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Kelley Derides OMB Reliance on IRS Files As Evidence of Savings from Contracting

Washington D.C.—The latest Office of Management and Budget (OMB) report extolling the virtues of contracting out federal work “strains credibility beyond the breaking point” with its claims of phantom and speculative savings and costs avoided, the leader of the nation’s largest independent union of federal employees said today.

The best illustration of that, said President Colleen M. Kelley of the National Treasury Employees Union (NTEU), is buried in a footnote on page 7 of today’s OMB report on contracting out results for fiscal 2006. It claims savings in the fiscal year of \$35 million from an award to an Internal Revenue Service (IRS) contractor even though the contractor—IAP Worldwide, Inc.—has missed several deadlines under the contract, leaving IRS employees to perform the bulk of the work.

“The ludicrous argument that a contractor who has twice had to postpone assuming its full obligations under the IRS contract has generated multi-million-dollar savings is all you need to know about OMB’s claims of meaningful taxpayer savings from contracting out,” Kelley said.

Under this \$105 million contract, IAP was supposed to take over the work of IRS employees in handling and storing taxpayer files at seven agency locations; it began work at only two locations last December, and committed to beginning at the remaining five this June. But it couldn’t do even that; IAP now says it will assume the work at the rest of the sites in October, and then will do so on a rolling basis. At least until then, IRS employees will continue performing the work. “So how,” President Kelley asked, “does that generate \$35 million in savings?”

The fiasco involving IAP and the IRS points up the many flaws in this report—one in a series of such OMB reports that have been similarly flawed, Kelley said.

Overall, the report claims ‘net savings or cost avoidances’ of \$1.3 billion over the next five to 10 years from fiscal 2006 contracting efforts alone.

But NTEU disputes the savings figures, calling them “bogus.” Here are some examples:

- None of the costs incurred prior to a public announcement of a competition are included when

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Kelley Derides OMB Claims of Contracting Savings—Add One

figuring the total costs of a competition. OMB claims that most competitions are completed within a year of public announcements. However, in many competitions, agencies spend months if not years preparing for the announcement, but OMB does not count this work toward the overall cost.

- None of the litigation costs are included. The Army Corps of Engineers IT competition, for example, discussed on page 12 of the OMB report, was the subject of lengthy litigation in federal court that was only just recently resolved through a settlement. Legal fees add substantially to overall costs, yet are not counted.
- Savings calculations are based on a simplistic and flawed formula. NTEU questions using a figure of \$97,000 per FTE in the case of IRS competitions, since most of these competitions involved lower-graded positions, with salary and benefits that fell well below OMB's average figure.

“An additional major failing of the administration's contracting out agenda is the ongoing lack of post-competition accountability,” said President Kelley. “Once work is contracted out, there is no mechanism in place to bring the work back in-house, or to re-compete the work. An agency is forced to become dependent on the contractor because it has lost all of its own expertise.”

The basic problem, she added, is that under this administration, the goal of placing federal work in the hands of contractors supersedes any real analysis of how to restructure work processes to improve efficiencies and provide better taxpayer service.

As the largest independent federal union, NTEU represents some 150,000 employees in 31 agencies and departments.