

*The Voice of the Government Services Industry*

The Honorable Robert Gates  
Secretary of Defense  
United States Department of Defense  
1000 Defense Pentagon  
Room 3E880  
Washington, DC 20301-1000

Via Fax: 703-571-8951

May 3, 2010

Dear Secretary Gates:

On behalf of the nation's largest organization of government services firms, I am writing today to express our growing concerns with DoD's implementation of its insourcing initiative. While we fully support the department's efforts, as outlined by you in April 2009, to rebuild critical skills and ensure DoD has the capacity to effectively manage and control its operations, the evidence is growing that, in the field, the initiative is not being implemented as designed or in a manner that best serves the interests of the American taxpayer. Indeed, what you conceived and set forward as a vital, strategic human capital initiative is rapidly devolving into a quota-driven exercise based on highly questionable cost assumptions with no validation, oversight, or other verification that the intended results are being achieved.

Specifically, we are seeing the insourcing of an increasing number of routine commercial activities that do not fall within the critical skills areas targeted by your initiative and for which "savings" are being claimed that clearly do not include a wide range of significant costs to the taxpayer. Indeed, as numerous documents demonstrate, from a budgetary perspective, the components are simply eliminating fully burdened contract costs with less than fully burdened personnel costs. Moreover, market competition, which the president has repeatedly identified as the key to improving performance and reducing costs, is not even being considered in DoD's and the components' planning. Rather, for work that does not fall into the categories you identified as being critical to the department, DoD is substituting a sole-source model for a competition-based model of management, despite the known benefits that can and are created through a competitive process.

In keeping with your initiative, we understand that a classified Resource Management Directive (RMD 802) was issued that declared that the department would assume 40% in savings for every position insourced. However, although the analysis to support this extraordinary claim has never been released publicly, it is increasingly clear that it does not reflect a truly accurate figure.

As the Air Force Material Command noted in its January guidance:

*"One key programming detail in RMD 802 was a 40% savings reduction taken to pay other OSD level bills. For every contract dollar decreased, 60% was returned for civilian pay for the conversions and 40% was retained by OSD. This assumes a 40% savings for every contract-to-civilian conversion; AMC's historic savings in past cycles was only (approximately) 20%." (emphasis added)*

Even the 20 percent figure identified in the AFMC Guidance is not truly a historic savings from insourcing. Rather, it is the average savings DoD has historically experienced by holding competitions for these kinds of services. Even more compelling is the fact that the only significant longitudinal studies conducted around competitive sourcing determined that

contracted work achieved and retained savings of over 30 percent on average, while long term in-house savings could not be determined.

In other words, by design, DoD is comparing fully burdened contract costs versus government labor costs, and also by design, is not considering the broad scope of other costs, borne by the taxpayer, and which are inextricably associated with the federal employee infrastructure (overhead, lifetime benefits, personnel support and systems, pay support, and systems, management/oversight, training etc.). This is explicitly stated later in the "Frequently Asked Questions" section of the AFMC guidance:

*"Q. Was there a non-pay tail added in for each new civilian authorization to account for supply, training, travel, and other costs?"*

*A. No."*

Moreover, recently obtained documents show that in at least one significant insourcing initiative, the actual savings identified by the Air Force was only one-fifth of one percent (\$500,000 against a total contract cost of over \$220 million), and even that "savings" did not include accounting for training, post retirement benefits and costs, and even a contract element that was never exercised but which was nonetheless attached to the presumed contract cost (and which, in and of itself, exceeded the total savings identified by the Air Force).

The January 2010 Directive Type Memorandum (DTM) issued by CAPE Director Fox was designed to provide guidance to the field as they make their comparative assessments of cost. However, our analysis suggests that the DTM also fails to meet the test of completeness or accuracy. Of course, this DTM was not available for use in any insourcing analyses prior to February 2010, nor was it available for use in the creation of the RMD that serves as the baseline for all current DoD insourcing activity. Still, the DTM makes assumptions that are not analytically supportable, adds costs to contracted activities that should also be included for internal performance, ignores other costs to the government entirely, and more. Finally, neither the RMD nor the DTM address the very real differences between insourcing individuals and insourcing entire contracts or activities.

As a result of this lack of process discipline, we are witnessing thousands of contractor employees, many of them members of a union and/or employees of small businesses (some of which face the potential of literally going out of business), having their jobs terminated, in many cases leaving the contractor employee without work. In a number of areas, the department also faces the very real possibility of losing access to vital expertise and experience as employees opt to not accept government positions. And we are seeing the spirit, and sometimes the letter, of merit systems hiring, veterans preference hiring, and the sound principles of business and workforce integrity commonplace in the commercial market, increasingly ignored. Moreover, for some of our union members, the government wage grades for the work they perform are lower than the collectively bargained wages and benefits they now receive. Those employees face potential wage and benefits reductions as a result of insourcing, if they decide to compete for federal positions. As such, some purported "savings" are being achieved at the expense of not only mission excellence, but also working men and women.

In short, we are deeply concerned that because the assumed "savings" are being taken out of the budget immediately (and appear to be overly optimistic), and because individual components of the department have been given insourcing quotas (based on either contract dollar value or a number of positions, or both), the focus too often has been placed on meeting those numeric quotas rather than building critical workforce capabilities or ensuring the appropriate expenditure of government funds. Further, at a time when well-paying, sustainable, private-sector employment is widely viewed as the key to our economic recovery, one must question the arbitrary insourcing of contracted work that is not so critical as to require its performance by government employees, without benefit of any meaningful competitive process.

We strongly support your efforts to increase the department's internal capabilities. It is clearly important that the department rebuild its workforce and ensure it has the critical, organic skills necessary for it to direct, manage, and oversee its vital missions. But beyond those positions, where cost savings are a significant or principal factor in the sourcing decision, it is equally important that sourcing decisions be based on analytically sound data and the increased use

of competitive tools. And because we have been informed that the Department's current data show that fully two thirds of the positions identified for insourcing thus far fall into that category, the time to act is now. As such, we ask your assistance in ensuring that DoD injects meaningful, transparent and fully accountable discipline into its insourcing decision making, including, but not limited to, the greater use of competition to drive efficiencies and full, lifecycle cost accounting and oversight for any internal cost assessments that are made.

Thank you for your time and consideration.

Sincerely,

A handwritten signature in blue ink, appearing to read "S Soloway". The signature is stylized with a large, circular initial "S" and a long, sweeping underline.

Stan Soloway  
President & CEO