



EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

March 9, 2016

The Honorable Jason Chaffetz
Chairman
Committee on Oversight and
Government Reform
U.S. House of Representatives
Washington, DC 20515

Dear Mr. Chairman:

Section 743 of Division C of the Fiscal Year (FY) 2010 Consolidated Appropriations Act (P.L. 111-117) requires civilian agencies to prepare and analyze inventories of the functions performed by their service contractors and further requires the Office of Management and Budget (OMB) to report to Congress on civilian agencies' work with their inventories. This letter addresses OMB's reporting requirement and discusses agency activities for the FYs 2011-14 reporting period, based on information provided by covered agencies.¹

Each year, in accordance with section 743, agencies develop inventories and analyze the data so that agency managers can better understand by function how contracted services are being used and if the mix of federal employees and contractors for a given program is effectively balanced. To assist agencies in analyzing their activities and increase public awareness of how agencies use service contractors, OMB guidance provides a standard format and data sequence for preparing inventories, calls on agencies to conduct focused analyses of their inventories, and lays out a template for agencies to summarize their activities.²

In response to recommendations made by the Government Accountability Office (GAO) in 2012,³ OMB issued supplemental alerts to agency Chief Acquisition Officers and Senior Procurement Executives in advance of the FY 2012 and 2014 reporting cycles to help improve the quality of reporting. The Alerts requested that agencies: (i) identify accountable officials to be responsible for the development and review of service contract inventories, (ii) fully describe the scope of the inventory reviews, including the number of contracts reviewed, and the percentage of contracts reviewed for each product and service code selected and the total universe of contracts and the estimated number of contractor personnel and/or labor resources involved, and (iii) identify follow-up steps on open actions. OMB also stood up an interagency

¹ Section 743 covers Chief Financial Officer (CFO) Act agencies, other than the Department of Defense, and non-CFO Act agencies that are required to submit an inventory in accordance with the Federal Activities Inventory Reform Act (Public Law 105-270, 31 U.S.C. 501 note).

² For a copy of OMB's agency guidance on service contract inventories, go to <http://www.whitehouse.gov/omb/procurement-service-contract-inventories>.

³ See *Civilian Service Contract Inventories: Opportunities Exist to Improve Agency Reporting and Review Efforts*, GAO-12-1007 (September 2012) available at <http://www.gao.gov/assets/650/648939.pdf>.

working group to share best practices and lessons learned in the use of inventories as a management tool, as well as to work with OMB on an ongoing basis to create improved practices for meeting the improvements described above.

Each agency posts its inventory and the results of its analysis on its public website. A consolidated list of links to individual agency inventories is available on OMB's public website.⁴ Cumulatively, these reports reference review of many thousands of contract actions with a total value in the billions of dollars between FYs 2011-14.

As recommended by GAO and consistent with OMB guidance, CFO Act agencies have appointed accountable officials to help ensure management attention and responsiveness in the development and review of inventories. In addition, according to the agency reports posted between FYs 2011-14:

- Analyses often focused on information technology services and professional and management support services, such as program management support and engineering and technical services. The reviews of IT services complement a number of government-wide and agency-level management efforts to improve results from IT-related acquisitions and promote smarter IT delivery. The focus on management support services reflect the rapid contract growth experienced in this area during much of the last decade and recommendations made in OMB guidance for heightened management consideration, based on concerns of increased risk of losing control of missions and operations as identified through a review of reports issued by the GAO, the Commission on Wartime Contracting, agency Inspectors General, Congressional Committees, and the Acquisition Law Advisory Panel (also referred to as the "SARA Panel").⁵
- Most agencies also reported evaluating a range of critical activities that are essential to their core mission. For example, the United States Department of Agriculture (USDA) evaluated fire suppression; the Department of Energy (DOE) looked at engineering services; the Department of Education (ED) reviewed services for educational studies; and the National Aeronautics and Space Administration (NASA) looked at research and development contracts for aeronautics and space technology. For an agency-by-agency list of functions studied in FY 2014, see Enclosure 1. These reviews largely focused on whether the agency has a sufficient internal capability to effectively maintain control over functions that are core to the agency's mission and operations. With respect to critical functions, Office of Federal Procurement Policy (OFPP) Letter 11-01, *Performance of Inherently Governmental and Critical Functions*, holds agencies responsible for making sure they have an adequate number of positions filled by Federal employees with appropriate training, experience, and expertise to understand the agency's requirements,

⁴ The link to the list of agency inventories is at <https://www.whitehouse.gov/omb/procurement-service-contract-inventories>. During the period between FYs 2011-14, all covered civilian CFO Act agencies prepared inventories and analyses each year. Twenty-five non-CFO Act agencies provided information but not every non-CFO Act agency submitted a complete inventory each year.

⁵ See OMB's 2010 guidance at the link referenced in note 2.

formulate alternatives, manage work product, and monitor any contractors used to support the Federal workforce.⁶

- A variety of methodologies were used to analyze service contract activities, such as sampling of contract files (including procurement requests, acquisition plans, and statements of work); intranet based surveys; and interviews of project managers, contracting officers, and contracting officer representatives (CORs) who are responsible for contract management.
- Agencies involved multiple stakeholders to develop and review their inventories. For example, the Department of Health and Human Services (HHS) included program management, budget, information technology, acquisition, finance, and human resources personnel.
- No agencies reported any systemic challenges with contractors performing inherently governmental work, although limited isolated instances were found involving a small number of contractors performing inherently governmental work. Action was taken to convert the work to performance by federal employees as set forth in OFPP Policy Letter 11-01.
- Agencies did not find any significant risks of overreliance on contractors in connection with their review of critical functions. However, agencies continue to emphasize acquisition planning and preparation to ensure CORs are prepared to plan and monitor contract performance successfully.

A number of agencies have identified cost savings in connection with management reviews supported by their service contract inventories. For example:

- The Department of Transportation's (DOT) Office of the Chief Information Officer performed an IT workforce analysis to evaluate the current alignment of Federal staff and contractor resources supporting the Department's IT efforts. Based on this analysis, DOT has engaged in a multi-year IT workforce initiative to reduce reliance on contractors, especially contractors who are funded on a time and materials basis to perform full-time work reflective of steady state responsibilities that are ongoing year after year. DOT is in the process of converting 66 contractor positions into Federal positions. Current estimates show a full-year savings of approximately \$4M beginning in FY 2016.
- The Department of Health and Human Services (HHS) reported savings of more than \$6 million during FY 2013 through reduced contract costs as well as administrative costs in government personnel oversight and administration costs. These savings were achieved by eliminating contract redundancy identified through an analysis of the Department's inventory and consolidating contracts for activities such as logistical support and technical assistance, using strategic sourcing for temporary staffing, and renegotiating contractor rates for executive and administrative support.

⁶ OFPP Policy Letter 11-01 is accessible at <http://www.gpo.gov/fdsys/pkg/FR-2011-09-12/pdf/2011-23165.pdf>.

Other agencies have taken steps to integrate the inventory review process more permanently into their human capital or other management activities.

- The Department of Homeland Security uses an automated survey tool, the Balanced Workforce Strategy (BWS), to support workforce decisions. The BWS analysis requires program offices in collaboration with their acquisition offices to evaluate their requirements in terms of risk to the mission, the amount of oversight needed, and cost. Based on the analysis, the BWS Tool recommends whether the work is appropriate for performance by a federal employee or a contractor.
- The Department of the Treasury is pursuing a Department-wide workforce planning initiative that is intended to help managers understand how labor is being used, improve human capital resource distribution, determine the role contracted services play in achieving agency objectives and implement legal requirements. As part of the plan, the Department evaluated skills of in-house personnel that might have the capability to assume work currently being performed by contractors if an overreliance on contractors is identified.

In FY 2014, agencies began requiring their contractors to report the total amount invoiced and the direct labor hours expended. To support this reporting, the Federal Acquisition Regulatory Council (FAR Council) issued a regulation and contract clause setting forth contractors' reporting responsibilities.⁷ In addition, the Integrated Award Environment (IAE), which manages the agency-wide IT systems that support procurement functions, created a new reporting portal in the System for Award Management (SAM) for contractors to report their actions after the end of each fiscal year. This information is displayed as a supplement to agencies' FY 2014 inventories. In anticipation of the coming reporting cycle, OMB has been working with agencies to adjust processes so that agencies have more time to review status reports that indicate where reporting has occurred and work with contractors to close reporting gaps and enter information into SAM. These efforts will assist agencies in working towards a baseline estimate of the number of contractor employees performing work under service contracts.⁸

OMB is also working with agencies to determine how the cost and labor hour information in the inventory can best be used to improve management's understanding of the cost-effectiveness of their contracted services, especially those that are routine and not complex. For example, by dividing the amount invoiced for a given function by the number of direct labor

⁷ The link to the Federal Register notice is <https://www.federalregister.gov/articles/2013/12/31/2013-31148/federal-acquisition-regulation-service-contracts-reporting-requirements>

⁸ We anticipate a number of years being required for the reporting process to mature and the agencies being able to establish a credible baseline. The FAR rule lays out a phased implementation schedule so that contractors (and first tier subcontractors who are also covered) may acclimate themselves to reporting and come into compliance for fixed-price contracts. Under fixed-price contracts, agencies have not previously required this type of information from their contractors and such information is not considered in the negotiation of the contract price. During the FY 14 reporting cycle, the threshold for reporting fixed-price contracts was \$2.5 million; this threshold is \$1 million for FY 2015 and \$500,000 for FY 2016. (The reporting threshold for cost-reimbursement contracts and time-and-materials and labor-hour contracts is the simplified acquisition threshold (currently \$150,000)).

hours expended, agencies can generate an hourly rate being paid for the function. However, because contract reporting is based on the predominant service performed, the value of the analysis may be limited. For example, a contract awarded for help desk services will have a lower hourly rate than a contract with an award amount that reflects 60% performance of help desk services at the same hourly rate and 40% performance of complex consulting work charged at a higher hourly rate.

While it is too early to determine if cost and labor hour information reported to SAM makes a useful benchmark in the aggregate form it is submitted, OMB believes there may be ways the information can be used, at least as a starting point, for further analysis in comparing options, allocating resources, and improving processes. If an agency has many contracts across its components for similar services that are routine in nature, for instance, it might pull a modest sampling of rates to see the distribution of rates being paid. If there were a significant variance, a follow-up review of the contract files might be conducted to ensure that there is an explanation for the identified difference in rates (e.g., the services were acquired under different terms and conditions, represent different quality levels, and/or are used under different circumstances; the contractor with the higher rate performs more efficiently than the one at the lower rate). Moving forward, OMB intends to consider where agency analyses, such as those described above related to IT or professional services that led to contract cost reductions, may be appropriate for inclusion in the Acquisition Gateway, an online portal where government employees can find contract information, pricing, tools, best practices and other data that support agency program and acquisition planning.⁹

OMB looks forward to working with you and other members of Congress in our efforts to improve the quality and functionality of service contract inventories as a management tool so that we can get the best possible results from our contractors and achieve the best mix of federal employees and contractors to meet the needs of the taxpayer.

Sincerely,



Anne E. Rung
Administrator

Enclosure

⁹ To access the Acquisition Gateway, go to <https://hallways.cap.gsa.gov>.

Functions Reviewed During the FY 2014 Reporting Period

Agency	List of Primary Functions Reviewed
Department of Agriculture	<ul style="list-style-type: none"> • Information technology • Telecommunications • Fire suppression • Transportation • Construction
Department of Commerce	<ul style="list-style-type: none"> • Professional services • Program management/support services • Automated data processing systems development
Department of Education	<ul style="list-style-type: none"> • Educational studies • Data collection • Information technology • Telecommunications
Department of Energy	<ul style="list-style-type: none"> • Environmental services • Construction of buildings • Engineering services • Information technology • Professional support
Department of Health and Human Services	<ul style="list-style-type: none"> • Automated information systems • Program management • Engineering
Department of Homeland Security	<ul style="list-style-type: none"> • Information technology • Telecommunications • Program management support
Department of Housing and Urban Development	<ul style="list-style-type: none"> • Automated information systems • Engineering • Policy review/development
Department of the Interior	<ul style="list-style-type: none"> • Program management • Personal services • Information technology • Telecommunications
Department of Justice	<ul style="list-style-type: none"> • Social rehabilitation services • Management support • Professional services.
Department of Labor	<ul style="list-style-type: none"> • Operation of educational buildings • Professional services
Department of State	<ul style="list-style-type: none"> • Construction of facilities • Guard services • Program management support
Department of Transportation	<ul style="list-style-type: none"> • Program management support • Engineering/technical services
Department of the Treasury	<ul style="list-style-type: none"> • Cybersecurity
Department of Veterans Affairs	<ul style="list-style-type: none"> • Information technology • Program management • Engineering services

Agency	List of Primary Functions Reviewed
Environmental Protection Agency	<ul style="list-style-type: none"> • Technical assistance • Program services • Environmental assessments • Professional services • Architecture and engineering • Automated data processing and telecommunications
General Services Administration	<ul style="list-style-type: none"> • Administrative support • Information technology • Telecommunications
National Aeronautics and Space Administration	<ul style="list-style-type: none"> • Aeronautics/space research and development • Professional support
National Science Foundation	<ul style="list-style-type: none"> • Information technology integrated solutions
Nuclear Regulatory Commission	<ul style="list-style-type: none"> • Financial management consulting
Office of Personnel Management	<ul style="list-style-type: none"> • Automated data processing systems development
Small Business Administration	<ul style="list-style-type: none"> • Credit reporting • Information technology • Telecommunications • Professional services
Social Security Administration	<ul style="list-style-type: none"> • Information technology strategy and architecture
US Agency for International Development	<ul style="list-style-type: none"> • Automated data processing services • Policy review/development • Engineering • Program management • Management support

Identical Letter Sent to:

The Honorable Jason Chaffetz
The Honorable Elijah E. Cummings
The Honorable Ron Johnson
The Honorable Thomas R. Carper