 positions to Federal employees, you saved \$28 million?
- 18 Ms. Tomchek. That is what our components reported to
- 19 us, yes, ma'am.
- 20 Senator McCaskill. What methodology, including
- 21 assumptions, have you all used to come up with those
- 22 numbers? How are you doing that?
- 23 Ms. Tomchek. When we sent the data call last year, we
- 24 asked the components to use the same costing methodology
- 25 that I previously described, which is, what was the total

- 1 cost of the contract, and then what is the total cost of the
- 2 Federal workers that have been hired, using the OMB-approved
- 3 DHS modular cost model. It is our understanding that that
- 4 was applied in that fashion and those were the savings that
- 5 were documented.
- 6 Senator McCaskill. Mr. Aronowitz, in the past several
- 7 years, both the Administration and the Secretary of Defense
- 8 have announced initiatives to reduce on the amount spent on
- 9 contractors. Do you know to what extent the Army has
- 10 reduced the total amount spent on contracts over the last
- 11 two years?
- 12 Mr. Aronowitz. Yes, ma'am. I can give you a figure
- 13 and then I can tell you some of the challenges that we have
- 14 and how I think that we can address those going forward.
- 15 For base budget contracts in FY09, we spent \$32 billion, in
- 16 FY10 \$36 billion, and in FY11 \$40 billion. If you want, I
- 17 can also give you the figure for the civilian pay. For
- 18 civilians in FY10, it was \$20 billion as compared to the \$32
- 19 billion spent on service contracts.
- In FY10, it was \$22 billion for civilian pay--and when
- 21 I say pay, it is really the fully-burdened pay of civilians-
- 22 -\$22 billion in relation to \$36 billion spent on service
- 23 contracts. And in FY11, \$24 billion on civilian pay and \$40
- 24 billion on service contracts.
- 25 The real challenge that we have, ma'am, in terms of

- 1 managing service contracts is that we do not have it very
- 2 well integrated into our program and budget. They tend to
- 3 be executed in the year of execution of the budget, and so
- 4 it is kind of a rear-looking event in terms of how much have
- 5 we executed last year.
- In my written testimony, there is a chart that shows
- 7 service contract dollars going down significantly in the
- 8 period of FY08 to '09, and then starting to go back up. And
- 9 interestingly enough, that period of '08 to '09 was when we
- 10 first implemented our inventory of contract services where
- 11 we had--requiring activities having to fill out a checklist
- 12 that tracked back to statute in law to ensure that they were
- 13 not going to implement a service contract involving
- 14 inherently Government work or an unauthorized personal
- 15 service contract, and whether or not if it was closely
- 16 associated, that one, that there was enough organic
- 17 Government capability to oversee the execution and
- 18 performance of that contract, and enough CORs, and that the
- 19 workforce was adequately trained and capable to oversee the
- 20 performance of the contractors.
- 21 That was a period when this was totally voluntary. The
- 22 Secretary of the Army sent out a memo and said that the
- 23 first general officer, or SES, in the chain of command would
- 24 have to certify the checklist so that, again, we were not
- 25 having contractors to perform inherently governmental

- 1 functions.
- 2 And during that period, we saw service contract dollars
- 3 go down significantly. It went from \$51 billion in '08 down
- 4 to \$32 billion in '09. It was the first time that the
- 5 Department seriously looked--
- 6 Senator McCaskill. That is \$20 billion. That is some
- 7 significant change.
- 8 Mr. Aronowitz. Yes, ma'am.
- 9 Senator McCaskill. So what happened? Why did it start
- 10 going back up again?
- 11 Mr. Aronowitz. Well, the challenges were, again, we do
- 12 not program and budget for the service contracts. They are
- 13 not integrated into our budget and there are year of
- 14 execution issues that we see. And so, the Army's intent
- 15 going forward is to ensure that we integrate these service
- 16 contracts in our program and budget.
- 17 The Army acquisition executive, following DoD guidance,
- 18 has set up a governance structure and a portfolio of
- 19 management structure for service contracts, six portfolios.
- 20 We have mapped our inventory of contract services to these
- 21 portfolios. And we are trying to integrate both our
- 22 inventory and the portfolios into the budget process. And I
- 23 think if we can achieve that, then we will have much better
- 24 control over the budgets for service contracts.
- 25 Senator McCaskill. Thank you very much. Senator

- 1 Portman.
- 2 Senator Portman. Thank you, Madam Chair. If I may
- 3 follow up a little with DoD because it is an interesting
- 4 story. In 2009, you guys started an in-sourcing initiative
- 5 and the goal, as I understand it, was to replace 30,000
- 6 contractors with DoD civilians between 2010 and 2015. And
- 7 DoD planned at the time to achieve budgetary savings equal
- 8 to 40 percent of the cost of the contracts replaced.
- 9 More recent DoD statements have claimed the savings
- 10 could be not 40 percent, but 25 percent. In 2010, August,
- 11 before he left, Secretary Gates said in a speech that
- 12 Defense agencies, quote, were not seeing the savings we had
- 13 hoped for from in-sourcing, and DoD shifted the policy to
- 14 try to eliminate unnecessary jobs rather than trying to
- 15 simply trade contract workers for Federal employees.
- 16 It is my understanding that the Army suspended in-
- 17 sourcing altogether in late 2010. What happened? What are
- 18 the lessons that you learned from your in-sourcing
- 19 initiative?
- 20 Mr. Aronowitz. Sir, if I can go back to again the
- 21 period of 2008 to 2009 when we saw the initial drop, it was
- 22 a voluntary in-sourcing program that had no undue outside
- 23 controls or influence pressurizing another component of our
- 24 total force. As you mentioned, Secretary Gates directed to
- 25 the Army a savings of \$400 million with the assumption that

- 1 we could save 40 percent if we in-sourced.
- 2 That money was taken off of the Army's top line and so
- 3 we were driven to in-source approximately 9,000 to 10,000
- 4 contractor man-year equivalence without really having done
- 5 the due diligence, workload analysis up-front. And so, you
- 6 have--
- 7 Senator Portman. Projections really were not based on
- 8 a thorough analysis. The projections were more of a budget
- 9 decision and then you tried to achieve those budget savings.
- 10 Mr. Aronowitz. Yes, sir, absolutely. In this case, we
- 11 had the budget trying to drive workforce mix decisions. Our
- 12 experience at the Army is that 40 percent was very--a very
- 13 aggressive goal to meet. We had two instances over
- 14 different periods of time where we achieved anywhere from
- 15 about 16 to 30 percent savings. And really, the percentage
- 16 savings are really dependent upon the function that is being
- 17 in-sourced and the location of where that is occurring.
- 18 Senator Portman. Well, let me just say, as a general
- 19 matter as we are going through the current downsizing
- 20 because of the cuts and the Budget Control Act and now the
- 21 potential sequestration at the end of the year, I have some
- 22 of the same concerns that you are, establishing budget
- 23 numbers without backing them up with good analysis. And
- 24 certainly that goes to what we talked about today in
- 25 general, which is that we do not have the kind of data-

- 1 driven analysis that we need to be able to make these
- 2 decisions wisely.
- 3 I talked earlier about this Circular A-76, which is the
- 4 long-standing circular people relied on for years through
- 5 Administrations, Republican and Democrat alike. That is
- 6 now, you know, not being used since 2009, really because of
- 7 Congress. And I just--I am very concerned that we do not
- 8 have the kinds of careful analysis being done because the
- 9 quidance is not there.
- The Administration has maintained that for jobs that
- 11 can be done by contractors, agencies should, and I quote,
- 12 evaluate the full cost and perform like comparisons. The
- 13 trouble is that unlike A-76 it does not say how you do that.
- 14 And there is not much quidance on how to implement this
- 15 revised approach.
- 16 GAO has found this new policy has created confusion and
- 17 noted that OMB's criteria do not specify the procedures for
- 18 conducting a cost analysis or define what constitutes the
- 19 full cost of performance. So I guess to all of you, and,
- 20 Mr. Grimes, you talked a little about this, with OMB issuing
- 21 quidance governing everything from the quality of science
- 22 that has to be used by your agencies to the cost/benefit
- 23 analysis of regulations, do you believe that OMB should step
- 24 in here and take a more central role in creating a uniform
- 25 and a consistent credible cost comparison methodology for

- 1 making these in-sourcing and out-sourcing decisions?
- 2 Mr. Grimes. I think OMB would be the central
- 3 management agency that would be best positioned to do that.
- 4 I would just like to point out that there are a number of
- 5 difficulties with cost comparisons that would have to be
- 6 sort of addressed and taken into account.
- 7 As you know, we compare Federal salaries against
- 8 private sector salaries in setting pay for General Schedule
- 9 employees, and we find one thing with the way that we do it
- 10 and others find different answers when they study that issue
- 11 using other assumptions. So to the extent that those
- 12 assumptions could be laid out and followed and considered
- 13 appropriately, then I do agree OMB is the right place to go.
- 14 Senator Portman. And you think there is a need for it,
- 15 to have a uniform standard that is established to provide
- 16 additional guidance?
- 17 Mr. Grimes. I think if you have a need--if you are
- 18 going to make these comparisons across agencies, then
- 19 uniform standards would be helpful.
- 20 Senator Portman. Do you agree, Ms. Tomchek?
- 21 Ms. Tomchek. Yes, sir. The Department of Homeland
- 22 Security would definitely welcome additional guidance on
- 23 this issue. We try very hard to ensure that all of our work
- 24 adheres to the guidance issued by the Congress and by OMB,
- 25 and this would be extremely helpful for us.

- 1 Senator Portman. Mr. Aronowitz?
- 2 Mr. Aronowitz. Sir, in DoD, there is a directive-type
- 3 memorandum, DTM, which is entitled, Estimating the Cost of
- 4 Military and Civilian Manpower and Service Contracts. So
- 5 within DoD, we basically have a cost/benefit analysis tool
- 6 to ensure we have got the fully-burdened cost of our
- 7 workforce.
- 8 I would say that before I signed up to a one-size-fits-
- 9 all for the Government, that there are some nuances to DoD
- 10 that would have to be considered going forward.
- 11 Senator Portman. Thank you, Madam Chair.
- 12 Senator McCaskill. Thank you, Senator Portman.
- 13 Senator Tester.
- 14 Senator Tester. Thank you, Madam Chairman. I think we
- 15 will approach this from two different ways, looking backward
- 16 and looking forward. First of all, I do want to say thank
- 17 you all for being here. I appreciate your testimony. I
- 18 appreciate what I have heard today.
- 19 Mr. Aronowitz, you said that in '09 there was a 40
- 20 percent savings when it went from contractors to civilians.
- 21 And you also had said there was some elimination of
- 22 unnecessary jobs--I do not want to paraphrase, if that is
- 23 not what you said, tell me--that helped contribute to that
- 24 40 percent.
- 25 And I guess it brings up an interesting point to me in

- 1 that when the military, I think, has more control, I think
- 2 it would be fair to say and you can correct me if I am
- 3 wrong, that they have more control with the civilian
- 4 workforce than they do the contractors. Would you agree
- 5 with that?
- 6 Mr. Aronowitz. Yes, sir.
- 7 Senator Tester. I think it gives them an opportunity
- 8 to get rid of some of the driftwood that was in the staff.
- 9 As you guys make your assessments and your evaluations and
- 10 make your transfers, the ones that are appropriate, what
- 11 kind of--I mean, are you seeing some potential savings from
- 12 folks who really have no function, but just kind of were
- 13 along for the ride for whatever reason?
- 14 Mr. Aronowitz. Sir, I would not subscribe to that writ
- 15 large. First of all, when the Army again did the in-
- 16 sourcing in '08 and '09, we achieved about a 30 percent cost
- 17 savings. When DoD directed and took \$400 million out of our
- 18 budget, their assumption was that there would be a 40
- 19 percent savings, and this was in about the FY10 time frame.
- 20 Senator Tester. Thirty percent is not chump change. I
- 21 mean, that is pretty incredible.
- 22 Mr. Aronowitz. I would agree, sir.
- 23 Senator Tester. And you need to be applauded for that
- 24 and I would hope that you would move forward. And by the
- 25 way, when I am critical of the contractors, I am not

- 1 critical of the active military. I just want to make that
- 2 very, very clear. You guys do an incredible job and I want
- 3 to thank you for your service. I have never been around a
- 4 more professional workforce than I am when I was in Iraq and
- 5 Afghanistan.
- 6 Ms. Tomchek, I remember when Madam Chair asked a
- 7 question about contractors at Homeland Security. And
- 8 correct me if I am wrong, Claire, but I do not believe that
- 9 they could answer the question as to how many contractors
- 10 they had.
- 11 Senator McCaskill. And I do not think the Department
- 12 of Defense thinks they can get us that number until 2016 at
- 13 the earliest, I believe, is the date we have been given. Is
- 14 that correct, Mr. Aronowitz?
- 15 Mr. Aronowitz. Well, ma'am, I cannot speak for DoD. I
- 16 can speak for the Army.
- 17 Senator McCaskill. Right. That is right. I am sorry.
- 18 Mr. Aronowitz. During or through our inventory
- 19 process, the Army is very confident in the number of
- 20 contractors or contract man-year equivalence that we
- 21 capture, which is about 217,000 today.
- 22 Senator Tester. In this day of computers that
- 23 basically can run processes that are incredible, I think it
- 24 is amazing that -- everybody should be able to tell us that
- 25 number just like that. I mean, I think that if they cannot,

- 1 it tells me that the system is broken. Okay?
- I just want to move on just a little bit. There were
- 3 \$60 billion that was lost to waste, fraud, and abuse in Iraq
- 4 and Afghanistan for the entire contracting process. This
- 5 was done by the Commission on Wartime Contracting.
- 6 Occasionally I get to sit on the floor and do some
- 7 presiding, and I hear folks continually get up and talk
- 8 about Solandra 500 and \$35 billion wasted, and by the way,
- 9 that is totally unacceptable. We are talking about \$60
- 10 billion here.
- 11 Can any of you answer the question as to, if there is
- 12 any possibility of recouping that money and what percentage
- 13 of that money might possibly be recouped?
- 14 Mr. Aronowitz. Sir, since I believe that is a DoD
- 15 figure, I would like to take that for the record and get it
- 16 back to the Committee.
- 17 Senator Tester. I would love to see what is going on.
- 18 I mean, it is an amazing figure for me. I recently joined
- 19 Senator McCaskill on legislation that would implement many
- 20 of the recommendations for the Commission on Wartime
- 21 Contracting. Your perspective, Mr. Aronowitz, or any of you
- 22 for that matter. Do you think the recommendations would
- 23 have a positive effect on the way that the Army, Department
- 24 of Defense--I know you cannot speak for both, but maybe you
- 25 can--would do business with contractors? Or would it hurt

- 1 your ability to achieve a savings?
- 2 Mr. Aronowitz. I know that the legislation is now
- 3 being reviewed back in the Pentagon and we will get a
- 4 response back through DoD on that. The Secretary of the
- 5 Army takes this very serious and he has directed the Army's
- 6 staff to basically expedite the hiring initiative we had to
- 7 grow the acquisition workforce and also to increase the
- 8 military by about 1,000 soldiers in the acquisition field to
- 9 build an expeditionary acquisition capability.
- 10 And again, I know this is reaction to the Commission on
- 11 Wartime Contracting, but again, we take it very serious in
- 12 the Department.
- 13 Senator Tester. One last question, and I would direct
- 14 it to Mr. Aronowitz, but any of you can answer the question
- 15 because I think it applies to the Government across the
- 16 board, whether it is DoD, Department of State, or Homeland
- 17 or any others as far as that goes. I know that in Iraq and
- 18 Afghanistan, we have awarded and re-awarded non-compete
- 19 contracts. Can you give me any idea to what extent this
- 20 still happens, that folks are awarded non-compete Government
- 21 contracts?
- 22 Mr. Aronowitz. Again, sir, I would have to take that
- 23 for the record and get you a better fidelity on the numbers
- 24 and get back to the Committee.
- 25 Senator Tester. We would love to get that. Would you

- 1 two want to respond to that at all?
- 2 Ms. Tomchek. I do not have those numbers, but would be
- 3 happy, also, to get them for you. I would add that the law
- 4 that we follow, which is Section 736 of the FY2009
- 5 Appropriations Act, specifically asked us to look at sole
- 6 source non-competed contracts when we do these reviews, and
- 7 it is something that is captured on our questionnaire, to
- 8 make sure that we could sort those out and look at those
- 9 separately if we needed to do so.
- 10 Senator Tester. And have you?
- 11 Ms. Tomchek. Our questionnaire process has a database
- 12 in the back and we have not yet derived much information
- 13 from it.
- 14 Senator Tester. Chuck?
- 15 Mr. Grimes. I know that we do look at that, but to
- 16 give you specific figures, I would have to get back to you
- 17 for the record.
- 18 Senator Tester. I would like that. And thanks for the
- 19 latitude, Madam Chair. I would just say that I think
- 20 everybody in this room gets it and I know you guys get it.
- 21 When you have non-compete contracts, you are not getting
- 22 best value. I would say I dare somebody to show me how you
- 23 get best value out of a non-compete contract. And when the
- 24 average taxpayer looks at that, they are saying to
- 25 themselves, What is going on?

- 1 When I go buy a car, I do not walk into the auto dealer
- 2 and look at the list price and say, Write up the papers.
- 3 You go to several auto dealers and then you negotiate on the
- 4 price. And it is the same thought process, for my mind
- 5 anyway. So I really think it is a non-starter. And I know
- 6 a lot of these contracts come out and they are so doggone
- 7 big that you might only get one person to bid on it, and
- 8 that is another problem, by the way. We need to break those
- 9 down so that they are available to be bid on companies,
- 10 because quite honestly, if you get more bidders, you are
- 11 going to get better value for your dollar.
- 12 So I want to thank the Chair for holding this hearing
- 13 and I want to thank the people who have testified today. I
- 14 appreciate your straight-forwardness.
- 15 Senator McCaskill. Thank you, Senator Tester. One of
- 16 the things that has happened a lot, and frankly, it has been
- 17 a head-scratcher for me, is that there have been people
- 18 beaten up on people who work for the Government. And all of
- 19 you are great examples and I have been blessed to be
- 20 surrounded by, and for many years, people who have decided
- 21 Government service is honorable work.
- 22 And I have never met anybody who has gone into a
- 23 Government job looking for big money. I think most people
- 24 who take Government jobs know that while it does offer
- 25 stability, I do not think that most people who seek public

- 1 sector employment are looking for a big payday. It just has
- 2 not been my experience.
- And so, I have been disappointed at some of my
- 4 colleagues who think that they can get to a leaner, meaner
- 5 Federal Government just by beating up on the level of pay of
- 6 Federal employees, and that brings me to contractor
- 7 compensation. I have never seen anyone give a speech on the
- 8 floor that we need to do something about the high rate of
- 9 salaries with contractors.
- 10 And as you may well know, there have been attempts to
- 11 put in legislation, to put a cap on contractor salaries. I
- 12 think most Americans would be shocked to know that we have
- one now and it is \$693,000 a year. So right now, the
- 14 Federal Government can pay contractors up to almost 700
- 15 grand a year.
- 16 And my colleagues, Senators Boxer and Grassley, have
- 17 proposed changing this cap to \$400,000 a year for all
- 18 contractor and subcontractor employees. Others have even
- 19 proposed lowering the cap even further. And for civilian
- 20 contracts, the cap only applies to senior executives. I
- 21 believe the cap should be extended to all contractor and
- 22 subcontractor employees.
- 23 I understand the Department of Defense has conducted a
- 24 survey of its nine top contractors and found that changing
- 25 the cap from \$693,000 to \$400,000 could save the agency \$421

- 1 million. That is a big number. Let me ask you, do you at
- 2 the Army, Mr. Aronowitz, or you, Ms. Tomchek, have any idea
- 3 how much money you could save by lowering the cap that we
- 4 would pay in terms of contractor salaries?
- 5 Mr. Aronowitz. Ma'am, my office does not track that
- 6 information, but again, I would like to have the opportunity
- 7 to come back to the Committee with that information.
- 8 Senator McCaskill. Ms. Tomchek?
- 9 Ms. Tomchek. I would say something similar. I am in
- 10 the Chief of Human Capital Office and I would be happy to
- 11 coordinate with my colleagues as we have our
- 12 interdisciplinary group and try to see if I could answer
- 13 that question for you.
- 14 Senator McCaskill. And, Mr. Grimes, is there any data
- 15 available through your office that would get to this issue
- 16 of how many very well-paid executives are we paying for on
- 17 some of these service contracts?
- 18 Mr. Grimes. We do not collect that information, so we
- 19 would not have any idea really what people make in the
- 20 service contracts. I am sorry.
- 21 Senator McCaskill. I think that is something--I will
- 22 tell you this. I am not voting for--I do not support
- 23 anymore freezing of the salaries for Federal workers until
- 24 we freeze some salaries for contractors, particularly at
- 25 that high level. I think--and by the way, we are not

- 1 telling private companies what they can pay their people.
- 2 They can pay them whatever they want. If they want to
- 3 pay them more, they are welcome to do so. This is not about
- 4 the Government telling private companies how much people
- 5 should make. It is about telling private companies how much
- 6 the Government will pay. And there is a big difference
- 7 there. If they want to supplement someone's salaries with
- 8 revenue streams from other sources, that certainly is up to
- 9 them. And this is not, I think, a matter of Government
- 10 getting in the way of the private sector.
- But if you are going to do business with the Federal
- 12 Government, I think it is reasonable that you would assume
- 13 that we are not going to pay somebody 700 grand a year. I
- 14 just think that is reasonable and I hope that we can get
- 15 that cap in place and realize those savings.
- 16 The same thing with overhead costs. Looking at the
- 17 data that the Army collected in 2011, there are a few
- 18 figures that jumped out at me that I would like to look at a
- 19 little closely. If you look at the portfolio Knowledge-
- 20 Based Services Contracts, the total invoices were for \$13
- 21 million.
- 22 Overhead costs accounted for \$6.7 million of that,
- 23 almost 50 percent of the overall costs. In that same
- 24 portfolio, Federal workspace was provided for 82 percent of
- 25 the contracts, and 71 percent of them had Government-issued

- 1 equipment. So I am trying to reconcile those numbers. You
- 2 have got a \$13 million contract. More than half of it, or
- 3 just at half of it, is overhead, but we are providing
- 4 workspace for 82 percent of them and we are issuing our
- 5 equipment for 71 percent of them.
- Is that the kind of thing that would jump out at you,
- 7 Mr. Aronowitz?
- Mr. Aronowitz. Well, ma'am, let me, if I can, walk you
- 9 through the numbers and I can tell you how the Army is
- 10 beginning to analyze this data and how we are integrating
- 11 with the acquisition community. As you mentioned, for the
- 12 Knowledge-Based portfolio, about \$13 billion total invoiced
- 13 amount is what the Government paid. The direct labor costs,
- 14 in other words, what was paid or charged for direct labor
- 15 hours, about \$4.8 billion.
- 16 About \$1.5 billion for direct non-labor costs, and
- 17 again, this would be for packaging, special equipment,
- 18 travel, and then the amount, the overhead that you
- 19 mentioned, the \$6.7 billion, that is overhead and profit.
- 20 And when we start to talk about comparing Federal civilian
- 21 employees' benefits versus contractors and whether we use A-
- 22 76 or the Department of Defense's directive-type memorandum,
- 23 the health and benefits cost for the contract employees is
- 24 in that \$6.7 billion amount, that overhead amount.
- 25 And so again, it is about 50, 51 percent, and again,

- 1 that includes the profit for the contractor as well as
- 2 expenses that he or she has for their employees for their
- 3 health, benefits, leave, and things of that nature, as well
- 4 as their retirement.
- 5 Senator McCaskill. So that was a "B" not an "M" which
- 6 means I really want to get into it. Do we do apples-to-
- 7 apples on benefits?
- 8 Mr. Aronowitz. Again, within the DoD, by using the
- 9 DTM, we do have a fully-burdened cost for our civilian and
- 10 military manpower. It is a very expensive tool.
- 11 Senator McCaskill. Especially because that also
- 12 includes all the pensions for active, right?
- 13 Mr. Aronowitz. Yes, ma'am. It is pensions, child care
- 14 costs, all the subsidies for groceries; for civilians, it is
- 15 the unpaid accrued retirement, so for both our military and
- 16 civilians fully burdened. For the contractors, the only
- 17 figures we use are what is invoiced to the Government and
- 18 what we pay.
- 19 Senator McCaskill. Well, I would really like to take a
- 20 look at that because I think that that has been the
- 21 assumption that we have been working on without data, which
- 22 this hearing is all about, is how can we get guidance from
- 23 OMB so that there is Government-wide assistance in the kind
- 24 of decision tree that you are trying to implement, Ms.
- 25 Tomchek.

- 1 But secondly, this assumption that if you hire--and I
- 2 have told this story a million times. My dad peeled
- 3 potatoes in World War II. We are never going to have a
- 4 soldier peel potatoes again in theater, in a contingency.
- 5 That will never happen. So contracting is here to stay.
- 6 So the question is, the assumption has been--and I
- 7 think this is how we got way ahead of ourselves in
- 8 contracting and contingency, especially around log cap. The
- 9 assumption was, our benefits are so significant, that our
- 10 overhead is so high that contractors just intuitively are
- 11 going to be cheaper. And I am not sure that we ever held
- 12 contractors' feet to the fire about what they were billing
- 13 us in that regard.
- 14 So I would love to see, on a typical contract, if you
- 15 can pull out the data for me what the benefit costs are
- 16 versus the benefit costs of our employees, and to make sure
- 17 that the underlying assumption that I think has driven a lot
- 18 of these decisions without good data, is even actually
- 19 correct, especially if you factor in some of these guys are
- 20 making 600 grand a year, 700 grand a year. That takes up a
- 21 lot of overhead as it relates to benefits.
- Mr. Aronowitz. Absolutely, ma'am.
- 23 Senator McCaskill. If the salaries are so much higher,
- 24 then pretty soon you are under water, even considering all
- 25 the overhead that we have as it relates to benefits,

- 1 pensions, and so forth, health care in our system. So if
- 2 you could do that for me, I would like to take a look at
- 3 that.
- 4 Mr. Aronowitz. Yes, ma'am.
- 5 Senator McCaskill. But I did not understand until you
- 6 explained it that that also was profit, so that also makes
- 7 sense. I thought it was just overhead. Thank you for
- 8 walking through the figures.
- 9 We have a number of more questions. There is a vote
- 10 that is being called right now, so I will adjourn this
- 11 hearing. I want to thank all three of you. And by the way,
- 12 I know in the contracting community I am not a popular
- 13 person because of the work I do in this area, but I do
- 14 understand there are great people that work for these
- 15 companies and that do good work for the Army and do good
- 16 work for the Department of Homeland Security.
- 17 It is not that they are the enemy. It is just that I
- 18 do not think our Government has been very good at tracking
- 19 the costs and making sure that we are making the kind of
- 20 analysis that taxpayers have a right to expect. So I will
- 21 look forward to OMB's guidance. I will look forward to your
- 22 input after that guidance comes out.
- 23 If all three of you would make a note that we will be
- 24 following up with you to get your take on the guidance, once
- 25 it is issued, if you think it is workable, if you think it

- 1 is going to make a difference, and we will direct a number
- 2 of questions that we have that we still have not had
- 3 answered yet today to you in writing. I thank all three of
- 4 you for being here today and for the hard work you are doing
- 5 on behalf of our Government.
- 6 [Additional statements for the record follow:]

- 1 [Whereupon, at 11:14 a.m., the subcommittee was
- 2 adjourned.]