

Department of State
FY11 Service Contract Inventory
Inventory Analysis Report

Report Number A.CSM.SCI.0002
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1. Executive Summary

The Department of State is one of the few Federal Government agencies that are tasked with varied global responsibilities, which can be influenced by external factors, and are extremely complex. Contracting for the services that the Department requires around the world is a task we continue to improve upon in accordance with pertinent guidelines, policies, and regulations.

Testifying before the House Subcommittee on National Security, Homeland Defense, and Foreign Operations on October 12, 2011 on the transition to a civilian-led mission in Iraq, Under Secretary for Management Patrick Kennedy stated that, “Throughout our contracting efforts, the Department is always cognizant of inherently governmental functions, and we contract for services that are not inherently governmental. Department personnel were actively engaged with the Office of Federal Procurement Policy and with our colleagues in other agencies, including DoD, on preparing both the draft and final Policy Letter to better define inherently governmental performance.”¹

The United States Office of Management and Budget (OMB) released guidelines in a November 5, 2010 memorandum² to Chief Acquisition Officers and Senior Procurement Executives mandating civilian agencies prepare an annual inventory of service contracts. OMB required agencies to conduct an inventory of service contracts with a dollar value greater than \$25,000, including those contracts carried out on their behalf by other agencies. This is an annual reporting requirement with the data collection and analysis phase to be complete by June 30th each year followed by the Department submission in December of the same calendar year.

The Commercial Services Management office within the Bureau of Administration (A/CSM) of the United States Department of State performed the OMB mandated analysis on service contracts in accordance with section 743(e) of Division C of the FY 2010 Consolidated Appropriations Act, P.L. 111-117. The analysis sought to determine whether or not the Department was contracting for Inherently Governmental functions, as well as to help identify if the Department was over reliant on contractors for Closely Associated to Inherently Governmental (CAIG) functions.

The analysis sought the views of more than one hundred acquisition and program staff, including contracting officers (CO), contracting officer representatives (COR), and program/project managers (PM). A/CSM reviewed 95 contracts over the \$25,000 threshold established by OMB, representing approximately \$3.1B (billion) dollars in acquisitions, nearly double the amount of last year of \$1.6B. A/CSM conducted the survey with 98% participation of the relevant acquisition and program staff, resulting in some personal meetings and conference calls to clarify any ambiguous responses.³

The analysis focused on contracts involving “special interest functions,” or those at a higher risk of workforce imbalance, including professional and management services and information

¹ National Security, Homeland Defense, and Foreign Operations House Committee on Oversight and Government Reform October 12, 2011, P. 16.

² The OMB Service Contract Inventory Memorandum can be found in Appendix B.

³ There were a total of 115 contract personnel to contact of that 115 we received responses from 112. The 3 respondents who did not return the surveys were located in the Bureau of Overseas Buildings Operations (OBO).

technology support services. The analysis also highlighted recommendations from the acquisition and program staff on what is needed to further strengthen the government's oversight of contractor performance. The service contract inventory⁴ (SCI) analysis revealed:

- **No contracts** analyzed included unauthorized personal services.
- This year we did not identify any contracts being used to support '*unique circumstances*', as was the case last year in several contracts that were reviewed.
- Contractors performed closely associated to inherently governmental (CAIG) functions on just under a fifth (18%) of procurements. CAIG functions are allowed to be performed by contractors or in-house personnel. This is **down dramatically** from last year when over half of the contracts reviewed had contractors performing CAIG functions.
- During our review of the 95 contracts, we found that contractors **did not perform inherently governmental activities** on any of those contracts.
- Total contract values for PSC codes reviewed this year was \$6.6B (billion). The actual value of the contracts that we reviewed this year **was \$3.1B or 47.33% of the total value of contracts in these PSC codes.**

⁴ The summary of the Service Contract Inventory can be found in Appendix C.

2. Service Contract Inventory Information

2.1. Background

As identified in the OMB memorandum⁵, Section 743 of Division C of the FY 2010 Consolidated Appropriations Act, P.L. 111-117, requires every executive branch civilian agency to compile a list of service contracts performed for, or on behalf of, the agency during the prior fiscal year.

The Office of Commercial Services Management within the Bureau of Administration (A/CSM) conducted the Department's first Service Contract Inventory⁶. OMB required agencies to perform a meaningful analysis as part of this inventory process. The purpose of the analysis was to determine if proper oversight existed for work identified as Closely Associated to Inherently Governmental (CAIG) and to also ensure that contractors were not performing Inherently Governmental (IG) work. As required by section 743(e), the analysis should also identify contracts that have performed poorly, as determined by the responsible contracting officer, because of excessive costs or inferior quality; and contracts that should be considered for conversion to—

- (I) performance by federal employees of the executive agency in accordance with agency insourcing guidelines required under section 736 of the Financial Services and General Government Appropriations Act, 2009 (Public Law 111-8, division D) and OMB Memorandum M-09-26; or
- (II) an alternative acquisition approach that would better enable the agency to efficiently utilize its assets and achieve its public mission.

A direct result of the SCI inventory analysis is that agency managers gain insight into where, and the extent to which, contractors are used to perform activities by analyzing how contracted resources are distributed by function and location across the agency and within the bureaus. This insight is especially important for contracts whose performance may involve critical functions or functions closely associated with inherently governmental functions. Information about how contract resources are distributed may help determine if the Department's practices are creating an over-reliance on contractors.

To that end, the assessment team began the SCI data collection in February 2012. Analysis of the data collected began in June 2012 and the Department will meet the OMB required submission date of December 31, 2012.

⁵ See Appendix B for the OMB Memorandum.

⁶ See Appendix C for the Summary of Service Contract Inventory.

2.2. Linkage Between the SCI and other Department Initiatives

The Quadrennial Diplomacy and Development Review (QDDR)

The Quadrennial Diplomacy and Development Review (QDDR) seeks to strengthen State Department's accountability and capacity to deliver results in a changed world by improving the integration and coordination of whole-of-government efforts and through a series of specific reforms in personnel, procurement, and planning. Some of the actions the Department intends to pursue include:

- continuing to build and support a workforce well-matched to the challenges of the 21st century, and ensure that we are deploying the right people to the right places at the right time;
- changing the way we prepare, award, manage, and monitor contracts to ensure that inherently governmental functions are carried out by government personnel and that the contracts we do award serve our strategic interests and deliver results for the American taxpayer;
- managing for results through more effective strategic planning and budgeting, data collection, and performance monitoring; and
- consolidating State Department's services, making sure to deliver supportive quality services and ensure further efficiencies and cost savings in the field.

Taken collectively, these efforts provide the foundation for a more transparent and more effective Department of State.

The results of the annual SCI can be a tool to develop trend analysis, track financial expenditures by Product Service Codes (PSC) and Special Interest Functions, and monitor how well the Department is reforming its personnel, procurement, and planning capabilities to meet the needs of the 21st century.

The FAIR ACT

The Federal Activities Inventory Reform (FAIR) Act of 1998 requires the head of each executive agency to submit, by the end of the third quarter of each fiscal year, a list of activities performed by federal employees that are classified as either inherently governmental or commercial. Inherently Governmental means 'a function that is so intimately related to the public interest as to require performance by Federal Government employees.' Examples of inherently governmental functions include the following actions:

- to bind the United States to take or not to take some action by contract, policy, regulation, authorization, order, or otherwise;
- to determine, protect, and advance United States economic, political, territorial, property, or other interests by military or diplomatic action, civil or criminal judicial proceedings, contract management, or otherwise;
- to significantly affect the life, liberty, or property of private persons;

- to commission, appoint, direct, or control officers or employees of the United States; or
- to exert ultimate control over the acquisition, use, or disposition of the property, real or personal, tangible or intangible, of the United States, including the collection, control, or disbursement of appropriated and other federal funds.

The SCI currently provides dollar amounts expended on contracts. It is anticipated that future SCI submissions will need to identify the number of contractor employees and first tier subcontractor employees, the total dollar amount invoiced for services, and the role the services play in achieving agency objectives. This information, coupled with the FAIR Act information, will provide the Department with a more accurate understanding of ‘*how many*’ Full-Time Equivalents (contractor and direct hire) are required to complete the mission of each bureau. Until this point, only the federal side of the work equation was considered by reviewing the FAIR Act submission from each agency, however that did not paint the full picture of the total number of FTE that were dedicated to accomplishing the agency’s mission.

Until now, the total size and cost of the government’s workforce, both federal employees and contractors, has been disputed. By accounting for the contracted functions, federal managers will have a more accurate picture of how much they spend and how large their overall workforce is. Further, for those functions that are strategic in nature, this information will clarify where potential human capital needs are. For example, if a particular bureau has coded its functions as heavily inherently governmental, but also has a large contingent of contractors performing the same functions; it will be of interest to determine whether the function is commercial or whether inherently governmental functions are being performed by contractors. In some cases, bureaus that have a small number of government staff but a large number of contractors may be overly reliant on the private sector workforce and may not have the ability to properly monitor the contractors and their activities.

Strategic Management of Human Capital

The workforce planning process, informed by the Department’s Mission and Bureau Strategic Resource Plans, translates the Department’s strategic goals into future functional workforce requirements. Recommendations from the Secretary’s QDDR are being incorporated into the overall workforce planning strategy. The Department has two models to project future resource requirements: the Overseas and the Domestic Staffing Models managed by the Bureau of Human Resources/Resource Management and Organization Analysis (HR/RMA). Each model calculates the number of positions required to carry out the Department’s mission. These models will be adjusted to reflect new and expanded skill set needs identified through the QDDR.

HR/RMA and A/CSM relationship is pivotal to the success of this effort since so many aspects of the analysis impact the workforce and must be in-line with strategic human capital plans. Additionally, this analysis must be strategic by nature and consider not only today’s current workload/workforce demands in terms of skills and competencies, but the Department’s future demands as well.

In alignment with the Department's strategic human capital planning and the above criteria, the survey assessment revealed that acquisition goals should:

- dedicate a sufficient amount of work to be performed by federal employees to build competencies (both knowledge and skills), provide for stability of operations, and retain institutional knowledge of operations;
- ensure that the appropriate government personnel has the appropriate training and expertise to manage and oversee contractor performance, evaluate and approve contract deliverables;
- carefully recruit and retain the Department's talent where it is lacking; and
- identify the appropriate number of personnel (including contracting officer representatives and program managers) required to provide sufficient oversight of a particular contract and the consequences if this is not in place.

3. Process

A/CSM developed a repeatable methodology to complete the analysis portion of this requirement. The SCI methodology and process is depicted in this linear illustration.



Figure 1: SCI Methodology

3.1. Step 1: Initialize SCI Planning

Shortly after the release of the November 5, 2010 OMB SCI Memorandum, A/CSM began to develop a plan to meet the requirements therein.

Given the OMB requirements, A/CSM developed the five-step methodology to ensure that the process was capable of answering the required questions and to guide our team's efforts. The methodology is comprehensive and repeatable and if requirements change in the future, the process is flexible enough to accommodate them.

For our 2012 submission, during the initializing SCI Planning phase, A/CSM reviewed lessons learned compiled after the 2010 submission. This was done to make the process as efficient as possible while still maintaining the rigor required of such an exercise.

3.2. Step 2: Conduct the Inventory and Analyze Results

The SCI analysis began with the list of twelve PSCs⁷ identified by OMB for heightened management consideration, based on concerns of increased risk of losing control of mission and operations. A/CSM also included the top ten PSCs (by dollars obligated) in the analysis, as they represented the largest service segments procured by the Department. The data for the analysis came from queries developed in the Federal Procurement Data System (FPDS). Analysts reviewed the results of the query and developed a list of contracts to evaluate that met all of the requirements set forth by OMB. This resulted in a review of seventy one contracts.

3.3. Step 3: Conduct Survey and Analyze Results

To solicit input from appropriate acquisition and program staff, A/CSM refined an existing Department of Army survey by tailoring it to the needs of the Department of State. The survey included 35 yes/no questions and eight short answer questions.⁸ A/CSM worked with the Office

⁷ PSC Codes are presented in Appendix D.

⁸ A\CSM SCI Analysis Survey is presented in Appendix E.

of Acquisitions Management (A/LM/AQM) to identify the appropriate acquisition and program staff to answer the survey. Survey recipients included Contracting Officers (CO), Contract Specialists (CS), Contracting Officer's Representatives (COR), and Project/Program Managers (PM). Prior to distributing the survey, A/CSM analysts contacted them via phone to inform them that the survey was forthcoming. Participants were given thirty days to submit a response.

Survey respondents returned both complete and incomplete surveys to A/CSM. Conference calls were conducted with all respondents to ensure the completeness, validity, and accuracy of the data submitted. The team specifically followed-up with individuals who submitted incomplete surveys. A/CSM reviewed the returned surveys and entered the results of the completed surveys into a master database. Our analysts then reviewed the results of each survey paying special attention to trends, patterns, special circumstances, and common themes.

3.4. Step 4: Conduct Interviews and Compile Results

Follow-up calls or interviews were conducted in all cases. If a survey was returned incomplete or lacked sufficient details regarding certain answers, these issues were covered and corrected. In some cases, respondents were based in the Washington D.C. metropolitan area and a meeting was set-up. In cases where that was not possible or the responsible individual was outside the metropolitan area, a call was set-up to discuss the relevant issues.

Responses from these interviews were incorporated into the database and reviewed by the team during weekly meetings. A/CSM found that the interviews were a vital part of the process, especially when clarification was required regarding a respondent's answers to the survey. These follow-up interviews provided a frame of reference and added context to the survey results.

3.5. Step 5: Develop Conclusions

Conclusions were derived directly from the survey data collected from the respondents and do not include opinions or pre-conceived notions of the surveyors. Various sorts, queries and analysis were performed on the information. The information was compiled in narrative form which highlighted the key observations.

4. Key Observations

In accordance with the OMB SCI memo, the Department's analysis included a review of the contracts and information in the inventory for the purpose of:

1. Ensuring each contract in the inventory that is a personal services contract has been entered into, and is being performed, in accordance with applicable laws and regulations:

There were no personal services being performed, as indicated by the survey respondents.

2. Determining whether the agency is using contractor employees to perform IG functions:

All survey respondents indicated that these contracts did not contain any inherently governmental functions.

3. Determining whether the agency is giving special management attention, as set forth in FAR 37.114, to functions that are CAIG:

In most cases where contractors performed CAIG functions, special management attention was provided by knowledgeable government personnel.

Of the *ninety five* contracts in this analysis, 18% (17) of respondents reported that contractor performance involved CAIG functions as shown in Figure 2.

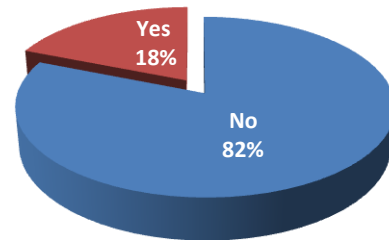


Figure 2: CAIG Functions

4. Determining whether the agency has specific safeguards and monitoring systems in place to ensure that work being performed by contractors has not changed or expanded during performance to become an IG function:

Monitoring methods, such as having a COR or GTM in place to oversee contract requirements, ensured that work performed by contractors did not change or expand during contract performance to become an IG function.

CORs and GTMs documented status reports, attended review meetings, and conducted performance evaluations. A "Request For Change" process is in place and must be approved by a Government FTE/COR. On some contracts the number of COR's are kept down to a minimal level just to take out the confusion of having conflicting orders from the government side, which removes excuses from contractors saying they didn't know who to go to for changes in scope of work.

5. Determining whether the agency is using contractor employees to perform critical functions in such a way that could affect the ability of the agency to maintain control of its mission and operations:

Based on respondent's interpretation of "critical function" the data revealed that 95% (89) of respondents stated that contractors were not performing critical functions; 3% (3) of respondents indicated that contractors were performing critical functions and 1% (1) of respondents indicated they were unsure whether or not contractors were performing critical functions.

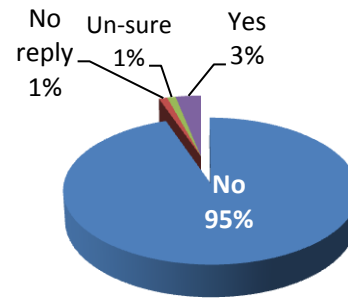


Figure 3: Critical Functions

This is indicated in Figure 3.

6. Determining whether there are sufficient internal agency resources to manage and oversee contracts effectively:

There were sufficient government CORs and GTMs to oversee contract requirements to maintain sufficient oversight of contract performance.

There were instances where some respondents indicated an insufficient number of CORs and GTMs, these situations seem to be limited to instances where there are too many physical locations to maintain a true picture of what is going on at each location with the people that is on the ground.

Respondents overwhelmingly indicated that they had sufficient government resources to oversee the contracts. The data revealed that 98% (93) of respondents stated that they had sufficient government resources, and 2%(2) of respondents indicated that they did not have sufficient government expertise to oversee the contract.

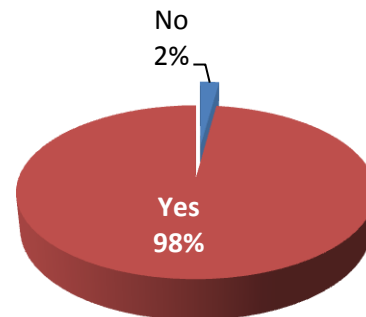


Figure 4: Sufficient government expertise

This is indicated in Figure 4.

5. Key Recommendations

The Service Contract Inventory provided a helpful tool for the Department. Based on a thorough review, analysis and experience conducting our second annual report, we recommend the following actions to improve our efforts in the future. Our recommendations include:

- When there is a switch of Contracting Officers and/or Contracting Officer's Representatives (COR) on a contract, due diligence should be given to update those changes in the contract files and all electronic databases.
- Assemble the "Lessons Learned" by CSM staff from the past two service contract analysis efforts and post them on our intranet website to assist Contracting Officers, Contracting Officer Representative and all others with future SCI analysis.
- Consider developing the survey in Microsoft Excel to easily collect, maintain and analyze the data and eliminate multiple entry requirements.
- Update the survey training presentation material to include and reflect changes and updates in the survey instrument. Consider inserting succinct "How to Complete the Survey" instruction points as part of the survey thus eliminating a separate attachment and allowing the respondent easy access on how to complete the survey.
- Review and hone the wording in the survey questions to eliminate any ambiguity that may exist.

6. Other Actions

The Department of State and A/CSM take the Service Contract Inventory very seriously. The following lists demonstrates actions above and beyond the requirement to perform the inventory and analyze the results. These items include:

- Regarding contracts that are closely associated to inherently governmental, advise program offices of the risk mitigation strategies available in procurement information bulletin number 2011-11 (Planning for Contract Administration). Conduct an annual survey to determine whether or not appropriate risk mitigation strategies have been put in place.
 - Procurement Information Bulletin 2012-11 (Preventing Contractor Performance of Inherently Governmental Functions) was approved on May 9, 2012. The title was changed from Planning for Contract Administration to the title in quotes, above.
- Developing a crosswalk between the FAIR Act inventory and the SCI through the use of a common coding system to provide information to management concerning their total workforce and its balance.
 - This crosswalk was completed in March 2012.
- Developing a new inherently governmental checklist to document those acquisitions that require additional attention and ensure the CO and COR work together to craft an appropriate management strategy.
 - Department of State form 4208 (DS-4208) entitled 'Request For Services Contract Approval.' This form has been created and approved and is currently being used in conjunction with the aforementioned PIB.

7. Appendix

7.1. Appendix A: Acronyms

A/CSM	Commercial Services Management office within the Bureau of Administration
A/LM/AQM	Office of Acquisitions Management within the Bureau of Administration
CAIG	Closely Associated to Inherently Governmental
CO	Contracting Officer
COR	Contracting Officer Representative
FAIR	Federal Activities Inventory Reform Act
FAR	Federal Acquisition Regulation
FPDS	Federal Procurement Data System
FTE	Government Full Time Equivalent
FY	Fiscal Year
GTM	Government Technical Monitor
IG	Inherently Governmental
OMB	Office of Management and Budget
PIB	Procurement Information Bulletin
PM	Program/Project Manager
PSC	Product and Service Code
QDDR	Quadrennial Diplomacy and Development Review
SCI	Service Contract Inventory

7.2. Appendix B: OMB Service Contract Inventory Memo



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

November 5, 2010

MEMORANDUM FOR CHIEF ACQUISITION OFFICERS
SENIOR PROCUREMENT EXECUTIVES

FROM: Daniel I. Gordon
Administrator

SUBJECT: Service Contract Inventories

Section 743 of Division C of the FY 2010 Consolidated Appropriations Act, P.L. 111-117, requires civilian agencies to prepare an annual inventory of their service contracts. This memorandum provides guidance to help agencies prepare their initial inventory covering service contracting in FY 2010.

A service contract inventory is a tool for assisting an agency in better understanding how contracted services are being used to support mission and operations and whether the contractors' skills are being utilized in an appropriate manner. An agency manager can gain insight into where, and the extent to which, contractors are being used to perform activities by analyzing how contracted resources are distributed by function and location across the agency and within its components. This insight is especially important for contracts whose performance may involve critical functions or functions closely associated with inherently governmental functions, as may be the case, for example, with contracts for various professional, administrative and management services falling within "Code R" of the Product and Services Code (PSC) Manual. Information about how contract resources are distributed, when taken into consideration as part of a balanced workforce analysis, can help an agency determine if its practices are creating an over-reliance that requires increased contract management or rebalancing to ensure the government is effectively managing risks and getting the best results for the taxpayer.

To maximize the management benefits associated with a service contract inventory and to ensure consistency across agencies, FY 2010 inventories shall be developed by agencies in accordance with the attached guidance. OMB will issue additional guidance to address the preparation of FY 2011 inventories, taking into consideration experiences with the development and use of FY 2010 inventories.

In accordance with section 743, agencies required to submit an inventory in accordance with the Federal Activities Inventory Reform Act of 1998 (Public Law 105-270; 31 U.S.C. 501 note), other than the Department of Defense, shall also prepare a service contract inventory.

2

Completed inventories shall be submitted to OMB's Office of Federal Procurement Policy (OFPP) through the MAX system. Agencies shall make the inventory available to the public by January 30, 2011. Additional instructions are provided in the attached guidance.

Questions regarding this memorandum may be referred to Jennifer Swartz (tel. 202-395-6811; e-mail: jswartz@omb.eop.gov) or Mathew Blum (tel. 202-395-4953; e-mail: mblum@omb.eop.gov) in OFPP.

Attachment

Attachment

**Guidance for the
Development and Analysis of Service Contract Inventories for FY 2010**

The effective development and analysis of a service contract inventory as part of human capital planning can help an agency determine if its mix of federal employees and contractors for a given program is effectively balanced or if rebalancing may be required. The Office of Federal Procurement Policy (OFPP) has developed the following guidance to support the creation of service contract inventories for FY 2010.

A. Scope of coverage

1. **Covered agencies.** Agencies subject to section 743 of Division C of the FY 2010 Consolidated Appropriations Act, P.L. 111-117, shall follow these instructions to address the requirements in section 743. Section 743 applies to agencies, other than the Department of Defense, that are required to submit an inventory in accordance with the Federal Activities Inventory Reform Act of 1998 (Public Law 105-270, 31 U.S.C. 501 note).

2. **Covered contract actions.** Agency inventories should include all service contract actions over \$25,000 that were awarded in FY 2010. Agencies should include contract actions that they have funded, including contract actions made on their behalf by other agencies. Similarly, agencies should exclude contract actions that they have made on another agency's behalf with the other agency's funding.

B. Development of inventory

1. **Data elements.** Using information in the Federal Procurement Data System (FPDS), agencies shall develop an inventory of their covered contract actions that includes the elements identified in section 743(a)(3) that are currently available in FPDS. FY 2010 inventories will not be required to include (i) the number of contractor employees, (ii) the total dollar amount invoiced for services, and (iii) the role the services play in achieving agency objectives. Separate efforts are being pursued to facilitate a standard, government-wide data collection process for this information so that it may be incorporated into agency inventories beginning in FY 2011. See Appendix A for a list of required elements for the FY 2010 inventory (and those that will be required in FY 2011). Additional information about the FY 2011 inventory is provided in subsection E, below.

2. **Structure.** The inventory shall be prepared in the standard format and data sequence shown in Appendix B. This standard format requires agencies to organize contract activity by service code to support reviews of contract activity that are focused around specific agency functions. Agencies shall also prepare a summary of their inventory using the standard format in Appendix C. The summary is designed to highlight information on the use of contractors to perform "special interest functions" (see subsection C, below) and also to show the services that accounted for the agency's greatest percentage of spend in FY 2010. Instructions for

downloading information from FPDS into the required formats are provided on the MAX community page, available at <https://max.omb.gov/community/x/z4OqHQ>.

3. **Submission and posting.** Agencies shall adhere to the following statutory deadlines for completion of their inventories:

a. **Submission to OMB.** By December 30, 2010, each agency that is required to submit an inventory in accordance with the Federal Activities Inventory Reform Act of 1998 (Public Law 105-270; 31 U.S.C. 501 note), other than the Department of Defense, shall submit the inventory prepared in accordance with this guidance to OFPP. Submissions shall be made through the MAX system at <https://max.omb.gov/community/x/z4OqHQ>. Instructions for registering with MAX can be found at <https://max.omb.gov/maxportal/>.

b. **Publication.** By January 30, 2011, the agency shall (1) make the inventory available to the public by posting the inventory on its agency homepage, (2) provide OFPP with the Web site address (URL) on which the inventory is being posted so that the inventory can be linked to a central OMB Web page, and (3) publish in the *Federal Register* a notice that the inventory is available to the public along with the name, telephone number, and e-mail address of an agency point of contact.

C. **Analysis of inventory**

By June 30, 2011, agencies shall conduct a meaningful analysis of the data in their inventories for the purpose of determining if contract labor is being used in an appropriate and effective manner and if the mix of federal employees and contractors in the agency is effectively balanced. Analyses shall cover the elements called for by section 743(e)(2) (see Appendix D for a description of these elements), and be based on reviews informed through sampling of contract files, interviews of program managers and contracting officer technical representatives, and other appropriate information-gathering activities. In carrying out these actions, agencies should review OMB's rebalancing guidance, OMB Memorandum M-09-26, issued on July 29, 2009, and take into consideration, as appropriate, the management responsibilities described in OFPP's proposed policy letter, "Work Reserved for Performance by Federal Government Employees" (75 Fed. Reg. 16188; March 31, 2010), or the final form of that policy letter, when issued. They should also refer to any relevant internal guidance addressing contract management and balanced workforce planning.

As required by section 743(e)(3) and (4), agency analyses should identify contracts that have been poorly performed, as determined by the responsible contracting officer, because of excessive costs or inferior quality; and contracts that should be considered for conversion to--

- (i) performance by Federal employees of the executive agency in accordance with agency insourcing guidelines required under section 736 of the Financial Services and General Government Appropriations Act, 2009 (Public Law 111-8, division D) and OMB Memorandum M-09-26; or

- (ii) an alternative acquisition approach that would better enable the agency to efficiently utilize its assets and achieve its public mission.

Recognizing the challenges associated with conducting meaningful reviews of every contracted function simultaneously, which may involve tens of thousands of actions for some federal organizations and many thousands for others, agencies should give priority consideration to special interest functions. Special interest functions are functions that require increased management attention due to heightened risk of workforce imbalance.

Accordingly, agency reviews shall give priority consideration to agency use of contracted (a) professional and management services and (b) information technology support services. Review of professional and management services should include acquisition support and an appropriate sampling of policy and program management and development services. An illustrative list of suitable functions is provided in Table 1, below. These functions have been identified by OMB for heightened management consideration, based on concerns of increased risk of losing control of mission and operations as identified through a review of reports issued in recent years, such as by the Government Accountability Office, the Commission on Wartime Contracting, agency Inspectors General, Congressional Committees, and the Acquisition Law Advisory Panel (also referred to as the “SARA Panel”), as well as by OMB’s own analysis.

Table 1. Special Interest Functions – FY 2010

Description of Function	Product & Service Code
PROFESSIONAL & MANAGEMENT SERVICES	
Cost Benefit Analyses	B505
Policy Review/Development Services	R406
Program Evaluation Services	R407
Program Management/Support Services	R408
Program Review/Development Services	R409
Specifications Development Service	R413
Management Services/Contract & Procurement Support	R707
Intelligence Services	R423
Engineering and Technical Services	R425
Systems Engineering Services	R414
Personal Services Contracts	R497
INFORMATION TECHNOLOGY SUPPORT SERVICES	
ADP Systems Development Services	D302
Automated Information Systems Services	D307
ADP System Acquisition Support Services	D314
ADP Backup and Security Services	D310

Although agencies are expected to evaluate the types of services described above, reviews are not intended to be limited to these activities. Each agency should identify additional contracted functions, as appropriate, and especially if they are critical functions,¹ where the agency may be at risk of overreliance on contractors or other challenges, based on factors such as inadequate contract management support, historical performance challenges associated with contracting, or the level of risk associated with contract performance. Agencies may wish to consider a broader review of a functional area that was the subject of the agency's workforce pilot (under Attachment 2 of M-09-26) where the analysis indicated the agency was overly reliant on contractors. Agency evaluations should be conducted as part of, or in conjunction with, human capital workforce planning reviews and should consider, as appropriate, information in inventories prepared in accordance with the Federal Activities Inventory Reform Act.

In many cases, analysis will reveal that contractor performance remains an acceptable choice, but may require increased oversight to manage performance risk. In some cases, however, analysis may indicate that the work must or should be performed by federal employees.

D. Agency reporting

By March 1, 2011, the agency should inform OFPP of the special interest functions, by PSC code that it will analyze from the FY 2010 inventory. By December 30, 2011, each agency shall submit a report to OMB that discusses the analyses conducted pursuant to subsection C and the actions taken, including any actions taken to convert functions from contractor to Federal employee performance. The report should indicate concurrence, at a minimum, by the Chief Acquisition Officer / Senior Procurement Executive, the Chief Human Capital Officer, and, if information technology functions are identified as special interest functions, the Chief Information Officer. The report shall include an executive summary suitable for public disclosure with the FY 2011 inventory.

E. Future inventories

1. **Additional inventory data elements.** Beginning in FY 2011, agency inventories will be required to include: (i) the number of contractor and first tier subcontractor employees, (ii) the total dollar amount invoiced for services, and (iii) the role the services play in achieving agency objectives. This additional information can help to provide a more detailed understanding of how an agency is using contractors to accomplish its mission. Greater visibility into the amount of contractor (and subcontractor) personnel may help an agency in performing a balanced workforce analysis, especially for professional and technical services that are performed by contractor and government personnel co-located in government workspace. Knowing the amount invoiced, in combination with direct labor hours, may help an agency assess the cost-effectiveness of contracted labor.

¹ For purposes of this guidance document, critical functions are those that are necessary to the agency being able to effectively perform and maintain control of its mission and operations. A function that would not expose the agency to risk of mission failure if performed entirely by contractors is not a critical function for these purposes.

Information on the number of contractor employees is not currently collected on a government-wide basis and requires a regulatory action so that this information may be obtained in a consistent manner from contractors. Information regarding the role the service plays requires additional documentation in the contract file. The Federal Acquisition Regulatory Council will soon publish regulatory changes to address the collection of this information so that these elements may be included in agencies' inventories beginning in FY 2011.

2. **Updating of special interest functions.** Prior to issuing guidance for the FY 2011 inventory, OMB will confer with the President's Management Council, the Chief Acquisition Officers Council, the Chief Human Capital Officers Council, the Chief Financial Officers Council, and the Chief Information Officers Council to consider additions or changes to the list of special interest functions in Table 1 based on current management challenges. Agencies will be expected to continually review and revise, as appropriate, special interest functions for priority analysis.

cc: Chief Human Capital Officers
Chief Information Officers
Chief Financial Officers

Department of State – Appendix C: Summary of Service Contract Inventory

7.3. Appendix C: Service Contract Inventory Summary

Service Contract Inventory Summary Format - Department of State																						
page 2																						
Numbers obtained from HPUS on December 2, 2017			Contract Type/Analyst				Competition Analyst				Time of Obligation/Analyst				Small Business Analyst							
			[as % of PSC obligations]				[as % of PSC obligations]				[as % of PSC obligations]				[as % of PSC obligations]							
Product or Service Code	Product or Service Code Description	Obligations	Total Obligations	Fixed Price	Cost	T&M/ LTR	Other	Not Competed	Not Available for Competition	Not Available for Competition	Week	Q1	Q2	Q3	Q4	Small Business	SDB	Program	WDBR	STWDBR	HUBZone	WDBR
Special Interest Functions																						
B506	ADJ. BENEF. ANALYSTS	\$0	0%	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
R406	POLICY REVIEW/DEVELOPMENT SVCS	\$ 3,308,625	0%	60%	0%	15%	0%	53%	0%	7%	0%	10%	17%	5%	15%	70%	22%	7%	10%	0%	10%	4%
R407	PROGRAM EVALUATION SVCS	\$ 21,592,842	0%	18%	0%	64%	0%	59%	0%	1%	0%	4%	28%	21%	45%	5%	2%	1%	2%	0%	2%	2%
R408	PROGRAM MANAGEMENT/SUPPORT SVCS	\$ 1,000,192,155	14%	44%	0%	25%	25%	59%	3%	5%	1%	5%	14%	11%	65%	17%	8%	6%	6%	4%	4%	2%
R409	PROGRAM REVIEW/DEVELOPMENT SVCS	\$ 3,001,163	0%	40%	10%	41%	0%	50%	0%	4%	0%	1%	1%	20%	70%	40%	17%	4%	4%	4%	0%	10%
R413	SPECIFICATIONS DEVELOPMENT SVCS	\$0	0%	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
R400	INFO SVCS/COM. INFO & DOCUMENTATION SUP	\$ 80,514,251	0%	67%	1%	25%	0%	73%	13%	3%	5%	18%	22%	21%	59%	72%	18%	14%	41%	11%	3%	10%
R420	INTELLIGENCE SVCS	\$ 10,900,612	0%	50%	0%	7%	0%	50%	2%	0%	0%	1%	10%	40%	10%	10%	0%	0%	10%	0%	0%	0%
R425	ENGINEERING AND TECHNICAL SVCS	\$ 7,547,461	0%	57%	30%	13%	0%	57%	5%	1%	0%	5%	17%	31%	45%	43%	6%	5%	1%	0%	0%	4%
R414	SYSTEMS ENGINEERING SVCS	\$ 10,900,645	0%	15%	0%	81%	0%	57%	3%	0%	0%	4%	9%	35%	14%	75%	6%	3%	3%	0%	0%	1%
R407	PERSONAL SERVICES CONTRACTS	\$ 4,223,467	0%	52%	0%	1%	0%	52%	0%	0%	0%	0%	2%	36%	0%	0%	0%	0%	0%	0%	0%	0%
R307	ADP SYSTEMS DEVELOPMENT SVCS	\$ 49,897,509	1%	41%	0%	55%	0%	70%	5%	15%	1%	5%	2%	34%	59%	49%	30%	31%	15%	2%	0%	3%
D307	AUTOMATED INFORMATION SYSTEM SVCS	\$ 59,174,637	0%	13%	11%	20%	35%	67%	5%	5%	12%	1%	3%	35%	55%	55%	12%	10%	7%	0%	0%	5%
D314	ADP ACQUISITION SUP SVCS	\$ 9,220,167	0%	52%	0%	46%	0%	71%	0%	20%	0%	0%	44%	5%	45%	50%	10%	50%	20%	2%	0%	0%
D310	ADP BACKUP AND SECURITY SVCS	\$ 16,779,509	0%	39%	0%	4%	0%	57%	0%	0%	68%	0%	59%	3%	73%	4%	4%	4%	0%	0%	0%	4%
Digest Percentage of Obligations																						
Y111	CONSTRUCTION OF OFFICE BUILDINGS	\$ 2,159,801,547	77%	100%	0%	0%	0%	53%	1%	1%	0%	5%	8%	37%	51%	15%	2%	3%	1%	0%	1%	2%
S206	GRAND SERVICES	\$ 1,358,181,342	17%	37%	0%	62%	1%	72%	17%	0%	5%	2%	18%	22%	55%	2%	2%	0%	0%	0%	0%	0%
R408	PROGRAM MANAGEMENT/SUPPORT SVCS	see above																				
R399	OTHER ADP & TELECOMMUNICATIONS SVCS	\$ 528,128,554	7%	55%	0%	40%	0%	50%	3%	15%	1%	11%	9%	25%	55%	50%	31%	16%	3%	2%	3%	4%
R025	SERVICES (OPERATIONAL)	\$ 475,592,970	6%	0%	0%	0%	99%	100%	0%	0%	0%	10%	33%	14%	42%	0%	0%	0%	0%	0%	0%	0%
R000	OTHER ADP INQUIRY SUPPORT SVCS	\$ 270,000,015	3%	57%	10%	10%	10%	10%	40%	11%	5%	5%	22%	20%	47%	21%	10%	0%	0%	0%	2%	2%
R706	BOOKSTORE SUPPORT SERVICES	\$ 156,861,461	2%	72%	47%	10%	11%	54%	5%	1%	0%	1%	5%	15%	79%	5%	4%	1%	2%	1%	0%	1%
S216	BOOKSTORE OPERATIONS SUPPORT SERVICES	\$ 156,560,012	2%	59%	0%	1%	0%	59%	0%	4%	0%	2%	15%	11%	45%	21%	19%	22%	2%	1%	14%	2%
ADG1	CONSTRUCTION (BASIC)	\$ 120,222,173	2%	100%	0%	0%	0%	60%	7%	4%	0%	1%	1%	4%	54%	10%	10%	5%	11%	0%	0%	4%
D311	ADP SVCS (INFO) LANDSCAPING INTERIOR	\$ 102,554,715	2%	55%	0%	3%	0%	74%	1%	1%	17%	5%	44%	15%	55%	12%	3%	3%	1%	0%	0%	4%

7.4. Appendix D: FY10 Special Interest Function Codes Reviewed

SPECIAL INTEREST FUNCTIONS - FY2011		
Product or Service Code	Product or Service Description	Action Obligation
PROFESSIONAL & MANAGEMENT SERVICES		
R406	POLICY REVIEW/DEVELOPMENT SERVICES	\$ 3,308,626
R407	PROGRAM EVALUATION SERVICES	\$ 21,592,842
R408	PROGRAM MANAGEMENT/SUPPORT SERVICES	\$ 1,000,132,155
R409	PROGRAM REVIEW/DEVELOPMENT SERVICES	\$ 3,681,188
R707	MGT SVCS/CONTRACT & PROCUREMENT SUP	\$ 30,514,251
R423	INTELLIGENCE SERVICES	\$ 16,908,612
R425	ENGINEERING AND TECHNICAL SERVICES	\$ 7,547,461
R414	SYSTEMS ENGINEERING SERVICES	\$ 10,900,646
R497	PERSONAL SERVICES CONTRACTS	\$ 4,223,487
INFORMATION TECHNOLOGY SUPPORT SERVICES		
D302	ADP SYSTEMS DEVELOPMENT SERVICES	\$ 43,837,529
D307	AUTOMATED INFORMATION SYSTEM SVCS	\$ 39,174,637
D314	ADP ACQUISITION SUP SVCS	\$ 9,229,167
D310	ADP BACKUP AND SECURITY SERVICES	\$ 16,279,509
OTHER SERVICES		
Y111	CONSTRUCTION OF OFFICE BUILDINGS	\$ 2,169,801,542
S206	GUARD SERVICES	\$ 1,363,184,342
D399	OTHER ADP & TELECOMMUNICATIONS SVCS	\$ 578,128,534
AD25	SERVICES (OPERATIONAL)	\$ 475,682,970
R699	OTHER ADMINISTRATIVE SUPPORT SVCS	\$ 278,865,915
R706	LOGISTICS SUPPORT SERVICES	\$ 166,861,461
S216	FACILITIES OPERATIONS SUPPORT SERVICES	\$ 153,530,042
AD61	CONSTRUCTION (BASIC)	\$ 129,222,178
C211	A/E SVCS. (INCL LANDSCAPING INTERIO	\$ 122,554,716

The FY 2011 submission will examine the same special interest codes reviewed in this report as well as the top ten PSC categories in which services were procured for the Department of State.

7.5. Appendix E: SCI Analysis Survey

Department of State

SCI ANALYSIS

Name of Interviewer

Name of Interviewee

PIID- Contract number

Office Symbol

Date

Circle all that apply to this contract (CO, CS, COR, PRG MGR, Project Mgr)

Role:

Time Involved with Project:

INSTRUCTIONS:

Please respond based on your interpretation and understanding only. Write N/A if a question does not belong to you or if you are unsure of its answer. Based on the answers provided, a follow-up conversation may be required; at that time please be prepared to discuss your answers contained within this document, comment as fully as possible, and frankly discuss the issues with the interviewer.

Department of State – Appendix E: SCI Analysis Survey

#	Questions	NO	YES	If “YES” give a specific example.
1.	Do contract tasks involve contractors providing legal advice and / or final interpretations of regulations and statutes to Government officials?			
2.	Do contract tasks involve the direct conduct of criminal investigations?			
3.	Do contract tasks involve the direct control of prosecutions and performance of adjudicatory functions other than those relating to arbitration or other methods of alternative dispute resolution?			
4.	Do contract tasks involve the conduct of foreign relations and the final determination of foreign policy, budget policy, budget request, guidance, and strategy?			
5.	Do contract tasks involve the final determination of agency policy, such as determining the content and application of regulations, among other things?			
6.	Do contract tasks involve the final direction and control of Federal employees?			
7.	Do contract tasks involve the final direction and control of intelligence and counter-intelligence operations?			
8.	Do contract tasks involve the final selection or non-selection of individuals for Federal Government employment, including the interviewing of individuals for employment?			
9.	Do contract tasks involve the final approval of position descriptions and performance standards for Federal employees?			
10.	Do contract tasks involve the final determination of what Government property is to be disposed of and on what terms (although an agency may give contractors authority to dispose of property at prices within specified ranges and subject to other reasonable conditions deemed appropriate by the agency)?			
11.	Do contract tasks involve making the final decision on determining what supplies or services are to be acquired by the Government (although an agency may give contractors authority to acquire supplies at prices within specified ranges and subject to other reasonable conditions deemed appropriate by the agency)?			
12.	Do contract tasks involve the final approval of agency responses to Freedom of Information Act requests (other than routine responses that, because of <u>statute</u> , <u>regulation</u> , or <u>agency policy</u> , do not require the exercise of judgment in determining whether documents are to be released or withheld), and the final approval of agency response to the administrative appeals of denials of Freedom of Information Act requests?			

Department of State – Appendix E: SCI Analysis Survey

#	Questions	NO	YES	If "YES" give a specific example.
13.	Do contract tasks involve the conduct of administrative hearings to determine the final eligibility of any person for a security clearance, or involving actions that affect matters of personal reputation or eligibility to participate in Government programs?			
14.	Do contract tasks involve the drafting of Congressional testimony, responses to Congressional correspondence, or agency responses to audit reports from the Inspector General, the Government Account Office, or other Federal audit entity?			
15.	Do contract tasks require the exercise of discretion in applying Federal Government Authority?			
16.	Do contract tasks require, without government direct input, the making of value judgments in making final decisions for the Federal Government?			
17.	Do contract tasks require making the final judgment as relating to monetary transactions and entitlements?			
18.	Do contract tasks involve the final interpretation and execution of the laws of the United States so as to bind the US to take or not take some action by contract, policy, regulation, authorization, order or otherwise?			
19.	Do contract tasks involve the interpretation and execution of the laws of the United States to determine, protect and advance the United States economic, political, territorial, property or other interests by military or diplomatic action, civil or criminal judicial proceedings, contract management or otherwise?			
20.	Do contract tasks involve final approval of any contractual documents, to include documents defining requirements, incentive plans, and evaluation criteria?			
21.	Do contract tasks involve the final determination in awarding or termination of contracts?			
22.	Do contract tasks involve administering contracts (including ordering changes in contract performance or contract quantities, taking action based on evaluations of contractor performance, and making the final acceptance or rejection of contractor products or services)?			
23.	Do contract tasks involve the final determination of whether contract costs are reasonable, and allowable?			
24.	Do contract tasks involve participating as a voting member on performance evaluation boards?			
25.	Do contract tasks involve services that involve or relate to budget preparation, including workload modeling, fact finding, efficiency studies, and should-cost analyses, etc.?			
26.	Do contract tasks involve services that involve or relate to reorganization and planning activities?			

Department of State – Appendix E: SCI Analysis Survey

#	Questions	NO	YES	If "YES" give a specific example.
27.	Do contract tasks involve services that involve or relate to analyses, feasibility studies, and strategy options to be used by agency personnel in developing policy?			
28.	Do contract tasks involve services that involve or relate to the development of regulations?			
29.	Do contract tasks involve contractors participating in any situation where it might be assumed that they are agency employees or representatives?			
30.	Do contract tasks involve any of the duties that are associated with the acquisition and program management staff (i.e.: acquisition planning, contract management (such as where the contractor might influence official evaluation of other contractors), technical evaluation of contract proposals, assistance in development of statements of work, providing information regarding agency policies or regulations such as attending conferences on behalf of an agency, conducting community relations campaigns, or conducting training courses evaluation of another contractor performance, serving as arbitrators, being privy to confidential business information,...)?			
31.	Do contract tasks involve contractors constructing buildings or structures intended to be secure from electronic eavesdropping or other penetration by foreign governments?			
32.	Do contract tasks involve contractors providing inspection services?			
33.	Do contract tasks involve contractors providing special non-law enforcement, security activities that do not directly involve criminal investigations, such as prisoner detention or transport and non-military national security details, or private security contractor operating overseas?			
34.	Do contract tasks involve contract interrogators, or combat security training, or logistics support required for weapon systems which deploy with operational units?			
35.	Do contract tasks involve contractors participating as technical advisors to a source selection board or participating as voting or nonvoting members of a source evaluation board?			

#	Service Contract Inventory Narrative Questions
1.	Is there sufficient government expertise to oversee contractor performance of the contract?
2.	Are there sufficient control mechanisms and sufficient numbers of federal government employees to ensure that contractors' roles have not expanded during performance to become an inherently governmental function?
3.	Please provide Program Manager or Project Manager name and title for task associated with your portion of the contract (a) Please Provide full contact information (Full Name, Title, Phone Number, Email and Mailing Address) for all Project/Program Managers

#	Service Contract Inventory Narrative Questions
	related to your portion of this contract.
4.	Is the agency using contractor employees to perform critical functions in such a way that could affect the ability of the agency to maintain control of its mission and operations? ___Yes ___No Please explain.
5.	Approximately how many Contractors are working under your portion of the contract (where contractors = number of Full time personnel, not vendors /or subs) ? How many COR's/GTM's are providing oversight?
6.	Please describe your level of interaction with (CO / CS / COR / PM)? Describe your level of interaction with the contractor, if any.
7.	How would you rate the contractor's performance? ___Poor ___Adequate ___Exceptional
8.	What would your preference be for who should perform this work (Contractors or government employees)? Is this the way the organization is currently staffed? If not, why not? Government, the Contracting Officer is an Inherently Government position.