THE PREPARED STATEMENT OF
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BEFORE
THE HOUSE COMMITTEE ON SMALL BUSINESS'S
SUBCOMMITTEE ON CONTRACTING AND WORKFORCE
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Chairman Mulvaney, Ranking Member Chu, and distinguished members of the Subcommittee on Contracting and Workforce, thank you for inviting me today to discuss my experiences with respect to the implementation of the current Administration's insourcing policies. I am Dawn Hamilton, President and CEO of Security Assistance Corporation (SAC).

<u>Background on SAC:</u>

The Security Assistance Corporation ("SAC"), founded in 2002 and located in Arlington, Virginia, is an 8(a) certified, small disadvantaged, minority woman-owned security services provider. SAC provides security, counterintelligence, personnel security, engineering and administrative support and consulting services to the Federal Government and large corporations nationwide. To date, SAC has provided exemplary support for Federal Government customers.

<u>SAC's Contract with the United States Coast Guard:</u>

In September of 2008, the United States Coast Guard (USCG) awarded SAC a small business set-aside indefinite-delivery, indefinite-quantity contract (Contract No. HSCG23-08-D-MMZ339) (Contract) to process merchant mariner credentials at the National Maritime Center (NMC) in Martinsburg, West Virginia. The Contract had a one year base period and four one year options periods.

The processing of merchant mariner credentials requires several services. The USCG procured these services by issuing three separate task orders (TOs) against the Contract. This included TOs for the following services:

1. Professional qualification evaluation services;

2. Safety and suitability evaluation services; and

3. Mariner information call center services.

A fourth service necessary for completing merchant mariner credentials was not made a part of the Contract. To timely and successfully perform these services required approximately 85 staff members.

With respect to payment, these TOs included a graduated billing structure designed to maximize processing time and quality. In other words, the faster and more accurately SAC processed merchant mariner credential applications, the more SAC was paid per case.

SAC's Successful Track Record with the USCG:

Shortly after receiving the Contract, SAC was confronted with a significant backlog in merchant mariner credential applications. This backlog was the result of a confluence of several factors, including: staffing shortages related to the merchant mariner credentialing process that are not part of SAC's Contract; changes in relevant federal regulations; and centralization of the entire credentialing process at the NMC.

On several occasions, the NMC has been called to testify before Congress regarding concerns over productivity. This was due in large part to a backlog of several thousand cases in the medical branch, which was the only part of the evaluation process not performed by SAC. This meant that U.S. flagged carriers had difficulty putting to sea, causing significant economic impact to companies, and the U.S. economy.

SAC was tasked with eliminating this backlog and immediately applied its expertise in business process re-engineering, utilizing ISO 9000 quality control measures. By streamlining the process and providing incentives to its employees, SAC increased processing times to an unprecedented average of 19 days per case and eliminated the backlog in 6 weeks. As a result of SAC's process improvements, the merchant marine credentialing is significantly improved today.

Subsequently, for this work, SAC has been recognized by the USCG for its outstanding performance and has consistently received excellent past performance ratings. Moreover, many of SAC employees have received performance awards, and SAC was recognized as an integral and successful part of the NMC when they received the Alexander Hamilton Award.

The USCG's Insourcing of the SAC Contract and its Faulty Cost Analysis:

Notwithstanding SAC's outstanding performance, and without any warning, on December 23, 2010, I received a call from USCG Headquarters stating that they would be insourcing the TOs related to professional qualification and safety and suitability evaluation services. By the end of the business day, the USCG posted the relevant positions on the USA Jobs website. SAC's employees became aware of this development and became alarmed over their future with SAC right before going into the holiday season.

Soon after being informed of the insourcing action, SAC retained counsel and through counsel, on January 21, 2011, SAC requested the cost analysis and supporting documents, that allegedly justified the insourcing of the Task Orders, through a Freedom of Information Act (FOIA) request. After nearly two months, the USCG had not substantively responded to SAC's FOIA request. Finally, SAC requested Department of Homeland Security's (DHS) officials assist in facilitating a response to the FOIA request. Within a week of the USCG receiving a call from DHS, the USCG released the cost analysis. Based on these materials, it has become apparent that:

- The positions at issue under the TOs were determined not to be inherently governmental.

- The USCG's insourcing process did not provide SAC with an opportunity to provide information regarding its actual costs or respond to the insourcing action. In particular, the USCG retained the accounting firm Deloitte to identify contracts for insourcing. As part of this process, Deloitte routinely contacted the prime contractors of the target contracts for information and to afford them an opportunity to respond. The notice Deloitte sent to SAC, however, was never received by SAC because Deloitte used an incorrect address. Consequently, SAC was unaware of the insourcing action until December 2010 and the failure of USCG/Deloitte to notify SAC caused Deloitte to assess the contract at issue without actual cost information.

- The cost analysis was based on the TOs' ceiling value, which has left the analysis seriously flawed. SAC is paid on a "per mariner application" basis and USCG, in soliciting the TOs, over-estimated the number of potential applications for review in a single year, thus, the ceiling value of the TOs is inflated. Historically, SAC has not received the maximum number of application processing requests – indeed, it has been much less. In addition, the Task Orders include an incentive clause with an increasing CLIN/pricing structure. To date (after the submission of 52 invoices to USCG), SAC has never billed at the highest CLIN/rate. As a result, USCG has never paid, and it is indeed an impossibility for SAC to bill, the maximum Task Order value. Thus, it is unreasonable for the USCG to attribute the maximum value of the Task Orders to the outsourced cost in the cost analysis.

- The cost analysis was incomplete and inaccurate. The analysis admittedly omits and under-estimates significant costs, including some of the indirect costs associated with government employees, the cost of additional positions that may be needed, understated salaries, certain transition and short-term costs, and training costs.

  - For instance, the analysis states that "[t]he benefit from decreasing government review/oversight of contractor work will make overall process more efficient." This is irrational because the government will be hiring at least seven new positions to replace SAC (increasing SAC's workforce of 63 to 72). Moreover, USCG admitted in other documents that more supervisors may be necessary to oversee the new government employees. The cost of these additional supervisors was not included in the analysis.

  - With respect to estimated salaries, when Deloitte inquired as to the salaries the USCG would offer newly hired employees, the USCG left the issue open and failed to provide supporting information:

    > I'll get more detail on this, but because the NMC is the only organization doing this type work in the USCG, we can't merely take some other LIE and correlate. Rather, we looked at the skill set, complexity, education, experience, responsibility, public impact, etc. and with our Command Staff Advisor, have determined the equivalent levels. There is some science behind our assessment.

    There is no record that USCG provided Deloitte with "more detail on this," and the USCG admitted that this is the first time this had been done. It is clear that the low GS levels assigned to this work will lead to retention issues. The failure to apply the appropriate GS levels calls the entire cost analysis into question.

  - Regarding the exclusion of relevant costs, the USCG stated in the cost analysis that:

    > From a cost perspective, the insourcing savings model begins in FY11. Any short-term task order requirement transition should be funded from FY10. Consequently, the project insourcing savings remains intact.

    This essentially hid certain costs from the analysis to inflate FY11 savings.

  - With respect to USCG's failure to include certain costs into the analysis:

    > NMC defers to CG-912 on contract termination penalties. The only other cost associated with insourcing at the NMC will be the initial non-recurring NACLRC SPC cost per FTP. If a short term task order is proffered during transition, the monthly liability for this task order is expected to be: $<   >

    These statements admit that two costs have not been included: 1) contract termination penalties, which are neither found in the cost analysis, nor did the analysis contain an opinion from CG-912 that no such costs exist; and 2) short-term liabilities were a known potential, but the placeholder was never completed, either with a zero (0) or an anticipated cost.

  - Regarding training, the assumptions are incomplete. Training costs are not included. There is no anticipation of the opportunity cost of current Government trainers or the need to hire additional trainer(s), which is more likely. USCG also makes an unwarranted assumption that training is "not expected to be difficult." This is an irrational assumption because USCG has allocated low GS grade levels and salaries to these positions. Further, USCG unreasonably anticipates 12 to 19 weeks of training, whereas SAC's experience is that to train a fully qualified evaluator takes six months (in a few exceptional cases) to a year (average). This process includes constant and continuous refresher training. Finally, from a policy perspective, should the government rely upon and encourage the training of personnel by a small business, only to insource the labor once trained?

- The cost analysis' justification and conclusions were irrational and unsupported. For instance, the analysis:

  - Stated without authority that "[t]he cost of a contractor is automatically higher than the cost of a government employee;"

  - Attributed "[n]early $1M in hidden costs to support contractors' footprint with infrastructure and equipment …," ignoring the fact that government employees will occupy the same space and require the same infrastructure, if not more;

  - Does not seek to save taxpayer dollars, but rather aimed to "right-size" the NMC; and

  - Claimed that the insourcing would have "no adverse impacts to other organizations, partnerships, or organizational relationships with converting contractors to government employees." This is incorrect. This insourcing initiative will irreparably harm SAC, including potential insolvency.

- The heavy reliance on retaining SAC employees violated USCG regulations and good governance. For example, the "MWRI Rules of Engagement: Contractors and Contractor Employees" provides that the USCG must:

  > Ensure improprieties in the hiring of a contract employee for a federal career position do not occur. The Office of Inspector General at the Department of Energy

> (DOE) found evidence that a contract employee was granted preference or advantage not granted to other applicants …

It is clear from the insourcing justification that USCG not only anticipates but needs a high percentage of SAC employees to accept the government positions to keep training costs down. This need will ultimately result in improprieties and favoritism in the hiring process.

- The USCG failed to properly assess retention rates and assumed little initial and no ongoing attrition costs. SAC has a 92% retention rate, in part, because of the favorable salaries and benefits. USCG cannot argue that it will have a similarly high initial or ongoing retention rate without comparing its salary ranges to SAC. However, because USCG violated its practices by failing to notify and involve SAC in the cost analysis process, USCG did not have SAC's salary information to perform a proper comparison. Thus, USCG's assumption regarding the initial and ongoing retention of trained and experienced staff is unsupported. Finally, it is again noteworthy that SAC performed the above tasks with at least nine less positions (*i.e.,* 63 versus the 72 proposed by USCG) than what USCG anticipates. Moreover, SAC had plans to further reduce its staff by two positions, for at total of 61 positions.

<u>SAC's Efforts to Inform USCG of its Actual Costs:</u>

Upon receiving and examining the USCG cost analysis, SAC repeatedly attempted to meet with the USCG to present its findings. When the USCG finally met with SAC, SAC apprised the USCG of the faulty process and offered to provide actual cost information so that a proper analysis could be performed. In response, the USCG stated that they had performed a "robust" cost analysis, had spent significant time and resources on their analysis, and had no interest in reviewing SAC's actual cost data. Notwithstanding, SAC's efforts, the USCG has continued forward with the insourcing action based on a flawed cost analysis.

<u>The Involvement of the Small Business Administration:</u>

After learning that its efforts to educate and inform the USCG of its misguided insourcing effort, SAC met with the Small Business Administration (SBA) officials. The SBA Procurement Center Representative (PCR) agreed that the USCG proceeded with its insourcing action unfairly and to the detriment of SAC. As a result, the PCR has taken steps to halt the insourcing action until a proper cost analysis and a true assessment of the negative consequences of this insourcing action can be fully understood. Currently, SBA is attempting to meet with the USCG to discuss this matter.

<u>The Impact of the Insourcing Action on SAC:</u>

For a small, disadvantaged company, there is no question that the insourcing of these TOs have profoundly affected the future viability of SAC. In fact, this action has directly resulted in the loss of 75% of SAC's jobs and revenue. Additionally, although SAC was not guaranteed the option years under each TO, due to exemplary performance, it had reasonable assurances that the need for this work would continue beyond the base period of each TO. In light of this, SAC made numerous business investments to better serve the USCG. This included signing a five-year lease to accommodate additional staff necessary to administer the work under the task orders (*e.g.,* payroll, human resources, etc.); and hiring corporate staff to administer the work under the task order (*e.g.,* payroll administrator, human resources personnel, etc.). Moreover, SAC made significant investments in its employees, which the USCG now intends to recruit and hire. This included training, counseling and promoting of staff; and entering into agreements with medical and insurance carriers to provide staff with competitive benefits. Both of these initiatives only furthered SAC's ability to attract, hire and retain top talent for the work under these task orders.

Causes for Concern and Recommendations:

In light of the above, SAC respectfully submits the following recommendations to the Subcommittee on Contracting and Workforce:

1. That a moratorium be placed on all cost-based insourcing actions until government-wide procedures are in place.

2. That the Federal government adopt government-wide procedures (civilian and defense alike) through a public rulemaking process with public notice and an opportunity to comment. At a minimum, such procedures should include:

    a. Requirements that affected persons, companies, organizations, etc. be provided with all cost data, analyses, etc. relied upon by the government in making its decisions. Businesses, particularly small businesses, should not have to incur the time and expense of a FOIA request when the cognizant agency has already collected the materials in making its insourcing determination;

    b. Mandate the evaluation of insourcing actions that impact small businesses, including requiring discussions with the small business in advance of the insourcing action; and

    c. An appeal process for affected persons, companies, organizations, etc.

3. That the SBA be given a more clearly defined role in the review of agency insourcing actions.

Conclusion

The insourcing action taken by the USCG against my company was not done to bring inherently governmental functions back into the Federal government. Rather, the USCG claims it was done to save money. However, the cost analysis provided by the USCG is riddled with problems and is ultimately inconclusive of whether the Federal government will realize any cost savings, at best, or at worst, even cost the Federal government more. What is certain is that the USCG's actions have inflicted real and actual harm to my small business – cutting jobs and revenue (during this economic downturn) by up to 75%.

All insourcing actions should comply with uniform processes that ensure fairness and correctness in determining whether or not a function is inherently governmental or if there is true and actual cost savings. Moreover, the impact on small businesses, the driver of our economy, should also be a required consideration.

In light of the conduct and harm inflicted upon SAC, I am seeking and formally requesting Congress' assistance and intervention to halt all insourcing actions, including that which the USCG has exacted against my company, until guidelines regarding government-wide cost analyses are issued and full and complete costs analyses can be performed. I appreciate your time and attention today and look forward to answering any questions that you may have. Thank you.