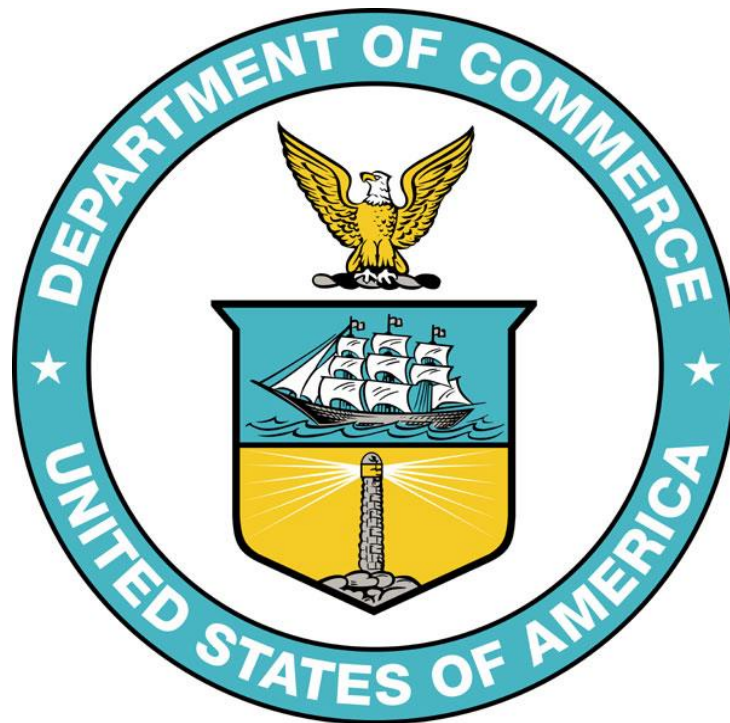


DEPARTMENT OF COMMERCE



SERVICE CONTRACT INVENTORY ANALYSIS REPORT FISCAL YEAR 2013

January 30, 2015

I. **Executive Summary**

The historic mission of the Department of Commerce (Department, DOC) is "to foster, promote and develop the foreign and domestic commerce" of the United States. This has evolved, as a result of legislative and administrative additions, to encompass the responsibility to foster, serve, and promote the Nation's economic development and technological advancement. The Department fulfills this mission by participating with other Government agencies in the creation of national policy; promoting and assisting international trade; strengthening the international economic position of the United States; promoting progressive domestic business policies; improving comprehension and uses of the physical environment and its oceanic life; ensuring effective use and growth of the Nation's scientific and technical resources; acquiring, analyzing, and disseminating information regarding the Nation and the economy to help achieve increased social and economic benefit; and assisting States, communities, and individuals with economic progress.

In order to fulfill DOC's mission, acquiring goods and services is essential as approximately one-third of the Department's budget is expended through the execution of Federal contracts to support mission-critical programs such as: FirstNet, weather forecasting, satellite acquisitions, intellectual property protection, broad-band technology, management of coastal and ocean resources, information technology, and construction and facilities management. The Department's Fiscal Year (FY) 2013 budget was approximately \$8 billion and the workforce comprised of approximately 45,000 employees serving within the 13 Bureaus.

Pursuant to Section 743 of Division C of the FY 2010 Consolidated Appropriations Act and Office of Management and Budget's (OMB) memorandum dated November 5, 2010, agencies are required to prepare an annual inventory of service contracts in excess of \$25,000. In addition, OMB requires agencies to perform a meaningful analysis of such contracts, giving priority consideration to the "special interest functions", those Product and Service Codes (PSCs) identified by OMB that require increased monitoring to ensure the Government is effectively managing risks and receiving the best results for taxpayers.

In compliance with the requirements of Section 743, the Department prepared a Service Contract Inventory (SCI) Analysis for FY 2013. Using data derived from the Federal Procurement Data System (FPDS), nearly 5,000 service contracts totaling over \$2.3 billion were identified as part of the FY 2013 inventory. This report provides an analysis of the inventory to ensure the Department is effectively managing risks in service contracts and determine if there is a risk of overreliance on contracted services.

The 18 selected PSC functions from the FY 2013 inventory (as shown in Figure 2) include 13 special interest functions prescribed by OMB and five additional agency-specific functions. The agency-specific functions include PSC categories that are the largest percentage of obligations for the Department and functions identified for management support service contracts. Two of the OMB-prescribed PSC categories were *excluded* from the analysis (i.e. R423 and R497) as the Department's FY 2013 inventory reported zero actions under those categories.

Analysis of a sample of the Department's FY13 service contract inventory concluded the following:

- Contractor performance remains an acceptable choice for contracted services and there is no evidence of overreliance on contracted functions;
- Adequate safeguards and monitoring systems are in place to ensure that work performed by service contractors does not become inherently governmental;

- Contracts are monitored regularly and any issues of poor performance are addressed and corrected; and
- There are sufficient internal resources available to effectively manage and oversee contracts.

II. Analysis of FY2013 Service Contract Inventory

A. Analysis Methodology

To ensure the Department sufficiently addressed the service contract inventory requirements and developed a meaningful Analysis Report, a working group was established consisting of representatives from each of DOC’s five Bureau procurement offices. As a result of the collaborative effort of the working group, a repeatable process, as depicted in Figure 1, was established to comply with the annual service contract inventory requirements.



Figure 1: Analysis Process

B. Sample Selection

Each Bureau procurement office conducted an analysis of randomly selected contract actions. As the Department’s FY 2013 service contract inventory consisted of nearly 5,000 contract actions totaling over \$2.3B, in order to develop a pool of contract actions that was manageable for conducting a meaningful analysis, the Department’s Bureau procurement offices were instructed to cull their inventories to exclude contract actions that expanded beyond the analysis criteria. While any contract action could be selected for review if there was a concern of overreliance on contractors or other challenges, priority was given to contract actions within the functions identified in Figure 2.

Total actions within the scope of the analysis criteria totaled 2,375 valued at \$1.4B. The Department sampled 5% of actions within the 18 selected special interest functions of the FY 2013 inventory, which represented 119 contract actions totaling over \$193M. The sampling size for each of the five Bureau procurement offices was proportional to their percentage of the total number of actions in the Department’s inventory. Each of the selected contract actions were assessed to determine:

- The risk of overreliance on contracted functions, particularly those services identified as special interest functions;
- If the mix of Federal employees and contractors for a given program is an effective, multi-workforce balance or if rebalancing is needed;
- Contracts that have been poorly performed due to excessive costs or inferior quality;
- If contracts should be considered for conversion to performance by Federal employees; and
- If an alternative acquisition approach would better enable the agency to efficiently utilize its assets and achieve its public mission.

Figure 2: Special Interest Functions Analyzed

PSC	Description of Function	Dollars Obligated	Analysis	
			% of Actions Sampled	Dollar Amount
OMB Special Interest Functions:				
B505	Special Studies/Analysis – Cost Benefit	\$128,430	100% (1 of 1)	\$128,430
R406	Policy Review/Development Services	\$6,332,237	7% (2 of 29)	\$1,474,962
R407	Program Evaluation Services	\$985,880	100% (2 of 2)	\$985,880
R408	Program Management/Support Services	\$118,239,517	6% (19 of 318)	\$26,608,479
R409	Program Review/Development Services	\$242,724	50% (1 of 2)	\$216,679
R707	Management Services/Contract & Procurement Support	\$22,938,783	12% (5 of 42)	\$14,398,043
R425	Engineering and Technical Services	\$87,605,690	5% (16 of 296)	\$12,893,159
R413	Specifications Development	\$200,000	100% (1 of 1)	\$200,000
R414	Systems Engineering Services	\$6,646,654	40% (2 of 5)	\$2,822,257
D302	ADP Systems Development Services	\$316,563,969	5% (11 of 239)	\$25,028,501
D307	Automated Information Systems Services	\$28,573,444	10% (5 of 49)	\$5,623,400
D310	ADP Backup and Security Services	\$9,398,526	21% (4 of 19)	\$1,795,214
D314	IT and Telecom – Systems Acquisition Support	\$38,938	100% (1 of 1)	\$38,938
Agency-Specific PSCs				
R499	Other Professional Services	\$360,017,409	3% (28 of 1,053)	\$55,649,320
AR35	R & D – Space: Flight (Operational Systems Development)	\$245,999,671	16% (1 of 7)	\$16,000,000
F999	Other Environmental Services	\$112,271,838	5% (5 of 92)	\$3,113,907
D301	IT & Telecom – Other IT & Telecommunications	\$98,091,272	8% (7 of 92)	\$17,071,658
D399	Other ADP & Telecommunications Services	\$71,921,620	6% (8 of 127)	\$8,820,587

C. Data Collection and Analysis

A service contract inventory questionnaire was developed and provided to the Contracting Officer (CO) who, in conjunction with the Program or Project Manager, Contracting Officer Representative (COR), and/or Technical Point of Contact, was instructed to gather pertinent information required to conduct an analysis of the selected contract actions for review. The questionnaire was used in combination with other available sources to gather relevant information, including data used in the Independent Verification and Validation analysis, inventories prepared in accordance with the Federal Activities Inventory Reform Act, Federal Acquisition Certification programs data, and data used in human capital planning.

In addition, follow-up calls and interviews with program officials were conducted, where applicable, to obtain information to ensure a complete assessment of the contract action was conducted. The questionnaire was used to collect data necessary to assess the following:

- If contractor employees are performing inherently governmental functions under the contract in accordance with the definition of “inherently governmental functions”, or critical functions in such a way that could affect the ability of the Department to maintain control of its mission and operations;
- If contractor employees are performing functions closely associated with the performance of inherently governmental functions;
- If specific safeguards and monitoring systems are in place to ensure that work being performed by contractors has not changed or expanded during performance to become an inherently governmental function;
- If there are sufficient internal resources to effectively manage and oversee the contract;
- If the contract has been poorly performed due to excessive costs, inferior quality, or budget overruns, or the organization is experiencing difficulty in managing its contract staff;
- If the contract is for personal services as defined in FAR Subpart 37.104;
- If there is a risk of overreliance on contracted functions, particularly those services identified as special interest functions; and
- If the mix of Federal employees and contractors for a given program is an effective multi-workforce balance or if rebalancing is needed.

D. Findings

Analysis of the sampled contracts resulted in the following findings:

1. There was no evidence that contractor employees are being used to perform inherently governmental functions. Further, it was determined that contractor employees are not performing critical functions in such a way that could affect the ability of the Department to maintain control of its mission and operations.
2. While it has been determined that there are sufficient internal resources in place to manage and oversee contracts effectively; one contract cited issues with the Contracting Officer Representative (COR) providing inadequate oversight to a contractor performing at a different location, which ultimately resulted in an unauthorized commitment. Resultantly, the following measures have been implemented by the Contracting Office and Program staff in an effort to remediate this occurrence and reduce repeated occurrences:
 - The COR’s authority was revoked and day-to-day tasks and quality assurance and quality control responsibilities were transferred to the Program Manager;
 - The Program Office has regular communications with the Contracting Office, and contractor personnel to ensure requirements are closely monitored; and
 - An operating unit Standard Operating Procedure regarding Ratification of Unauthorized Commitments is currently in the review and implementation process to supplemental Departmental guide.

3. All contracts had adequate safeguards and monitoring systems in place to ensure that contractor functions do not change or expand during performance to become an inherently governmental function. Contract management and administration is conducted by Federal employees with extensive experience, training and certification in the field of work being procured and any changes to the scope of work or an expansion of the contractor's role is proposed and reviewed by the Contracting Officer to prevent inherently governmental functions from being performed by the contractor. A few specific examples of these safeguards include:
- Progress review meetings are held regularly with the Contracting Officer, Contracting Officer's Representative and the contractor personnel responsible for site management;
 - Routine progress reports are submitted by contractors and reviewed by program officials to monitor progress and compliance with Statement of Work requirements;
 - Contracting Officers communicate with Project Managers and CORs when monitoring and evaluating contract performance against the contract requirements;
 - Technical and schedule requirements are required to be stated in terms of desired results, rather than the method of performance;
 - Requirements clearly define contract goals and establish deliverables and other reporting requirements such as methods of performance measurement standards in terms of quality, timeliness, quantity;
 - Contracts include requirements for inspection, Quality Assurance Surveillance Plan and other quality control requirements to protect the government's interests;
 - Greater emphasis placed on the use of lower-risk contract types (i.e. firm-fixed price);
 - Contracts may include inspection and other quality requirements to protect the government's interests;
 - Contracting Officers review and approve any modification to change work being required to ensure the change is within the scope of the contract requirements and does not expand into services that are inherently governmental functions;
 - Prior to exercising an option, Contracting Officers and CORs perform an assessment of the market and a cost-benefit analysis to determine if the work should be conducted in-house;
 - Use of project management tools to track contractor tasks;
 - Nonconforming supplies or services are rejected, except as provided in FAR 46.407;
 - Training sessions conducted on properly monitoring service contracts provided to both acquisition and program officials on an on-going basis; and
 - Program officials work closely with contract employees to foster transfer of knowledge of the support services in order to reduce Government dependency on contractor expertise.

4. In examining past performance reviews, monitoring contractor performance in the Contractor Performance Assessment Reports System (CPARS), and interviewing CORs, Contracting Officers and Project Managers, no contractors were identified as performing unsatisfactorily. Through collaborative efforts, any issues encountered during contract performance were fully documented and reported to the Contracting Officer who in turn, documented the contract file with resolutions of such issues.
5. The contracts had sufficient internal resources in place to manage and oversee contract performance effectively. Data collected through questionnaires as well an examination of the Department's COR, Contracting and Project Management training requirements, certifications, and delegations of authority were reviewed to ensure that the acquisition workforce assigned to the contracts had the appropriate training, experience and expertise to manage and oversee contracts effectively. Furthermore, to ensure continued successful contract management and oversight, the Department requires additional training requirements in performance-based acquisitions, acquisition and project management for CORs.
6. Contracts analyzed were confirmed as possessing services performed by contract employees that cannot be accomplished in-house by Federal employees due to specialized skills or lack of resources. The use of contractor support enables the Department to efficiently utilize its assets and achieve its public mission.

E. Conclusions

Based on analysis of the FY 2013 service contract inventory it is determined that: contractor performance remains an acceptable choice for contracted services within the Department of Commerce; there is no evidence of overreliance on contracted services; adequate safeguards and monitoring systems are in place to ensure that work performed by service contractors does not become inherently governmental; and the Department has sufficient internal resources available to effectively manage and oversee contractor performance.

F. Planned Actions

The Department will continue to assess how contract resources are distributed to ensure there is an adequate and effective mix of Federal employees and contractors with a focus on contracts involving "special interest functions," or those at a higher risk of workforce imbalance, including professional and management support services. The service contract inventories will be utilized as a tool to determine that there are adequate resources within the workforce to align with the Department's strategic and human capital goals. Specifically, the inventories will benefit the Department's efforts to:

- Identify potential strategic sourcing opportunities to reduce services that are duplicated across the Department.
- Ensure high-risk contracts include adequate surveillance plans that describe how the Government will monitor, control, and mitigate risk of contract performance with reasonable assurance that efficient methods and effective cost controls are utilized.
- Track reduction of contract spending on inefficient and excessive management support services.
- Strengthen the competency standards of the acquisition workforce to ensure all Contracting officials, CORs and Program and Project Managers are fully equipped to perform assigned duties.

- Strategically set priorities for resource allocation, workload distribution and funding requests within the context of the Department’s Strategic and Human Capital Plans.
- Reinforce the need for quality data reporting and requiring validation that PSCs are coded in FPDS correctly and clear, concise service descriptions are provided.

G. Responsible Officials

The official responsible within Department of Commerce for policy relating to service contract inventory is Virna Winters, Director of Acquisition Policy and Oversight. The DOC official responsible for management of the service contract inventory process is Barry Berkowitz, Senior Procurement Executive and Director of Office of Acquisition Management.

III. Planned FY 2014 Service Contract Inventory

To ensure data quality, Bureau procurement offices reviewed data elements of the FY 2014 service contract inventory and corrected any identified errors, missing data or other inaccuracies in FPDS. The Department’s detailed service contract inventory for FY 2014, listing all covered service contracts as required in the standard format provided in OMB’s guidance, is attached as Appendix A. Further, Appendix B provides a summary of the inventory that highlights data on the use of contractors to perform special interest functions and those services that account for the Department’s greatest percentage of obligations in FY 2014. Once approved by OMB, both appendices will be available on the Department’s website at: <http://www.osec.doc.gov/oam/>.

In assessing the FY 2014 service contract inventory, the Department has selected 12 Product and Service Codes to study in the FY14 analysis. The selected functions include nine (9) special interest functions identified by OMB and three (3) agency-specific special interest functions. The agency-specific functions include PSC categories that are the largest percentage of obligations for the Department and functions identified for management support service contracts. Six (6) of the OMB-prescribed PSC categories were *excluded* from the planned FY14 analysis (i.e. B505, D314, R409, R413, R323 and R497) as the Department’s FY 2014 inventory reported zero actions under those categories. Figure 3 provides the list of functions to be targeted in the FY 2014 inventory analysis.

Figure 3: Product & Service Codes Selected for FY 2014 Analysis

PSC	Description of Function	Amount Obligated	Number of Actions	% of Total Obligations
OMB Special Interest Functions:				
R406	Policy Review/Development Services	\$2,140,976	11	0.1%
R408*	Program Management/Support Services	\$132,409,185	345	3.2%
R407	Program Evaluation Services	\$194,280	1	0.0%
R707	Management Services/Contract & Procurement Support	\$7,226,228	25	0.2%
R425*	Engineering and Technical Services	\$194,785,487	535	4.7%
R414	Systems Engineering Services	\$3,108,352	3	0.1%
D302*	IT and Telecom – Systems Development	\$432,322,539	416	10.5%
D307	Automated Information Systems Services	\$52,061,897	62	1.3%
D310	ADP Backup and Security Services	\$7,039,012	21	0.2%
Agency-Specific Special Interest Functions:				
R499*	Other Professional Services	\$368,832,214	818	8.9%
AR35*	R & D – Space: Flight (Operational Systems Development)	\$259,000,233	8	6.3%
F999*	Other Environmental Services	\$154,853,954	116	3.7%

* DOC Top Largest Percentage of Obligations