



OFFICE OF THE UNDER SECRETARY OF DEFENSE

4000 DEFENSE PENTAGON
WASHINGTON, DC 20301-4000

PERSONNEL AND
READINESS

SEP 2 2009

The Honorable Robert J. Wittman
U.S. House of Representatives
Washington, D.C. 20515

Dear Representative Wittman:

Thank you for your July 31, 2009, letter to the Secretary of Defense expressing concerns regarding the Defense Department's plans for in-sourcing new and contracted out functions. Since 2001, estimated full-time equivalents associated with service contracts have grown from 26 percent of our workforce, to 39 percent. The Department is in the process of restoring a more well-reasoned balance between its government personnel and contracted services.

Your concerns are important and provide us with an opportunity to explain how the Department's plans for in-sourcing are being used to reduce costs to the American taxpayers, strengthen control of critical functions, lower risks to our military personnel, and establish and maintain essential skills and capabilities. Moreover, in-sourcing is helping the Department to increase the capability and capacity of the Defense acquisition workforce. Our response to your concerns is enclosed.

We appreciate the support of Congress as we proceed with our plans to reshape our multi-sector workforce. A similar letter is being sent to the other signatories of your letter.

Sincerely,

A handwritten signature in black ink that reads "Gail H. McGinn".

Gail H. McGinn

Deputy Under Secretary of Defense (Plans)
Performing the Duties of the
Under Secretary of Defense
(Personnel and Readiness)

Enclosure:
As stated



Response to the July 31, 2009, Letter to Secretary Gates
on In-sourcing within the Department of Defense

1. In your letter, you inquired about the total number of positions which will be in-sourced and the impact this initiative is having on the Department's budget.

1.1. On April 8, the Department established in-sourcing goals for hiring around 33 thousand new civil servants over the next five years to perform contracted functions. The Department expects this to result in savings of approximately \$900 million in FY 2010 alone. Although the Department recognized that execution of the goals would be a challenge, the consensus was that the goals could be achieved and even exceeded. In all cases, DoD Components are reporting that they are on track to meet or exceed their FY 2010 goals.

1.2. Since section 324 of Public Law 110-181 (P.L. 110-181) precludes the Department from setting limits on what can be in-sourced, the Department's in-sourcing goals are considered a starting point. As stated in our May 28, 2009, guidance, DoD Components are required to review all contracted services for possible in-sourcing as part of a total force management strategy.

2. In your letter, you also stressed the importance of addressing the full costs of operations when conducting cost analyses that support in-sourcing decisions. The Department is a strong advocate of proper stewardship of the taxpayer's dollars and believes that the full costs should be assessed.

2.1. The Department's in-sourcing guidelines are governed by section 324 of P.L. 110-181. Although this statute does not require the Department to consider cost when deciding to in-source contracted functions, the April 4, 2008, guidelines that implemented this statute require that a cost analysis be performed if both government and private sector contractors are being considered for performance of the function. These guidelines also state that cost analyses must address the full costs and provide "like comparisons" of costs (e.g., overhead, facilities, equipment, supplies, health and retirement) that are of sufficient magnitude to influence the final decision on the most cost effective source of support.

2.2. As stated in our April 4, 2008, guidelines, this approach to in-sourcing was based on requirements in 10 U.S.C. 129a. The Defense Department's approach is also consistent with in-sourcing guidance in the July 29, 2009, Office of Management and Budget memorandum on "Managing the Multi-Sector Workforce." By considering the full costs of performance, the Federal government helps ensure that the taxpayer's fiscal interests are appropriately considered.

3. Your letter inquired about the availability of OSD PA&E's business rules for conducting cost analyses.

3.1. The Department expects to issue its business rules for estimating and comparing the full costs of military, DoD civilian, and contract support in September. These business rules will provide greater consistency in how the Department conducts costs analyses in support of in-sourcing actions.

3.2. However, cost is not a deciding factor in all in-sourcing decisions. The Department is required to in-source functions that are found to be inherently governmental; that are exempted from private sector performance due to law, Executive Order, or international agreement; or that are needed to comply with 10 U.S.C. 129a with regards to military requirements and other needs of the Department. This includes in-sourcing of unauthorized personal services and in-sourcing of functions that are needed to maintain control of missions and operations or that are needed to establish or build internal capacity to maintain control of missions and operations. This often includes functions that are closely associated with inherently governmental functions. These types of in-sourcing actions are not predicated on cost.

4. The Department shares your view that concrete instructions, communication, and transparency are essential to the success of this initiative. The Department's April 4, 2008, in-sourcing guidelines have been in place for over a year and were the basis for initial in-sourcing actions. Shortly after the announcement of our in-sourcing initiative, the Department issued its May 28, 2009, guidance which incorporated "lessons learned" from initial in-sourcing actions. At the same time, the Department held conferences, working group meetings, and seminars to foster discussions, share best practices, and build on lessons learned. The Department is also committed to improving its inventory of contracted services required by section 807 of P.L. 110-181 that is used to identify contracted services that might be appropriate candidates for in-sourcing. In addition, each of the DoD Components has designated an official with responsibility for oversight and management of their in-sourcing program and has developed a FY 2010 In-sourcing Plan. Another round of meetings with the Military Departments and other Components is underway to ensure that their plans and efforts achieve the right outcomes.

5. Your letter stressed the need for a balanced approach to in-sourcing that is based on strategic assessments of the total workforce and serves the best interests of our military.

5.1. The Department agrees that strategic assessments of the total workforce are important to many in-sourcing decisions. However, many in-sourcing decisions are most appropriately made at the local level based on the type of work performed, the manner in which the work is performed, the risk to local operations, and the full costs to the Department. These in-sourcing decisions entail the "best judgments" of local officials and are guided by legal and regulatory requirements. They may include in-sourcing of

functions that were initially contracted and subsequently found to be inherently governmental or entail unauthorized personal services arrangements; or are needed for proper oversight and control of local government operations.

5.2. As the Department enhances its understanding of total workforce manpower and contracted services, Defense officials at the headquarters level will be in a better position to review the total workforce (military, DoD civilian, and contractor support) Defense-wide and assess whether too much of a Defense operation has been contracted. In many cases, decisions to contract critical support services may appear appropriate at the local level but, when viewed strategically, represent a high risk to military operations or impede the Department's ability to develop strategic human capital plans to grow and maintain essential skills and capabilities.

6. You also stressed the need to give adequate consideration to American businesses, and particularly to small businesses and their employees. We share these concerns. Small businesses are a driving force of our nation's economy. As such, they will continue to play a vital role in providing goods and contracted services to the Department. Although we are not targeting small businesses or any other particular class of contractor employees, we recognize that some contractor employees will elect to apply for newly created government positions. This initiative focuses upon in-sourcing services, not people.