

# **CONTRACTORS: HOW MUCH ARE THEY COSTING THE GOVERNMENT?**

March 29, 2012

Senator Claire McCaskill

## Opening Statement

This hearing will now come to order.

The title of this hearing is “Contractors: How Much Are They Costing the Government?”

As we’ve discussed many times in this Committee and also in the Armed Services Committee, where I chair the Readiness Subcommittee, government agencies are increasingly reliant on contractors to perform services. Contractors now perform many of the duties which most Americans would assume are done by government employees, from managing and overseeing contracts and programs to developing policies and writing regulations. Contractors sit side by side with federal employees and perform many of the same tasks.

Spending on service contractors has outpaced spending on federal employees. The cost of service contracts has increased by 44% over the last ten years, from \$181 billion to \$324 billion, while in the same time period, spending on federal employees has increased by 34%, from \$170 billion to \$229 billion.

As with any expense of taxpayer dollars, we have to ask whether the government is getting the most effective use out of those dollars. It would seem intuitive then that when deciding whether to contract out a function, the government would figure out how much it will cost, and whether it might be cheaper for federal employees to do it instead.

For too many years now, the federal government has relied on assumptions and flawed studies to support those assumptions. Without good data about the costs of using contractors

instead of federal employees, the government simply doesn't have the information it needs to make smart choices.

For those of us who track these issues closely, we've seen many studies over the years that compare the costs of federal employees to the private sector and concluded that the private sector is more efficient. However, contractors are not quite comparable to the private sector. Contractors do work for the government, and some of that work does not exist in the private sector. The overhead costs for contractors may not be the same as in the private sector, and this includes situations where contractor employees work alongside federal employees using government-provided equipment.

If we're going to honestly assess whether contractors are more or less expensive for the federal government than using federal employees, then we need to look at the costs of contractors, not just the costs within the private sector. A report issued by the Project on Government Oversight in September 2011 was the first study to actually attempt to compare the costs of federal employees and contractors. It found that in some instances, contractors may be paid, on average, more than 1.83 times what federal employees are paid to perform the same work. I think this report was a worthwhile and needed effort, but, as the authors of the report concede, it is hampered by inadequate and inaccurate data.

For the government to make smart contracting decisions it needs more than assumptions. If the government is going to have the best and most efficient mix of federal employees and contractors to perform its work, it needs to be able to assess the true costs of both outsourcing and insourcing. This analysis should include overhead costs, how contractor compensation

should be reimbursed, and when some government functions are inherently governmental or critically impact an agency's core mission.

I am concerned that the one agency charged with management in the federal government doesn't seem to be providing enough guidance on this issue. The Subcommittee did extend an invitation to the Office of Management and Budget to be here today, but unfortunately OMB declined to attend. It would seem that OMB is in the best position to provide government-wide guidance on how agencies should look at cost and, most importantly, how agencies can gather the data to do that analysis. I understand that OMB is planning to issue some cost guidance within the next 60 days. If this is the case, I look forward to seeing it and hope that it will take into account the issues we discuss today. I also plan to address questions for the record to OMB and will make those answers public.

I want to say that two of the agencies represented here today, the Army and the Department of Homeland Security, are making commendable strides on cost and data issues. The work that Army has done on its contractor inventory is setting a standard for the rest of the Department of Defense, and the Department of Homeland Security's Balanced Workforce Strategy tool is a promising approach to making contracting decisions. I think both of these efforts deserve further discussion by both Congress and the Administration.

Today's hearing is an opportunity to discuss these efforts and to consider other possible tools that the government can use to make smart, cost-effective contracting decisions. We need to develop a best practices model to help determine when contracting will save taxpayer dollars. We also need to start collecting the data that will help us make those determinations. Assuming that contractors cost less and that federal employees cost more doesn't help this discussion because frankly we don't have any idea whether that assumption is true or false. Assumptions

are especially costly in our current budget climate and could undermine efforts to save taxpayer dollars.

I thank the witnesses for being here today and I look forward to their testimony.