

TESTIMONY OF
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PROFESSIONAL SERVICES COUNCIL
BEFORE THE
SUBCOMMITTEE ON OVERSIGHT OF GOVERNMENT
MANAGEMENT, THE FEDERAL WORKFORCE, AND
THE DISTRICT OF COLUMBIA
HOMELAND SECURITY AND GOVERNMENTAL
AFFAIRS COMMITTEE
UNITED STATES SENATE
“BALANCING ACT:
EFFORTS TO RIGHT-SIZE THE FEDERAL EMPLOYEE-
TO-CONTRACTOR MIX”

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Introduction

Chairman Akaka and Ranking Member Voinovich, thank you for the invitation and the opportunity to appear before you today to share our perspective on one of the most important and misunderstood issues facing the federal government—balancing the multi-sector federal workforce. This hearing is both timely and welcomed.

My name is Alan Chvotkin and I am the Executive Vice President and Counsel at the Professional Services Council (PSC), the nation's largest organization of firms providing professional and technical services to the federal government. Our nearly 350 member companies are among the leading providers of information technology, engineering, scientific, social, international development, operations and maintenance and other services to virtually every agency of the federal government. Our membership is also uniquely diverse—more than 60 percent of our member firms are small- or smaller mid-tier companies and many are veteran-, woman-, and/or minority-owned firms.

Overview

As you well know, the debate about the right balance between federal employees and federal contractors to maximize the government's ability to meet its missions is not new. But, over the past 18 months, the issue has received a great deal of attention as the new administration has undertaken significant efforts to insource work, particularly, but not exclusively, at DoD. These issues also received a great deal of executive branch and congressional attention under Presidents Bill Clinton and George W. Bush, as those administrations sought to outsource more government functions for private-sector performance.

Although the size of the federal workforce is growing, there has been too little attention to targeted hiring to permit the federal government to restore core capabilities across a wide range of functions, with a special emphasis on the critical acquisition workforce. Over the past several years, Congress has pushed federal agencies to undertake comprehensive workforce skills competency analyses and strategic workforce planning. Regrettably, agency efforts have been far too ineffective.

Agency Workforce Planning

An organization's primary workforce objective must be to have the right number of people at the right place with the right skills at the right time to fulfill the organization's current and future missions. Effective human capital planning requires three basic elements. The first element, and by far the easiest to execute, is "knowing where we are." Agencies must have a thorough understanding of the current skills requirements for existing positions, and a thorough understanding of how the skills and capabilities of the current workforce match those required skill sets. To its credit, the Defense Department three years ago undertook a detailed competency survey for selected members of its acquisition workforce. OMB's Office of Federal Procurement Policy conducted a government-wide, self-assessed, competency survey of the federal acquisition workforce in 2008.

The second element, and by far the most difficult to execute, is "knowing where we're going." This involves knowing what skills an agency needs in the future to meet its mission-essential requirements. This is not primarily a human resources issue, but an agency leadership issue. It

takes coordination with the White House and the Congress. I particularly commend the Federal Chief Information Officers Council's May 12, 2010 report titled "Net Generation: Preparing for Change in the Federal Information Technology Workforce."¹ This report captures extensive data on the current major federal information technology population and highlights the institutional changes that are resulting from both a changing workforce and rapidly evolving technology. The Department of Homeland Security's first ever Quadrennial Homeland Security Review (QHSR) identified five critical missions that the department must perform and offers a reasonable starting point for DHS to translate those priorities into specific skills requirements. As a result, the Homeland Security has acknowledged that it will need more than 1,000 cyber-security trained employees over the next three years. However, we know too little about other critical positions at other government agencies. For example, the Navy has a critical need for skilled marine engineers, but it has not disclosed the size of that skills gap. Similarly, USAID has identified a shortage of employees with skills in food security, an area vital to the agency's future mission focus. Although many federal agencies published strategic plans to provide a mission perspective that can serve as a foundation for such a workforce analysis, they often fail to identify the critical skills needed to execute the plans successfully.

If an agency doesn't "know where it is" with its workforce and skills, and doesn't "know where it is going" in terms of missions and workforce needs, then it is not possible to meaningfully execute the third element of workforce planning: "knowing how to get there!" As a result, what we often see is hiring for the sake of hiring and backfilling vacant positions without regard for whether the agency has a continuing need for those skills or that number of employees. It is possible that federal agencies have enough employee positions, but too many employees with the wrong skills and not enough employees with the right skills for the current and future missions of the agency.

There is no magic formula for determining the right mix of federal employees and contractors to meet mission needs. An agency must assess the total resources available to it to execute its mission, whether federal employees or contractors. That assessment should have but one goal: to ensure that the delivery of services and support of federal operations is done in a manner that best serves the interests of the American taxpayer. To be sure, certain skills – sometimes referred to as "inherently governmental functions" – should always only be performed by federal employees regardless of where those tasks are being performed government-wide. Other skills, sometimes referred to as "mission critical functions" – should ideally be performed by federal employees based on the agency's mission. For all other skills, the agency should carefully evaluate how to most efficiently and cost-effectively execute its work. Insourcing is merely one of several techniques an agency has available to meet its workforce needs – but it is not an end in itself. Regrettably, based on extensive examples we've collected, non-strategic insourcing is occurring regularly, from Maine to Ohio to California to Hawaii.

Inherently Governmental vs. Non-Inherently Governmental

As we consider the many aspects of workforce planning and the insourcing question, it is best to analyze the issues from two broad categories of work. The first category is work involving activities that must or should be performed by federal employees—such as inherently

¹ Available at: http://www.cio.gov/documents_details.cfm/uid/3F8464AE-BDBE-6B59-F19260278C0C2402/structure/IT%20Workforce/category/IT%20Workforce

governmental functions or those activities that are not inherently governmental per se, but are critical to an agency's ability to maintain control and direction of its missions and operations. Such work requires one set of strategic thinking and planning. The second, broader, category involves all other types of functions not in the inherently governmental realm, which requires a different set of process rules and strategic planning.

With respect to the first category, the rebuilding of critical federal workforce capabilities, in acquisition, program management, systems engineering and other vital functions is clearly needed. For a variety of reasons—including demographics, a cumbersome federal personnel system and the private sector's dominance of technological innovation—the government today does not have the requisite capabilities to effectively direct and manage its operations whether those operations are outsourced or performed inside the government.

As such, PSC has been a strong supporter of initiatives, such as that undertaken by the Secretary of Defense in April 2009, to focus on the hiring and development of thousands of professionals with those critical skills. In an April 2009 letter to Secretary Gates, we endorsed his initiative, but raised concerns about the challenges of implementation.² The Secretary set a goal of adding more than 35,000 professionals to the DoD workforce, most, but not all, of them in the acquisition field, including insourcing approximately 17,000 to 20,000 currently contracted jobs. Although this initiative will have, and is having, an impact on a number of our member companies, and although its effects are particularly difficult for small and mid-tier firms, we remain supportive of the Secretary's objectives.

Other agencies, including the Homeland Security, State and the US Agency for International Development are in the early stages of similar efforts and we have been working with them on their initiatives while raising cautions about their implementation.³ As you know, on March 31, 2010, the Office of Federal Procurement Policy published their proposed Policy Letter titled "Work Reserved for Performance by Federal Government Employees"⁴ The proposed policy is balanced, founded in sound management strategy rather than ideology, and provides a narrowly tailored single definition of "inherently governmental functions" as required by Congress and the White House. It also offers meaningful and relevant guidance to agencies in making the determination of what work, other than "inherently governmental functions," is best performed by federal employees and what is appropriate for contract performance. Crucially, the proposed policy requires agencies to develop a focused, strategic human capital plan to define the critical skills they need to meet their missions and ensure they have enough internal staff to maintain

² April 7, 2009 PSC letter to Secretary of Defense Robert Gates, available at: <http://www.pscouncil.org/AM/Template.cfm?Section=Insourcing1&TEMPLATE=/CM/ContentDisplay.cfm&CONTENTID=2322>

³ May 6, 2010 PSC letter to USAID Administrator Rajiv Shah, available at: http://www.pscouncil.org/AM/Template.cfm?Section=International_Development1&TEMPLATE=/CM/ContentDisplay.cfm&CONTENTID=5197;

March 9, 2010 PSC letter to Senators Lieberman and Collins, available at: <http://www.pscouncil.org/AM/Template.cfm?Section=Insourcing1&TEMPLATE=/CM/ContentDisplay.cfm&CONTENTID=4787>

⁴ 75 Fed. Reg., 16188-16196, 3/31/10, available at: <http://edocket.access.gpo.gov/2010/pdf/2010-7329.pdf>

government control of operations—a challenge of equal importance whether work is performed in house or under contract. We are still carefully analyzing the policy letter and collecting comments from our member companies. We intend to submit our comments to OFPP by their June 1, 2010 deadline.

Challenges Facing the Agencies

While these agency workforce efforts are important, significant challenges and questions remain and they need to be addressed immediately and continuously. Specifically, agencies should pay careful attention to the principles set forth in OMB's July 29, 2009 policy guidance⁵ as well as the March 31, 2010 proposed policy letter. In these policy documents, OMB makes clear that the agencies' highest priority must be to bring in-house any inherently governmental activities that may have been outsourced, followed by addressing any residual core set of capabilities that are essential to enable an agency to manage and control its operations effectively.

But OMB also explicitly states that not ALL critical activities, or functions closely associated with inherently governmental activities, must be performed by federal employees. Rather, OMB makes clear that once an agency is performing internally all of its inherently governmental functions and has adequate management capabilities to ensure control and direction over its missions and operations, the decision as to whether to perform the work inside or by contract becomes, in effect, a sourcing decision.

Despite being a valuable document for assisting agencies in identifying critical needs and achieving an accurately blended workforce, the OMB guidance failed to appropriately drive agencies to consider a wide range of factors in making their sourcing decisions for these activities, such as:

- What are the TOTAL costs to the taxpayer that will accrue from an insourcing or outsourcing decision?
- What is the likelihood that the government can not only hire the requisite skills but keep those skills current and retain them over time and what are the costs associated with doing so?

To date, we have not seen a single case of insourcing where the government has even attempted to truly capture the total cost implications of its decisions. In fact, except for a January 29, 2010 initiative by the Defense Department to develop a rudimentary cost comparison methodology process,⁶ few other cost comparison models exist or have been publicly released.⁷ Furthermore, there are a number of other factors that agencies must consider, including, but not limited to, the extent to which the work itself might change and evolve over time, thus requiring slightly or very

⁵ July 29, 2009 OMB Memorandum for the Heads of Departments and Agencies, "Managing the Multi-Sector Workforce," available at: http://www.whitehouse.gov/omb/assets/memoranda_fy2009/m-09-26.pdf

⁶ January 29, 2010 DoD Directive-Type Memorandum (DTM) 09-007, "Estimating and Comparing the Full Costs of Civilian and Military Manpower and Contract Support," available at: <http://www.dtic.mil/whs/directives/corres/pdf/DTM-09-007.pdf>. The DTM provides no systemic process to capture and accurately compare public and private sector costs. Rather, the DTM is an aggregated set of cost elements that does not provide a cogent methodology to enable appropriate and consistent implementation.

⁷ For example, the Army's AMCOS Lite model is restricted.

different skills. This is an important element in the decision process because one of the advantages of contracted work is the ability to continually adjust and evolve the specific capabilities brought to bear under the contract. If the work were being performed internally, the only answer would be to hire more people with those evolving and changing skills.

Finally, the government needs to assess the current status of the organization involved. What are the organizational demographics and what will its hiring needs be five or ten years from now—above and beyond the positions being considered for either insourcing or outsourcing? What are the agency's current vacancy rates and why have they not been able to fill already existent, funded, positions?

All of these questions are key elements to strategic human capital planning and smart management. And all must be addressed once an agency has completed its initial higher level workforce and mission reviews and assessments.

Department of Defense Insourcing Efforts

As I noted earlier, those principles are key to success in current and future efforts to most effectively balance and align federal agency workforce capabilities. But when it comes to considering insourcing or outsourcing the remaining activities of government, there are other considerations that must be, but routinely are not, considered.

To date, the Department of Defense has had the most robust insourcing activities of any agency in government. And thus, while this hearing is properly focused across the entire government, it is important and helpful to review what we know today about the Defense Department's efforts and what lessons we can and should draw from them.

First, according to DoD officials, as of March 2010, only 1/3 of the positions identified for insourcing in DoD fall into the "inherently governmental" or "critical skills" categories that are the focus of the defense secretary's initiative. The remaining 2/3 are positions for which cost assessments and other considerations are supposedly required – meaning that, by definition, DoD has identified them as positions for which the department has the option of performing them by contract or in-house.

Second, as documented by various sources, including the Air Force Materiel Command's January 2010 internal guidance⁸ after the secretary April 2009 workforce initiative, each of the military departments and some key defense agencies were given specific quotas to meet.

Third, regardless of the nature of the work being performed, and regardless of whether an insourcing involves individual positions or entire contracts with defined deliverables, the military services have been told that for each position insourced, the department has already taken a 40% savings. Although the DoD Comptroller's fiscal year 2009 Resource Management Decision (RMD) that established this astounding figure remains classified, and although DoD has not been willing

⁸ Air Force Materiel Command (AFMC) Resource Management Decision (RMD) 802, "In-Sourcing Implementation Guidance," January 2010, available at: http://www.peer.org/docs/dod/4_13_10_USAF_Materiel_Command_In-Sourcing_Implementation_Guidance.pdf

to share the analysis that led to it, the RMD is the primary driver behind almost all insourcing activity to date at DoD. This, too, is clearly documented in, among other things, the AFMC guidance.

Fourth, it is increasingly clear that the alleged savings resulting from insourcing are being determined solely by replacing fully burdened contract costs—which include salaries, benefits, overhead, profit, any and all equipment, travel or other expenses associated with the work being done—with nothing more than immediate personnel costs, including some limited benefits costs. As noted in the Frequently Asked Questions portion of the AFMC guidance:

Question: Did you consider any non pay tail costs?

Answer: No.

In short, while the objectives of the secretary's workforce initiative remain both appropriate and important, implementation in the field has been far from disciplined and has increasingly turned into a numbers game to meet the personnel and dollar value quotas each service has been given. Indeed, the so-called savings from this insourcing have already been baked into the current and future year budgets of the department without benefit of real analytical rigor. For positions that really must be performed by federal employees, cost is not and should not be a primary concern. But for all other positions, cost, performance, and more must be at the core of the decision process. Yet today, at DoD, that does not seem to be the case.

As a result, we have witnessed thousands of contractor positions being insourced, resulting in potentially thousands of contractor employees losing their jobs, the very survival of some small businesses threatened, and perhaps worst of all, for the taxpayer an all but certain increase in costs to DoD.

For example, the Air Force has decided to insource simulator and instructor work at six of seven training bases. Since no one suggests this work falls within the secretary's workforce goals, the decision has been based on cost. Yet the Air Force's own documents show that the savings they expect are approximately POINT TWO PERCENT—a little over \$400,000 against a total five year contract cost of over \$220 million dollars—and that does not include key overhead, training, and other costs the government will incur. Worse, the cost assigned to the contract includes contract elements that were never executed—those elements alone greatly exceed any cost savings the Air Force has estimated will result. Finally, even though the Air Force is not projecting any real cost savings, they are planning to do the work with ten to fifteen percent fewer people, which by definition means the per person costs of doing the work inside the government are substantially higher than they are when the work is being done under contract.

Here are a few of the scores of examples of the current trend we have collected:

- A small woman-owned business in New York State saw its only federal government contract (for food services at the NY State Militia's Camp Smith) insourced on the basis that doing so would result in savings of fifty percent. In fact, the "savings" are being achieved by having active duty guardsmen do all of the cooking (a cost borne by DoD but not allocated to the base's operating budget and that does not even account for the recruiting, training

and retention costs associated with Guard duty) and overseen through a new management contract with two individuals (but the contract, although funded by DoD is run through the NY State Militia) that does not get “charged” to the Camp Smith budget and are thus excluded from the cost comparison.

- A small business saw both of its routine base operating support services contracts insourced in the Fall of 2009, again with the claimed justification of substantial cost savings, although there was no cost analysis we are aware of and/or on the basis that some positions (including routine administrative and other support) were “reclassified” to “critical” for government performance. As a result, after 17 years of service, the company has gone out of business. All twelve of the 28 employees who converted to government employment did so at higher wages and benefits than what the contractor was obligated to pay under the Labor Department’s Service Contract Act prevailing wage determinations. Despite the low margins associated with such work, and the generally common overhead expenses incurred whether the work is performed in-house or by contract, the command continued to assert that it received substantial cost savings. The employment future of the remaining 16 employees remains in question.
- A woman-owned small business operating in ten states and on bases overseas has had positions targeted for insourcing at a number of installations. None of the work being performed was identified as “inherently governmental” at the time of its award, and in many cases, work was awarded to the firm on the basis of significant cost savings to the government. Yet, the government is now asserting that it can perform the same work at less cost but has offered no complete cost comparison evidence to back up its claims. As a result, the small business could lose as much as 1/3 of its workforce. And in a final, cruel, irony, those American employees who were working for the company at U.S. military facilities in Europe are now unemployed since international agreements disqualify them from immediately converting to U.S. government-employment status.

Finally, at a time when the President and Congress have appropriately focused on ways to drive more competition as the key to improving efficiency and performance, in federal procurement, health care and more, it is remarkable that, within DoD, competition is not even being considered, even though the primary goals of much of the insourcing is to save money and improve performance. In other words, good paying private sector jobs as well as the proven and widely accepted benefits of the competitive marketplace are being almost entirely eschewed in favor of an insourcing mythology.

OMB Can Steer the Ship Back On Course

Mr. Chairman, I realize that my examples have been heavily focused on DoD but DoD is doing the most insourcing. There is much to be learned, and improved upon, from DOD’s current efforts so that the civilian agencies do not make similar mistakes.

To its credit, OMB has taken a different tack. In addition to providing the beginnings of a helpful and strategically thought out human capital policy, OMB has made clear that for those positions that could be performed by government or private sector personnel, competition is a vital option to be considered.

This is particularly important as we work with agencies that are struggling with defining their appropriate workforce balances and the relative costs of performing work organically or by contract. We are concerned that a mythology has been allowed to blossom unchecked that the use of contractors is more expensive than hiring government employees or that insourcing work will automatically improve performance. We are concerned that, in several agencies, prominently including State and USAID, these mythologies may be turning into policy. However, the objective evidence strongly suggests otherwise. From the examples at DoD that I cited, to the GAO and CBO reports on the cost of certain contractors performing work in Iraq and Afghanistan—reports that concluded that it was sometimes an order of magnitude less expensive to perform that work under contracts—it is eminently clear that the presumption is indeed a myth. Moreover, as we have seen at DoD, the means by which agencies are determining relative costs are incomplete, inaccurate and almost always far too limited.

Recommendations

As such, for work that is being considered for insourcing and which does not involve inherently governmental functions or residual core skills such as those referenced in the most recent proposed OMB policy, ***far greater analytical rigor is needed***. That rigor should require agencies to perform in- depth cost analyses that assess all identifiable costs associated with the work and positions involved. That rigor should also require agencies to use competitive procedures to ensure that, before making a precipitous decision, they have full knowledge of what would be possible to achieve under contract. In addition, that rigor should require that agencies do all of this in a completely transparent and accountable way. To date, in DoD, any analyses behind the Resource Management Decision remain hidden, and we are unaware of any process being developed or being used in the civilian agencies to make these determinations. It is easy enough to determine the true, total cost of contracted work by looking at the invoices and by assessing the government man hours that go into managing and overseeing a specific contract. However, for work performed inside the government, those costs are often scattered across an agency's accounts, often difficult to quantify and allocate, and sometimes prove to be the responsibility of an entirely different agency, such as is the case with OPM and their responsibility for post-retirement benefits and programs.

Conclusion

Insourcing for the sake of insourcing is no more intelligent, no more effective, and no more defensible than outsourcing for the sake of outsourcing. Nor should government accept repeating the mistakes of past outsourcing efforts when implementing insourcing efforts. OMB has taken strides to craft appropriate guidance to balance the workforce at federal agencies, yet all the tools to conduct comprehensive insourcing decisions have not been established. Where the guidance exists, we should demand that it be followed, and where the tools are insufficient or non-existent, we should work expeditiously to repair or create them. As taxpayers, we deserve no less.

That concludes my statement. I look forward to answer any questions you may have.