

*The State of
the Federal
Workforce*

July

2009

A Case for
Insourcing

The State of the Federal Workforce: A Case for Insourcing

Introduction

Many Americans resist the idea of big government, but in many ways, size is not the issue—because undoubtedly, the U.S. Government has a very big job to do. By contrast, what America cannot possibly afford is bad government. The commitment of the Obama Administration has been to create the *best* government, the one that delivers on its promises to its citizens—the efficient and effective government that the American people deserve.

To meet this commitment, there is a revolution in thinking and action beginning in Washington. In some ways, this has been framed as an “Insourcing Revolution.” This phrase has come to represent both a philosophy and process for providing significantly improved, efficient and effective government—the best government we can create. It is a job that will take the effort of both the public and private sectors because it is very clearly in everyone’s interest.

The Federal government is America’s largest employer by a great margin. Although there are two million civilian employees in the Federal government, most people are shocked to learn that there are over 10 million contractors working for the Federal government—over five times as many contractors as there are civil servants. This brings the actual size of the Federal workforce to nearly 13 million workers, which is nearly 10 percent of the entire U.S. workforce.

The challenges in managing such a massively diverse and extended workforce is a daunting task—made more difficult by the pervasiveness of contractor hiring. In many instances, hiring contractors offers the government flexibility and a level of expertise that is urgently needed. But, increasingly, this “contractor class” has taken over critical government functions—often with little oversight—and at significantly higher costs than that of the average Federal worker. In fact, some estimates, one of them provided by President Obama himself, put the cost of a private sector contractor at two-and-one-half times what it would cost to employ a Federal worker to do the same job.

This paper explores the current state of the Federal workforce, including a look at hiring and retention trends for career civil service, and looks at how “insourcing”—or refocusing on the hiring of career civil servants—can benefit the nation.

The Insourcing Revolution Is A Call to Strengthen the Career Civil Service

“Hollow Government” is a term coined to describe the results of long-term reductions in government staffing at agencies across the Federal government. While the effort was initiated originally to reduce the size of the Federal bureaucracy, government budgets and responsibilities have only continued to increase. In this section, we discuss how recent Federal hiring policies create a less responsive “hollow” Federal government, increasingly run by contractors who outnumber Federal employees by more than a five to one ratio.

When analyzing the impact of hiring policies on the Federal workforce, the most important hiring statistic to monitor is the number of **net new hires**¹ in the “Competitive Service” into the appointment categories called “**Career**” and “**Career Conditional**.”² The reason for this is that hires are in what is often referred to as the Career Service—in other words, the core civil service contingent. The strength and bench strength in these two categories determines the strength of the internal workforce. It represents the enduring public servant who is likely to make government service a career, rather than a job. Importantly, these are the people with the ‘corporate history’ and the knowledge base to make things work effectively and execute strategies and plans efficiently. Additionally, these are the people who can deliver the best government for the American people. Without them, the Federal government cannot operate effectively or efficiently or conduct proper oversight of key government functions. Critically important functions such as contractor oversight, acquisition, and human resources management cannot be performed adequately—and waste and escalating costs result.

Unfortunately, the numbers show material losses in the Career Service ranks, particularly in recent years. As seen below, over the last five years, the Federal sector net new hires did not keep pace with the number of quits in that same category, and a net loss of Career Service employees resulted. ***On any given year, over these five years, Career Service new hires represented only 22% to 27% of all new hires into the Government.***

Career & Career Conditional Employee Trends					
	2004	2005	2006	2007	2008
New Hires	55,841	55,749	57,982	63,572	85,425
Quits	95,159	103,974	101,019	104,278	102,830
Difference	(39,318)	(48,225)	(43,037)	(40,706)	(17,405)

¹ The term *net new hires* does not include transfers in from other Federal agencies unless from an Excepted Service position to a Career Service position.

² The numbers displayed here, referred to as Competitive Service, include only the Career and Career Conditional appointment categories as reported in the US Office of Personnel Management CPDF data files. All data in this document were obtained using FedScope, the data mart developed and provided on the US Office of Personnel Management website.

Worse, the data on new hires into the Career Service, under the age of 30, show a clear retention problem. New hires in this category show a quit rate that is astonishingly high, wiping out any progress made in building the kind of bench strength that is central to efficient and effective government. Moreover, if this trend continues, it will be virtually impossible for the Federal sector to increase numbers in the core Career Service—much less replenish normal workforce attrition.

New Hires, Permanent Career Service <30 Years of Age					
	2004	2005	2006	2007	2008
New Hires	13,099	12,593	13,144	14,672	19,159
Quits	10,109	12,121	12,532	13,790	13,939
Net Gain Per Year	2,990	472	612	882	5,220

The dominance of hires made in other categories of employment means the workforce is often temporary, and therefore less likely to have the full complement of benefits accrued by Career Service employees—as they remain stuck in a perpetual learning curve. As a result, it is our taxpayers who pay for this constant learning and training and the inefficiencies that are a part of this process.

While it is desirable to have some mobility between the public and private sectors, the current trend is severe and worrisome enough to impact significantly the capabilities of government to manage effectively and execute the President’s plans and strategies. For example, even though Congress has approved the President’s Economic Stimulus Package, the ability of Federal agencies to immediately begin execution of the plan and to provide proper oversight and accountability will be put to a severe test.

In this particular case, agencies are adopting strategies to employ people on a temporary basis, including the use of reemployed annuitants with offset waivers. The argument is that the funding for these positions is temporary—so the means of filling them should also be temporary. This is a badly flawed concept. Since the level of employment is so high with respect to the transient workforce, this is an excellent time to consider increasing the levels of Career Service. Today, the transient workforce will churn, making room available for long-term career employees. The crucial skills developed in managing this initiative will be retained, providing sustainable support for the Government over years to come.

“The Insourcing Revolution”—the policy of “insourcing” jobs back into the Federal sector—will provide more visible career opportunities for new entrants into the workforce, those under age 30, while providing extensive training and job enrichment to dramatically improve retention.

If the Federal sector wants to improve cost controls, add effective layers of oversight and provide taxpayers with quality services, it must focus on hiring and retaining the Career Service employee. With a total workforce hovering around 1.9 million FTE, providing oversight and direction to a contractor

workforce estimated to be 10.5 million³ strong, career employees are essential to effective governance. If this were not true, the Government would not be so focused on hiring back retired employees as reemployed annuitants – who retired from the Career Service and are now deemed essential resources to help make these key strategies work.

The Vacancy Backlog – Is There A Hiring Problem?

As discussed, efforts to stem the growth of the Federal government – while failing to control spending – have succeeded in capping the number of full time Federal employees. In fact, the Federal workforce has flat-lined in terms of growth, showing a 20-year trend of total full-time employee (FTE) allocations capped at right around 1.9 million.⁴

While some may see this as a victory in controlling the size of the Federal bureaucracy, it has really only resulted in an explosion in the government consulting business—as private consultants replace Federal employees.

Using 1981 as the baseline, Government Printing Office (GPO) data shows a total FTE allocation of 2.109 million for the Executive Branch. Since 1981, the Government has been above that baseline only eight times and below it 20 times. Actual employment, however, has been below the mean of 1.969 million FTE allocation on a consistent basis.

In addition, a closer look at the data shows that even when funding for an FTE is allocated, jobs are going unfilled at an alarming rate. Over the last five years, data depicting actual annual employment⁵, as compared to FTE allocations, shows a substantial delta between what was authorized and what was achieved. As a result of the difficulty in aggregating the numbers of funded vacancies, these data points depict a rough estimate as to the delta between on-board head count (referred to here as Total Employment) versus the estimated funding level (referred to here as Total Employment Ceiling).

Employment Trends - All Hires					
	2004	2005	2006	2007	2008
Total Employment - FedScope	1,856,441	1,686,788	1,680,415	1,693,211	1,765,750
Total Employment Ceiling - GPO	1,821,000	1,830,000	1,833,000	1,832,000	1,898,000
Difference	35,441	(143,212)	(152,585)	(138,789)	(132,250)

³ Congressional Research Service Report, “The Federal Workforce: Characteristics and Trends” Updated September 30, 2008. References “The New True Size of Government” by Paul C. Light, August 2006

⁴ FTE refers to Full Time Equivalent. Data here is from the Government Printing Office official website.

⁵ The numbers displayed here, referred to as Competitive Service, include only the Career and Career Conditional appointment categories. All data in this document were obtained using FedScope, the data mart developed and provided on the US Office of Personnel Management website.

Furthermore, adding in the estimated insourcing and Stimulus hiring plus-ups, the gap widens substantially.

Employment Trends - Estimated Vacancy Backlog		
Vacancy Rate & Hiring Backlog	Low Estimate	High Estimate
Insourcing & Projected Stimulus Hiring Plus Ups	100,000	250,000
2008 Exit Backlog	132,250	132,250
Total Estimated Employment Backlog	232,250	382,250

Clearly, agencies have struggled with filling positions. This has resulted in the buildup of a contractor workforce some 10.5 million strong – largely because outsourcing has proven to be a way to get the work done.⁶ In the meantime, the gap has closed only slightly and many Federal employee positions remain unfilled. Having suffered from cost overruns, lack of control over waste and loss of oversight capacity, the Government is now seeking to insource contractor work and fill these jobs with Federal employees. This is crucial in terms of regaining control over costs, but, at the same time, it is not clear how agencies can fill so many positions quickly.

Workforce attrition in the Federal sector has remained very steady, despite threats of a retirement tsunami. Over the last five years, total attrition⁷ has remained consistently between 13% and 15% per year, with separations in the Career Service⁸, where most retirement occur, at between 5% and 6% per year. Actual employment shows a slight increase of 4% in 2008 over 2007, coming off of declining numbers year-over-year from 2004 to 2006 (with a very slight increase of .76% from 2006 to 2007). Overall, total accessions⁹ have kept pace with separations at between 13% and 15% per year with a higher rate of 18% in 2008.

Although hiring has kept pace with separations, the rate of hiring has not kept pace with overall authorized staffing levels. Again, in any given year of the last five years, Career Service new hires represented only 22% to 27% of all new hires into the Government. The numbers show a quit rate for Career Service employees significantly greater than the acquisition of new Career Service employees. An ongoing deficit of Career employees erodes continuity of Government and creates internal disparity between employees of various categories—i.e., temporary versus permanent and Career versus non-status employees.

This indicates that Federal hiring has used appointing authorities purported to be easier and more flexible than is common for the types of appointments made to Career Service positions. That said, this shortcut does not bode well for the long term—and compromises the Government’s ability to be agile,

⁶ Congressional Research Service Report, “The Federal Workforce: Characteristics and Trends” Updated September 30, 2008. References “The New True Size of Government” by Paul C. Light, August 2006

⁷ Attrition, or separations, is defined to include quits, terminations, retirements, reductions-in-force, and deaths.

⁸ The numbers displayed here, referred to as the Career Service, include only the Career and Career Conditional appointment categories as reported in the US Office of Personnel Management CPDF data files. All data in this document were obtained using FedScope, the data mart developed and provided on the US Office of Personnel Management website.

⁹ Accessions is a term that includes new hires as well as transfers from one agency to another.

sustainable and a material contributor to providing services to taxpayers. It also illustrates the point that, even with more flexible hiring authorities, the rate of hiring has not kept pace with the demand level to fill positions.

The Federal sector continues to lose ground in maintaining a strong Federal Career Service and a responsive and agile workforce and shows that it cannot be responsive to surge requirements that meet the changing conditions nationally or globally. Reliance on awkward hiring authorities that do adequately meet needs, and often require a force fit, is dangerous and not sustainable.

The Federal Hiring Demand-Capacity Gap

If insourcing is the answer, how can the Federal government reverse course on employment policy quickly, efficiently and in a cost-effective manner?

Much has been written and said about the “broken” hiring process used by the Federal sector. Jobs going unfilled, lengthy application processes, breakdowns in information security—the list is very, very long.

Many comparisons have been made to private sector HR processes that, in theory, make it easy for applicants to apply for jobs—and some attempts have been made to codify process improvements.¹⁰ But, in actual practice, what makes applying easier for applicants very often bogs-down the Federal hiring *process* itself.

At first blush, using the same résumé-based hiring process as the private sector should make Federal hiring more efficient. This assumption, however, is flawed upon deeper examination of the crucial differences between Federal and private sector hiring. Perhaps the two most important differences are the regulatory framework for Federal hiring, and the far more significant delegation of authority to line managers in the private sector as opposed to the Federal sector.

In the private sector, the hiring manager has full authority to recruit and assess applicants, make job offers and hire. In the Federal sector, these authorities are restricted within HR – by both regulation and business practice. In the private sector, the substantial delegation to hiring managers means fewer processes are performed by in-house HR staff and, therefore, a more expedient processing of hiring actions. Even in cases where HR facilitates recruitment and performs a perfunctory review of résumés before referring them to the hiring manager, private firms do not approach hiring with the same underlying public policy framework that governs the Federal process.

In contrast, then, the public policy framework that is the infrastructure of the Federal hiring process requires substantial HR staff support. The knowledge level required to expeditiously apply governing regulations requires a significant learning curve and is subject to constant oversight and accountability.

¹⁰ Reference the recent introduction of S736, The Federal Hiring Process Improvement Act of 2009.

For example, there are some 165 “appointing authorities,”¹¹ each with a unique set of governing regulations and requirements that applicants must meet. These appointing authorities and governing regulations often support an individualized hiring objective or initiative: Such as employment for returning Peace Corps volunteers, employment of individuals exiting from the National Guard, student employment programs, the Veterans Preference Act or reemploying individuals that had been subjected to Federal reductions-in-force. While many private companies have workforce initiatives as well, they are not required to apply a full set of governing regulations that detail what applicants must possess in order to be hired.

When the Federal government chooses to implement a private sector practice, ostensibly to improve the applicant “experience” in the hiring process, it often results in the addition of process steps inside HR offices to correctly administer the regulations. This ultimately elongates the process. For example, accepting a standard cover letter and résumé from an applicant requires HR staff to solicit more information from that applicant to determine if they possess the necessary “eligibilities”¹² to be appointed to a Government position.

In addition, where structured applications and questionnaires solicit specific information from an applicant to determine whether they meet U.S. Office of Personnel Management minimum qualification requirements (mandatory for Federal positions), a general narrative résumé requires an HR specialist to review and make an assessment or determination as to whether the applicant meets the criteria or not. Further, that process is fraught with peril as the HR specialist is not a subject matter expert in terms of the actual work of the position (except in rare cases). The HR specialist may not understand common terminology or terms of art associated with the profession or craft, or may make interpretations that are highly subjective—and this can make it easy for HR specialists to in effect violate the merit system or introduce disparate treatment of candidates.

In many cases, HR offices introduce standard operating procedures to avoid such situations; but they tend to treat the process as a regulation, making the process more cumbersome and, again, elongating cycle times. In other cases, HR specialists needlessly inject themselves into processes that, similar to the private sector, can be more directly delegated to line managers.

The impact of this “HR dichotomy” is astonishing. In the private sector, the servicing ratio of HR full-time employee (FTE) to total headcount is 1 HR FTE for every 200 workers served.¹³ In the Federal sector, the servicing ratio ranges from a low of 1 to 13 to a high of 1 to 119 with a mean of 1:59. This does not, however, include the substantial contractor workforce hired by most Federal HR organizations or Interagency Agreements for cross-servicing, which augments the agency HR workforce as well. For example, in the case of the 1 to 119 ratio, the Department with this ratio has a very substantial and expensive number of HR staff augmentation contracts for HR personnel.

¹¹ Appointing authorities are the methods by which people are hired or “appointed” to Federal positions. Each has a unique governing set of regulations and “eligibilities” (requirements) which the applicant must meet.

¹² Eligibilities refers to certain criteria an applicant must meet to be considered ‘eligible’ to be appointed under a specific appointing authority. For example, if you were a Peace Corps volunteer within the last 12 months, you are eligible to be appointed or hired under an authority just for returning Peace Corps volunteers.

¹³ From a BNA study of 414 private sector HR Departments in June of 2001.

As another example, a Federal agency within that Department has outsourced its HR servicing to a contractor, while maintaining an internal HR headcount of 273 HR staff making it appear to have a servicing ratio of 1:219. But when including its sizable contractor HR workforce, it actually has a servicing ratio of approximately 1:33 – a ratio that still does not include services provided by their Federal payroll provider. This Department’s cost per hire is also four times that of comparable agencies with fully staffed internal operations—and five times greater in total cost of operations.

To successfully navigate the Federal hiring process, and adhere to both the intent and specifics in the regulatory framework, an agency must have enough internal HR capacity to produce the most efficient and effective result. If the agency’s internal HR workforce is under-strength, or demand for HR services is surging against constrained capacity, the agency’s vacancy backlog will build while it struggles to meet demand. When this happens, alongside the lengthy learning curve required to provide expert HR services quickly, the gaps simply cannot be filled expeditiously or effectively.

The chart below illustrates the rough estimate of hiring capacity in Federal HR operations. This does not include contractors engaged in staffing work or agencies cross-servicing other agencies, so the numbers are actually lower than they appear here. What is very worrisome is how low the numbers are. On average, the productivity level is 1 HR FTE for every 10 to 12 new hires *per year*. When looking at the number of Career Service (Career and Career-Conditional¹⁴ appointments), the number is quite low – ranging from 2.5 to 3.5 new hires for every HR Specialist FTE per year. These statistics demonstrate, too, that the number of new hires in jobs that are not in the Career Service are filled at a much higher volume than Career positions – furthering the problems of retention and Government continuity, capability and capacity.

Employment Trends - HR Capacity					
	2004	2005	2006	2007	2008
Hiring Capacity Analysis					
Total All New Hires, No Transfers	237,973	236,121	239,531	242,770	304,932
Total Competitive Service Hires Only 1/	55,841	55,749	57,982	63,572	85,425
HR Specialist, GS-201, Hiring Capacity					
GS-201, HR Specialist Employment	22,228	22,650	23,075	23,271	24,624
Hiring Ratio: New Hires Per HR FTE	10.71	10.42	10.38	10.43	12.38
Hiring Ratio: New Career Service Hires Per HR FTE	2.51	2.46	2.51	2.73	3.47

Many attempts have been made to utilize more “flexible” appointing authorities – generally those that have fewer regulatory requirements. But reliance on these appointing authorities can result in the creation of a transient Federal workforce, which undermines the sustainable career civil service cadre that is critical in retaining the knowledge and experience to see the Government through its many transitions. In addition, applicants are under-served because these appointments do not offer the full range of benefits or entitlements that the Career Service receives and fail to offer career ladder opportunities that encourage new hires to stay with Government as a career. Many of these hiring

¹⁴ “Competitive Service” into the appointment categories called “Career” and “Career Conditional”¹⁴ are often referred to as the Career Service – in other words, the core civil service contingent that have permanent positions with the full range of benefits and entitlements.

actions, thereby, create the unintended consequence of high turnover among the ranks of employees most likely to provide the long-term and crucially important bench strength for the Government.

This illustrates the demand-capacity gap in HR offices throughout the Federal sector. As demand to fill jobs increases with special programs like stimulus hiring and insourcing, the capacity of HR offices must increase to effectively meet demand. Technologies can be a force multiplier, but these technologies can only serve this role if they: (1) use the properly structured application process and eliminate unnecessary process steps, including long narratives that require assessment and interpretation; and (2) track process steps so that metrics can be obtained to create improvements. Finally, Federal agencies need to return to structured hiring and development programs for HR professionals, and OPM needs to support better, more frequent and more labor market sensitive policies and requirements.

Conclusion

If the Federal sector wants to improve cost controls, add effective layers of oversight and provide taxpayers with quality services, it must focus on hiring and retaining the Career Service employee. The Insourcing Revolution must succeed, because career employees are essential to effective governance. Yet the Federal sector continues to lose ground in maintaining a strong Federal Career Service and a responsive and agile workforce. Moreover, the Federal sector shows that it cannot be responsive to surge requirements that meet the changing conditions nationally or globally. Reliance on contractors and awkward hiring authorities that do adequately meet needs, and often require a force fit, is dangerous and unsustainable.

Put simply, the best government is the best government. Our nation needs a professional class of career civil servants who can effectively and efficiently manage Federal programs. Insourcing must be the focus of Federal government recruiting and retention efforts. Let the Insourcing Revolution begin.