

Post-Hearing Questions for the Record
Submitted to
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From Senator McCaskill
“Contractors: How Much Are They Costing the Government?”

Tuesday, March 29, 2012, 10:00 A.M.
United States Senate, Subcommittee on Contracting Oversight,
Committee on Homeland Security and Governmental Affairs

Question: You described in your testimony that the Balanced Workforce Strategy (BWS) Tool was to assure control of DHS’s mission. It is obvious that this tool has been a success in determining and evaluating critical areas of the DHS’ mission that had been in the control of contractors.

Are you able to collect data using the BWS Tool? If so, how is DHS using this data?

Response: The Balanced Workforce Strategy (BWS) Tool collects a variety of data for each analysis, including identifying information for the function (or contract); the Component’s responses to questions concerning the function; the suggested ratio of federal employees to contractors; and the Component’s reaction to the recommendation. The Component is supplied with all of the data and summaries for each analysis to assist it in making final recommendations for how to best source a function.

The current version of the BWS Tool was built quickly by DHS to ensure that all Components could analyze functions in an automated, systematic, and documented way. At the present time, data associated with specific analyses must be aggregated manually in order for trends across analyses to be examined. As part of a continual BWS process improvement effort, manual reviews of the aggregate data occur. An upgrade to the BWS Tool platform is slated for FY 2013 that will include more robust data archive and reporting capabilities.

Question: Are you reviewing any prior contracts under this tool or only new contracts?

Response: When the BWS launched in 2010, DHS asked Components to analyze contracts already in place. In September 2011, DHS launched a pilot requiring BWS reviews for pending contract requirements from a limited number of special interest product service codes (PSCs).

Question: To what extent is DHS sharing its work on the BWS with the Office of Management and Budget or other federal agencies?

Response: Since the launch of BWS in 2010, DHS has shared its work extensively with the Office of Management and Budget (OMB) and other federal agencies. In 2010, DHS met with the OMB Office of Federal Procurement Policy (OFPP) Administrator to discuss the BWS process and demonstrate the BWS Tool. In 2011, the Associate Administrator of OFPP attended the 2011 biannual Balanced Workforce Strategy event, delivering a keynote address to

Component representatives responsible for implementing the BWS process. DHS continues to provide OMB staff with regular updates on our progress.

In FY 2011, DHS conducted over 15 briefings with officials from federal agencies, including the Office of Personnel Management, the Government Accountability Office, the Congressional Research Service, the Department of Energy, the Department of Defense, and Senate and House of Representatives committee staff.

In FY 2012, DHS has already briefed the Department of the Interior and the Department of Defense. Additional briefings are pending with representatives from the Departments of the Treasury, Navy, Army, Justice, and Veterans Affairs.

Question: In your testimony you described a data call regarding the cost savings from an insourcing effort, converting contractor positions to federal civilians, implemented by DHS.

Approximately how many contractor positions were converted in fiscal year 2010 and 2011, and what were the resulting savings?

Response: Past estimates from Components indicate approximately \$28 million in cost savings as a result of the 2009-2010 insourcing efforts.

Currently, the Office of the Chief Human Capital Officer is working closely with the Office of the Chief Financial Officer to source and validate updated insourcing-related cost savings from Components. DHS will provide the Committee with new data for the record as soon as this effort is complete.

Question: Are there planned steps to use these analyses to inform workforce decisions?

Response: DHS Components use the three-step Balanced Workforce Strategy (BWS) process to determine the proper balance of federal employees and contractor personnel for programs and functions. After Components “Identify the Work” and “Analyze the Work” (which may include Cost Comparison Analysis), they move on to the final step of the process, “Implement the Sourcing Decision.” If the BWS analysis reveals that the workforce for a function requires rebalancing, numerous Component stakeholders from across lines of business must collaborate to implement the change.

The BWS process is designed to analyze workforce balance on a function by function basis; no plans exist to use aggregate cost savings information to influence decisions concerning the workforce for specific functions.

Question: How are potential cost savings considered relative to other concerns when deciding whether to contract for services?

Response: The primary aims of the BWS process are ensuring adherence to the law and minimizing potential risk to the DHS mission. When analyzing a function using the BWS process, the Component first considers the issue of mission control, and if it is determined that

either federal employees or contractors would be suitable to perform a function, the Component must then consider cost to DHS, as prescribed by section 736 of the *FY 2009 Omnibus Appropriations Act*, P.L. 111-8. In such cases, the DHS Balanced Workforce Strategy guidance mandates that Components perform Cost Comparison Analysis to determine the most efficient sourcing decision.

Question: What methodology, including assumptions, does DHS use to determine such savings?

Response: When performing a Cost Comparison Analysis for a function, the Component first calculates the cost of federal workers using the DHS Modular Cost Model. This model incorporates a variety of factors to describe the fully-loaded cost for a federal employee.

On the contract side, the cost of the current contract is used, including the cost of contract oversight. If a new requirement is being reviewed, an Independent Government Cost Estimate serves as the basis for comparison.

Question: What data does DHS use to compare the costs of contractors to federal employees?

Response: When performing a Cost Comparison Analysis for a function, the Component first calculates the cost of federal workers using the DHS Modular Cost Model. This model incorporates a variety of factors to describe the fully-loaded cost for a federal employee. There are several key data elements used for the federal side, including items such as grade level and geographic location.

On the contract side, the cost of the current contract is used, including the cost of contract oversight. For fixed price contracts, the total cost is used. For other contract types, invoices are reviewed. If a new requirement is being reviewed, an Independent Government Cost Estimate serves as the basis for comparison.

Question: Does DHS have any plans to move forward to start collecting contractor data, similar to the Army's contractor inventory, and to start looking at costs?

Response: By the end of FY 2012, DHS will have the ability to more accurately collect cost data for service contracts consistent with the requirements of FAR Case 2010-010 Service Contract Reporting Requirements. The FAR change requires contractors to report the total dollar amount invoiced for services and the number of Contractor direct labor hours expended on the services performed during the previous Government fiscal year. This information will be used to analyze the cost of contractor support for services at the same time DHS prepares its annual service contract inventory. At this time, DHS does not intend to apply the Army methodology, but to adhere to guidance promulgated for use by domestic agencies.

Question: Is a DHS agency permitted to rely on federal civilians over contractors for purely cost reasons?

Response: If a DHS Component's responses to the Balanced Workforce Strategy (BWS) Tool questionnaire indicate that a function can be performed by either the public or private sector without risk to mission control, the Component must then consider cost to DHS. The DHS

Balanced Workforce Strategy guidance mandates that Components perform Cost Comparison Analysis to determine the most efficient sourcing decision.

Question: Do you know of any DHS agencies comparing costs before awarding contracts for services?

Response: As part of the ongoing pilot requiring BWS reviews for pending contract requirements from a limited number of special interest product service codes (PSCs), Components must consider cost if the either federal employees or contractors would be suitable to perform a function.

In general, the DHS acquisition planning process requires that program officials and acquisition specialists regularly consider issues of cost, which can include performing thorough market research and creating Independent Government Cost Estimates.

Question: During the hearing you stated that you would coordinate with your colleagues in the interdisciplinary group at DHS to determine how much savings could be had from lowering the contractor reimbursement cap from the FY10 level of \$693,951 to \$400,000, or the same level as what the government pays the President of the United States.

How much money would this lower cap save at DHS?

Response: DHS is unable to provide a reasonable estimate of the savings that DHS would realize should the FY 2010 executive compensation be lowered from the current cap of \$693,951 to \$400,000, because we have insufficient information. A senior executive at a company may support multiple contracts that provide supplies and services to multiple customers. In accordance with FAR 52.204-10, prime contractors and first tier subcontractors must report the total compensation of their “five most highly compensated employees in management positions at each home office and each segment of the contractor.” However, the information reported does not include how much of the reported salary should be allocated to commercial customers, allocated to other federal customers or allocated to DHS contracts. Additionally, the cap on executive compensation limits the price of only some contracts types (generally, cost type and a small portion of fixed-price type contracts). Short of performing extensive audits of each company with which DHS contracts, there is no way at this time to determine what portion of the savings gained from reducing executive compensation would be allocated to contracts where there would be a price reduction or to determine how much of the executive compensation should be allocated to DHS contracts.