



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

March 19, 2018

OFFICE OF FEDERAL
PROCUREMENT POLICY

The Honorable Ron Johnson
Chairman
Committee on Homeland Security and Governmental Affairs
United States Senate
Washington, D.C. 20510

Dear Mr. Chairman:

This letter summarizes Fiscal Year (FY) 2016 service contract reviews performed by civilian agencies, as required by section 743 of Division C of the FY 2010 Consolidated Appropriations Act, Pub. L. No. 111-117. Section 743 requires covered agencies¹ to review their service contracts annually, evaluate whether contractors are being used appropriately, and consider adjustments in the mix of Federal employees and contractors where beneficial.

OMB provided instructions to assist agencies in their preparation of inventories and associated analyses required by law. The instructions discussed recommendations for improving the quality of reporting, including a reminder about recommendations made by the Government Accountability Office.² Agencies continue to take steps to improve their inventories. For example, the Department of the Interior reported improvements in the quality of their data due to their purchase and use of commercial software to scan their contract information. When the software reported an inconsistency, contracting personnel corrected or justified the data.

During the reporting period, all covered Chief Financial Officer (CFO) Act agencies prepared inventories and analyses. In addition, 20 non-CFO Act agencies provided information on their contracted services. As in previous years, several agencies reviewed information technology and telecommunication services. Program management and professional support services were also popular topics. Some agencies reviewed functions that were more directly related to their mission. For example, the Department of Labor reviewed education, training and vocational services. See Enclosure 1 for a list of primary functions reviewed by each covered CFO Act agency. According to the agency reports, covered CFO Act agencies did not find a significant overreliance on contractors.

Attention continues to be given to using inventory information as a data point for evaluating service contracting costs for different types of functions. In FY 2014, agencies began requiring their contractors to report the total amount invoiced and the direct labor hours expended on certain contracts. As a result, an approximate hourly rate for a service can be calculated by dividing the amount invoiced by the number of direct labor hours expended. Since multiple products and services are often acquired under a single contract and the contract is classified according to the predominant service performed, the cost of other products or services acquired under the same contract may distort

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 GAO-12-1007, September 2012, *Civilian Service Contract Inventories: Opportunities Exist to Improve Agency Reporting and Review Efforts* recommends agencies (i) identify accountable officials responsible for the development and review of inventories, (ii) describe the scope of the inventory reviews, and (iii) identify follow-up steps and open actions.

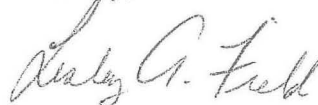
a calculation of the price paid. For this reason, agencies have been cautioned that any comparison of prices paid using inventory data should be followed by a review of contract files to determine if services were acquired under different terms and conditions, represent different quality levels, and/or are used under different circumstances.

Attention is also being given to how the utility of inventory data can be improved both through administrative and legislative action. Administrative actions have focused around data consolidation. In previous years, each agency posted the data on their website as a supplement to their inventory. However, the decentralized process made a government-wide analysis difficult. Beginning this year, all of the contract data, the amounts invoiced and the direct labor hours expended have been consolidated in a single government-wide inventory posted on www.acquisition.gov. The government-wide file can be filtered by agency, product service code, vendor, place of performance and other attributes. These improvements are designed, in part, to help managers determine more easily where their attention is required. The consolidation relieves agencies of the burden of having to generate individual inventories themselves. This action furthers the goals of OMB Memorandum M-17-26³, which seeks to reduce administrative burden associated with OMB direction.

Legislative changes were also proposed to improve the utility of inventories. Last July, the Administration submitted a legislative proposal for consideration in the National Defense Authorization Act that would raise the threshold for civilian contractor reporting on total amount invoiced and total hours worked to match the statutory threshold established for defense contractors. The proposal would reduce burden on contractors. The higher threshold would also provide relief to agencies that could be used to give greater attention to leveraging alternative approaches for gauging how service contractors are being used. For example, recent regulatory changes create standards for contracts to include uniform use of line items that will provide more details on what is being purchased. In addition, an ongoing migration to electronic invoicing will provide greater visibility and access to more granular data that will allow the Government to use information already reported by contractors to meet the majority of the inventory reporting requirement for prime contractors. These changes and ongoing efforts to transition to electronic invoicing will help ensure better transparency into and analysis of Federal contract pricing and purchasing activities. See Enclosure 2 for a copy of the proposal that was submitted to Congress.

We look forward to working with you and other members of Congress in our continued effort to maximize the benefits of our contracted services and the quality of management tools that our workforce can use to achieve this goal.

Sincerely,



Lesley A. Field
Deputy Administrator

Enclosures

³ OMB Memorandum M-17-26, Reducing Burden for Federal Agencies by Rescinding and Modifying OMB Memoranda, <https://www.whitehouse.gov/sites/whitehouse.gov/files/omb/memoranda/2017/M-17-26.pdf>

Service Contract Inventory
Primary Functions Reviewed During the FY 2016 Reporting Period¹

Agency	Primary Functions Reviewed
Department of Agriculture	<ul style="list-style-type: none"> • IT & Telecommunications • Special Studies/Analysis • Professional Support Services
Department of Commerce	<ul style="list-style-type: none"> • Engineering & Technical Services • IT & Telecommunications • Management Support Services
Department of Education	<ul style="list-style-type: none"> • IT & Telecommunications • Debt Collection Services • Financial Management
Department of Energy	<ul style="list-style-type: none"> • Environmental Services • Building Construction • IT & Telecommunications
Department of Health and Human Services	<ul style="list-style-type: none"> • Automated Data Processing • Management Support • Professional Support
Department of Homeland Security	<ul style="list-style-type: none"> • Special Studies/Analysis • Professional/Administrative/Management Support • IT Support Services
Department of Housing and Urban Development	<ul style="list-style-type: none"> • Automated Information System Services • Program Management Support • Engineering & Technical Services
Department of the Interior	<ul style="list-style-type: none"> • Engineering & Technical Support • Architecture & Engineering Services • Construction & Building Repair

¹ The FY 2016 reporting period required agencies to analyze their FY 2015 data. Section 743 allows agencies one year to report to OMB.

Agency	Primary Functions Reviewed
Department of Justice	<ul style="list-style-type: none"> • Management Support • Professional Support • IT & Telecommunications
Department of Labor	<ul style="list-style-type: none"> • Operation of Educational Buildings • Education, Training and Vocational Services • Program Management Services
Department of State	<ul style="list-style-type: none"> • IT & Telecommunications • Special Studies • Professional Support Services
Department of Transportation	<ul style="list-style-type: none"> • Engineering/Technical Support • Program Management Services
Department of the Treasury	<ul style="list-style-type: none"> • Management Accounting • IT & Telecommunications • Legal Support
Department of Veterans Affairs	<ul style="list-style-type: none"> • Program Management Support • IT & Telecommunications • Engineering & Technical Services
Environmental Protection Agency	<ul style="list-style-type: none"> • Advisory Services • Information Technology • Management Support
General Services Administration	<ul style="list-style-type: none"> • Management Support Services • Equipment Repair
National Aeronautics and Space Administration	<ul style="list-style-type: none"> • Aeronautics/Space Technology Basic Research • Science/Applications Research/Exploratory Development
National Science Foundation	<ul style="list-style-type: none"> • Special Studies/Analysis • Research & Development Management/Support
Nuclear Regulatory Commission	<ul style="list-style-type: none"> • Basic Research

Agency	Primary Functions Reviewed
Office of Personnel Management	<ul style="list-style-type: none"> ● Program Management Support Services
Small Business Administration	<ul style="list-style-type: none"> ● Credit Reporting ● IT & Telecommunications ● Professional Services
Social Security Administration	<ul style="list-style-type: none"> ● Intelligence Support
US Agency for International Development	<ul style="list-style-type: none"> ● Program Evaluation, Review and Development ● Technical Assistance ● Professional Services

1
2 **SEC. __. AMENDMENTS RELATING TO SERVICE CONTRACT INVENTORY**
3 **REPORTING REQUIREMENTS.**

4 Section 743(a)(3) of Division C of the Consolidated Appropriations Act, 2010 (Public
5 Law 111-117; 123 Stat. 3216) is amended in the matter preceding subparagraph (A)—

6 (1) in the first sentence, by inserting “that have a value of more than \$3,000,000,
7 including all options,” in the first sentence before “awarded or extended through the
8 exercise of an option”; and

9 (2) in the second sentence, by inserting “covered” before “service contract”.

Section-by-Section Analysis

This provision is designed to reduce procurement reporting burdens on Federal contractors and civilian agencies by raising the applicability threshold of section 743 of Division C of the Consolidated Appropriations Act, 2010 (P.L. 111-117). Section 743 requires (i) contractors to report the total amount invoiced and the direct labor hours expended on covered contracts, (ii) civilian agencies to prepare and analyze inventories of the functions performed by their service contractors (including the total amount invoiced and direct labor hours expended), and (iii) the Office of Management and Budget to provide Congress with a summary of the agencies’ analyses. Despite the good intention underlying this provision, the inventory process has produced limited value for the significant amount of effort required of contractors and related work required of agencies. By raising the applicability threshold, contractors’ reporting burdens would be reduced. Additionally, the higher threshold is consistent with that in section 812 of the National Defense Authorization Act for FY 2017 for a similar requirement imposed on the Department of Defense in 10 U.S.C. 2330a. Finally, the Federal government could benefit from increased reliance on alternative approaches that are increasing insight into how agencies are using service contractors.

The purpose of the inventory is to help agencies 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. Since the law was enacted, agencies have prepared inventories using a standard format and data sequence set forth in OMB guidance that has been updated periodically to highlight best practices, including recommendations made by the Government Accountability Office to improve the quality of reporting. The majority of agencies reviewed at least some work related to information technology, and many reviewed program

management, professional support services and engineering and technical services. Several agencies also reviewed functions that are significant to their mission activities (e.g., the Department of Education studied debt collection services performed by its contractors and the Small Business Administration looked at credit reporting).

As part of its evaluation of paperwork burden under the Paperwork Reduction Act, the Federal Acquisition Regulatory Council determined that this reporting requirement creates almost 48,000 hours of burden annually on contractors. Despite this burden, service contract inventory data is likely to have only limited value as a general indicator, because contract reporting is currently based on the predominant service performed and requires contractors to report data that would not normally be required by the Government under firm fixed price contracts.

Since the law was enacted, a number of important steps have been taken to improve the government's ability to better understand how it is using contractor resources and consider how such resources are most effectively balanced with work performed by Federal employees. In particular:

- Agency insight into spending for common goods and services is being improved through the use of category management, a proven business practice where spending for common goods and services (including professional services) is supported by teams of subject matter experts share market intelligence specific to their category with the acquisition workforce so they can make better and more informed buying decisions to improve contracts and leverage government-wide solutions when it makes sense.
- Efforts have been taken to determine where common administrative services managed by Federal agencies might be consolidated or shared.
- Recent regulatory changes create standards for contracts to include uniform use of line items that will provide more details on what is being purchased. In addition, an ongoing migration to electronic invoicing will provide greater visibility and access to more granular data that will allow the Government to use information already reported by contractors to meet the majority of the SCI reporting requirement for prime contractors. These changes and ongoing efforts to transition to electronic invoicing will help ensure better transparency into and analysis of Federal contract pricing and purchasing activities.
- Reporting under the Digital Accountability and Transparency Act of 2014 (DATA Act) (P.L. 113-101) will provide agencies, oversight bodies, and the public the information on funds expended under all contracts.

By raising the applicability threshold to contracts over \$3,000,000 to match the level Congress set for the Department of Defense, relief would be provided for tens of thousands of contracts and the many entities that perform under them and agencies would rely instead on the alternative efforts described above for more meaningful insight.

Budget Implications: There would be no budgetary impact as a result of these legislative changes because the proposal is only an authorization and would not increase the overall budget requirements of the Department or any other Federal agency.

Changes to Existing Law: The proposal would amend section 743 of Division C of the Consolidated Appropriations Act, 2010 as follows:

SEC. 743. (a) SERVICE CONTRACT INVENTORY REQUIREMENT.—

(1) GUIDANCE.—Not later than March 1, 2010, the Director of the Office of Management and Budget shall develop and disseminate guidance to aid executive agencies in establishing systems for the collection of information required to meet the requirements of this section and to ensure consistency of inventories across agencies.

(2) REPORT.—Not later than July 31, 2010, the Director of the Office of Management and Budget shall submit a report to Congress on the status of efforts to enable executive agencies to prepare the inventories required under paragraph (3), including the development, as appropriate, of guidance, methodologies, and technical tools.

(3) INVENTORY CONTENTS.—Not later than December 31, 2010, and annually thereafter, the head of each executive agency 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 to the Office of Management and Budget an annual inventory of service contracts **that have a value of more than \$3,000,000, including all options** awarded or extended through the exercise of an option on or after April 1, 2010, for or on behalf of such agency. For each **covered** service contract, the entry for an inventory under this section shall include, for the preceding fiscal year, the following:

(A) A description of the services purchased by the executive agency and the role the services played in achieving agency objectives, regardless of whether such a purchase was made through a contract or task order.

(B) The organizational component of the executive agency administering the contract, and the organizational component of the agency whose requirements are being met through contractor performance of the service.

(C) The total dollar amount obligated for services under the contract and the funding source for the contract.

(D) The total dollar amount invoiced for services under the contract.

(E) The contract type and date of award. H. R. 3288—184

(F) The name of the contractor and place of performance.

(G) The number and work location of contractor and subcontractor employees, expressed as full-time equivalents for direct labor, compensated under the contract.

(H) Whether the contract is a personal services contract.

(I) Whether the contract was awarded on a noncompetitive basis, regardless of date of award.

Identical Letter Sent to:

The Honorable Ron Johnson
Chairman
Committee on Homeland Security
and Governmental Affairs
United States Senate
Washington, DC 20510

The Honorable Claire C. McCaskill
Ranking Member
Committee on Homeland Security
and Governmental Affairs
United States Senate
Washington, DC 20510

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

The Honorable Elijah E. Cummings
Ranking Member
Committee on Oversight and
Government Reform
U.S. House of Representatives
Washington, DC 20515