FY 2011 Service Contract Inventory Analysis

United States Department of Agriculture

December 2012

Version 1.2

Lisa M. Wilusz, Senior Procurement Executive

This page intentionally left blank.

Table of Contents

This page intentionally left blank.

About USDA

The United States Department of Agriculture provides leadership on food, agriculture, natural resources, and related issues based on sound public policy, the best available science, and efficient management.

Introduction

Service Contract Inventories are prepared annually by civilian agencies that are required to submit an inventory by the Federal Activities Inventory Reform Act of 1998, in order to comply with the act and the provisions of the FY 2010 Consolidated Appropriations Act. The service contract inventory is a tool for assisting agencies in better understanding how contracted services are being used to support agency missions and operations and whether contractors' skills are being utilized in an appropriate manner. In addition to the inventory, which is prepared and published separately, agencies are required to prepare an analysis of the previous year's inventories. This report documents USDA's analysis of the data in its FY 2011 Service Contract Inventories.

Background

Section 743 of Division C of the Fiscal Year (FY) 2010 Consolidated Appropriations Act, P.L. 111-117, requires civilian agencies to prepare an annual inventory of their service contracts and analyze their inventory to determine if the mix of Federal employees and contractors is effective or if rebalancing may be required. On February 10, 2012, USDA published its completed FY 2011 Service Contract Inventory as required and in accordance with the Office of Federal Procurement Policy memo providing guidance for submission of service contract inventories dated December 19, 2011. This report serves to document the additional requirement to conduct a meaningful analysis of the data in USDA's FY 2011 inventory 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. USDA is required under the above cites to submit a report suitable for public disclosure that discusses its analysis, and the use of contractors for the special interest functions that the agency selected to study.

Special Interest Functions

In its December 19, 2011 memorandum, the Office of Federal Procurement Policy (OFPP) directed agencies to select “special interest functions” for further analysis. Special interest functions are functions that require increased management attention due to heightened risk of workforce imbalance. In accordance with the OFPP guidance, USDA submitted a planned analysis, identifying which “special interest functions” in its FY 2011 inventory will be evaluated for analysis. USDA selected 15 Product and Service Codes (PSCs) for special interest. The table below shows the special interest functions studied by the agency and the dollars obligated to those specific PSCs in FY 2011. The first 12 of these functions were selected because they were identified by OMB for reducing spending on management support service contracts by 15 percent by the end of FY 2012 (a goal which USDA achieved). The remaining three PSCs selected represent areas with significant spending and wide use at USDA.

PSC	Function	Total FY 2011 Dollars
D302	IT and Telecom - Systems Development	$48,683,081
D307	IT and Telecom- IT Strategy and Architecture	$51,353,283
D310	IT and Telecom- Cyber Security and Data Backup	$5,924,977
D314	IT and Telecom- System Acquisition Support	$5,075,316
R408	Support- Professional: Program Management/Support	$88,095,040
R413	Support- Professional: Specifications Development	$527,966
R414*	Systems Engineering Services	$2,509,660
R421*	Technical Assistance	$16,069,252
R423	Intelligence Services	$0
R425	Support- Professional: Engineering/Technical	$5,064,971
R497	Support- Professional: Personal Services Contracts	$384,330
R707	Support- Management: Contract/Procurement/Acquisition Support	$61,211,551
D399	IT and Telecom- Other IT and Telecommunications	$177,254,729
D306	IT and Telecom- Systems Analysis	$54,184,444
B544	Special Studies/Analysis- Technology	$402,673
Total		**$516,741,272**

* R421 and R414 have since been ended and merged with PSC R425

Methodology

To perform its analysis, USDA examined two significant contracts in each of the selected functions awarded in FY 2011 by USDA contracting activities. Contracts were considered significant if they represented a large investment when compared to average contract size at USDA in each PSC in FY 2011. In addition, questionnaires were sent to the head of each contracting activity designee (HCAD) requesting information on how each contracting activity managed and oversaw service contracts during FY 2011. USDA then conducted a comparative analysis, considering factors such as the use of high risk contracting types, the degree to which agencies are contracting independently for the same services and vendors, and the results of the most recent Federal Activities Inventory Reform (FAIR) Act Inventory. In contrast to the Service Contract Inventory, wherein contracted services are examined, the FAIR Act Inventory examines services performed by federal employees. Contrasting the two allows agencies to study whether contractor performance remains an acceptable choice, but may require increased oversight to manage performance risk, or if there are indications that the work must or should be performed by federal employees.

Agency Findings

In general, there were no reported or discovered instances at USDA in FY 2011 wherein agency practices were inconsistent with the desired outcomes described in section 743(e)(2) of the Fiscal Year (FY) 2010 Consolidated Appropriations Act. At the time of this report, USDA has no indication that contract labor was not being used in an appropriate and effective manner or that the mix of federal employees and contractors in the agency was not effectively balanced during FY 2011. The specific outcomes described in section 743(e)(2) are:

(i) 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;

(ii) the agency is giving special management attention, as set forth in FAR 37.114, to functions that are closely associated with inherently governmental functions;

(iii) the agency is not using contractor employees to perform inherently governmental functions;

(iv) 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 inherently governmental function;

(v) the agency is not 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; and

(vi) there are sufficient internal agency resources to manage and oversee contracts effectively;

Actions Taken or Planned

This section describes actions taken or planned by the agency to address any identified weaknesses or challenges.

Identified Weaknesses or Challenges

USDA identified the following challenges and has taken, or plans to take the following actions to address them.

Use of high risk contracting types

"High risk contracts," as identified in the President's Memorandum on Government Contracting, issued on March 4, 2009, and Office of Management and Budget (OMB) memo M-09-25, dated July 29, 2009 are contracts that pose special risks of overspending. Four types of contracting are considered high risk: noncompetitive contracting (including contracts where competition was not sought, and contracts where competition was sought, but not achieved) , cost-reimbursement contracts, and time-and-materials and labor-hour (T&M/LH) contracts

USDA identified that during FY 2011, high risk contracting types were used across the special interest functions at a rate that in some instances exceeded USDA's average use of these contracting types. Use of high risk contracting types amplifies the need for increased management oversight of these contracts because it introduces the risk of overspending to the risk of imbalance in achieving the agency's mission. Since FY 2011 however, USDA has given increased attention to the use of high risk contracting types and has implemented a series of checks to limit their use. A dashboard report is provided to activity heads on a weekly basis that shows each activity's use of high-risk contract types. Special reports that highlight the use of high risk contract types are also produced and analyzed regularly for anomalies and for unusual high-risk usage. Individual contract actions are also routinely examined to identify trends and drivers of high-risk contract action use. When necessary, individual contract teams are contacted and assisted when their use of high risk contracting types exceeds agency averages. Since FY 2011, use of high risk contracting types has decreased at USDA through increased use of lower risk contracting, and the introduction of alternative contracting methods. USDA will continue to provide visibility into these types of contracts to agency managers, and take other management steps as required to lessen the use of these types of contracts.

Coding Errors

Contracts that were improperly coded into agency data systems were a sporadic but persistent problem in FY 2011. Many of the contracts reviewed for the purpose of this report had at least minor errors in coding that resulted in challenges in their identification and examination. Since FY 2011, USDA has implemented a program of continual monitoring of contract coding for errors, and performs outreach with contracting staff responsible for coding when errors are found. FY 2012 data received more scrutiny and has a higher reliability than earlier data as a result. USDA continues to monitor contract coding and will continue its outreach and education efforts to reduce the incidence of coding errors in the future.

Use of individual contracts for similar requirements

USDA's bureaus frequently have similar requirements to fill. In FY 2011, there were several instances where contracts for the special interest functions were initiated by different contracting activities for similar services, often awarded to the same vendors. This type of fragmented contracting has been identified as a challenge because it decreases USDA's visibility into its use of contractors to achieve its mission, and the potential to fill continuous needs with federal employees on a more efficient basis. Fragmented spending also reduces the agency's ability to leverage its spending to achieve efficiencies.

To correct this challenge, since FY 2011 USDA has instituted a series of initiatives designed to increase the availability of, and visibility into, spending data and to increase cooperation among contracting activities. These steps have the purpose of helping managers make strategic decisions about sourcing choices, including the use of contractors to fulfill agency requirements and the balance of contract and federal employees. USDA identified and categorized related spending USDA-wide and performed an in-depth analysis of spending and several industries that USDA contracts with regularly. The analysis showed relations between requirements staff and contracting offices across USDA, and provides a starting point for a permanent strategic sourcing team and agency managers to work together to find common solutions to mutual service needs previously managed separately. In addition to aggregating and classifying the data to give USDA visibility into its contract spending, USDA daylighted some important challenges that will give USDA direction for its continuing sourcing efforts.

To address this challenge, USDA also implemented a "shared first" policy. "Shared first" means that USDA will make every effort to acquire services using shared resources such as department-wide contracts, before issuing new awards, and to issue any new contract awards for as many users as possible. Fewer awards reduce administrative burdens and increase USDA's ability to balance its use of contractors. Fewer contracts are also easier to monitor and to end in cases where there are indications that the work should be performed by federal employees, such as lower costs or greater control.

Use of service contracts in general

Contrasting the completed FY 2011 service contract inventory with recent FAIR Act inventories revealed that the balance of employees performing inherently governmental functions to the use of the special function service contracts continue to shift over time. USDA's most recently published FAIR Act inventory shows that only about a third of USDA personnel perform functions that are inherently governmental in nature, and that the percentage of employees performing inherently governmental functions has declined slightly over time. Simultaneous with this decrease, the use of service contracts has remained relatively stable. The different balance of contract labor to federal employees did not result in reported instances of failure to achieve the outcomes described in Section 743(e)(2) of the FY 2010 Consolidated Appropriations Act described above. Although no conclusion can be drawn from the difference at this time, USDA will continue to monitor the mix of federal employees and contractors in the agency in order to maintain an effective balance.