

**DEPARTMENT OF THE TREASURY  
REPORT OF ANALYSIS  
FY 2010 SERVICE CONTRACT INVENTORY**

**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. The Office of Federal Procurement Policy (OFPP), Office of Management and Budget (OMB), Memorandum "Service Contract Inventory" dated November 5, 2011 instructed agencies:

- to conduct an annual inventory of service contracts exceeding \$25,000;
- to conduct a meaningful analysis of the inventory data to determine if contract labor is being used in an appropriate and effective manner and if the mix of federal employees and contractors is effectively balanced (with focus on a segment of the inventory determined to be at risk for over-reliance on contractors, i.e., special interest functions); and,
- To submit by December 30 a report suitable for public disclosure discussing its analysis and any action taken as a result of the review.

OMB follow-on Memorandum "Service Contract Inventory," dated December 19, 2011 provided additional guidance.

The Department of the Treasury established multi-functional governance to execute the inventory and analysis in order to ensure application of appropriate expertise and authority to the various components of the initiative. The Senior Procurement Executive (SPE) executed the annual service contract inventory, to include submission to OMB and posting to the Treasury website, in compliance with the OFPP schedule. The office of the Deputy Assistant Secretary for Management and Budget (DASMB) led analysis of the selected special interest functions and formulation of this report in collaboration with the SPE, the Office of the Chief Information Officer (OCIO) and the Chief Human Capital Officer (CHCO) as well as bureau-level stakeholders. All members of the governing committee, to include the Deputy Chief Financial Officer, participated in selection of the at-risk function to be studied.

**Analysis and Follow-on Actions**

This report summarizes results of the Department's analysis of its FY 2010 service contract inventory, to include:

- The special interest functions studied by the agency, the dollars obligated to those specific product and service codes (PSCs) in FY 2010 and the rationale for focusing on the identified functions;
- The methodology used by the agency to support its analysis (e.g., sampled contract files, conducted interviews of members of the acquisition workforce working on specific contracts of interest);
- Agency findings, including a brief discussion of the extent to which the desired outcomes described in section 743(e)(2) are being met (e.g., 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,
- Actions taken or planned by the agency to address any identified weaknesses or challenges.

**1) What are the special interest functions studied by the agency, the dollars obligated to those specific product and service codes (PSCs) in FY 2010 and the rationale for focusing on the identified functions?**

Treasury elected to analyze a subset of Information Technology (IT) services, identified by both OMB and Treasury as a special interest category. The Department evaluated its data center consolidation function in response to this initiative with primary analysis focused on Office of the Comptroller of the Currency (OCC) and Office of Thrift Supervision (OTS) data center operations and consolidation. Contracts generally were spread among IT or Automated Data Processing (ADP) PSCs since Product Service Codes available in FY 2010 did not specifically address data center support services. Total FY 2010 obligations for OCC/OTS data center support contracts were \$5.9 million.

Treasury chose data center support for review in pursuit of a broader internal effort intended to leverage the Department's analyses and response to several related OMB initiatives. OMB's Memorandum "Managing the Multi-Sector Workforce" dated July 29, 2009 required agencies, in part, to conduct a pilot human capital analysis where the agency had concerns about the extent of reliance on contractors. In response, and in consideration of OMB's Memorandum "Federal Data Center Consolidation Initiative" dated February 26, 2010 and the Government Accountability Office's (GAO) Report on Duplication/Overlap dated March 1, 2011, Treasury chose to review the OCC data center operation as its pilot study. The Department's review (consistent with OCC's findings and recommendations) identified the potential risk for contractor over-reliance in the OCC data center operations.

*Note:* As an extension of the July 29, 2009 memorandum, OMB issued in September 2011 Policy Letter 11-01, "Performance of Inherently Governmental and Critical Functions," clarifying the definition of Inherently Governmental and introducing the concept of "Critical" (necessary for an agency to be able to control its operations ... usually recurring and long-term in duration i.e. analyzing areas of tax law) and "Closely Associated" (nature of the function and the risk that performance may impinge on performance of an inherently governmental function i.e. policy development or budget preparation). This guidance will be applied to future related actions.

Passage of The Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank) required abolishment of OTS and the transfer of many of its functions and resources to OCC, presenting an opportunity to analyze this consolidation in response to OMB's service contract inventory requirement. This action focuses on understanding how contracted resources are being used to support mission and operations and whether the contractor's skills are being utilized in an appropriate manner. Treasury alerted OMB in a series of discussions in January 2011, and again as part of the March 2011 update, of the Department's rationale and intent to conduct a broader review of our workforce pilot in coordination with Treasury's Data Center Consolidation Initiative. The information provided herein is a compilation of data and analyses from specific research conducted in response to the November 5, 2010 memorandum as well as actions taken as part of the pilot study and the Department's data center consolidation efforts.

This remains an ongoing assessment. Because the OCC/OTS data center consolidation effort is expected to be completed by December 31, 2012, not all information intended for final documentation is available at this time. The Department will include a follow-up to this review as part of its FY 2011 service contract inventory analysis and report.

**2) Describe the methodology used by the agency to support its analysis (e.g., sampled contract files, conducted interviews of members of the acquisition workforce working on specific contracts of interest).**

Data collection for in-depth analysis of the OCC/OTS operations was conducted primarily through multiple interviews with OCC/OTS personnel involved with the data center pilot study and consolidation efforts.

Treasury used To-Be analysis developed for the April 30, 2011 OCC pilot to assess OTS processes, procedures, and human capital strategy for ensuring a proper contractor/federal employee balance. The To-Be analysis focused on the skills that will be required to staff various functions and services within the data center operations, e.g., Telecommunications and Messaging, Data Center and Server Operations.

**3) What are the agency findings, including a brief discussion of the extent to which the desired outcomes described in section 743(e)(2) are being met (e.g., 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)?**

In accordance with section 743(e)(2), the Department and OCC jointly conducted a broader analysis of the OCC/OTS data center operations, to include contract support. That analysis found:

- No associated contracts were personal services in nature.
- FAR 37.114 requirements to give special management attention to functions that are closely associated with inherently governmental functions did not apply to targeted contracts since the Department did not find any functions “closely associated with inherently governmental” being performed by contractors.
- No data center employees were performing inherently governmental functions;
- Safeguards and monitoring systems have been established to help ensure that contract performance does not change or expand to become an inherently governmental function (e.g., monthly contract administration meetings with CORs and quarterly meetings with contractors).
- Performance work statements of the legacy contracts no longer met the bureau’s data center technical support service requirements given recent changes in technology and service delivery offerings.
- Performance by contractors of critical functions in a manner that created unacceptable risk to the OCC’s ability to maintain control of mission and operations. Determination of critical functions was made in accordance with OFPP P.L. 11-01 definitions. Steps were taken to correct.
- The OCC (after integration of OTS resources) has sufficient overall resources to manage and oversee contracts effectively.
- Division of contractor versus federal workload for the reconfigured bureau is not yet final.

**4) Actions taken or planned by the agency to address any identified weaknesses or challenges**

OCC will continue to execute the bureau’s comprehensive plan to ensure effective contract formulation, award and management.

- Contract requirements are reviewed and written to meet current and future needs.

- Existing contracts will be phased out in conjunction with schedule for new contract awards to ensure coverage of needed services at all times.
- Existing mechanisms for reviewing the validity of contract performance work statements prior to exercising of each option will continue to be leveraged and expanded going forward as new practices are identified.
- Consolidation and resolicitation of contracts will be executed so as to maintain small business participation in targeted contracts.
- Effective internal controls are in place or being expanded for various phases of the procurement process, to include safeguards for:
  - designation of contract work as “closely associated to inherently governmental work,” “critical,” or “other,” in accordance with OMB’s September 2011 Memorandum, “Inherently Governmental and Critical Functions” and for accuracy in corresponding Federal Procurement Data System (FPDS) entries;
  - assurance that no inherently governmental functions are contracted out;
  - compliance with FAR 37.114 are met, as appropriate; and,
  - contractor compliance with contract scope and requirements, to include safeguards to ensure no contract work changes or expands to become an inherently governmental function.
- Contract management of IT programs will continue to be strengthened, in part, through a collaborative effort for optimizing and sustaining the effectiveness and efficiency of the COTR workforce:
  - implementation of consistent contract management-related performance elements and measures in COTR performance plans;
  - thorough review by senior technical staff of COTR nominations;
  - mandatory monthly meetings between COTRs and Contracting Officers to review contract performance, rate quality of contractor performance, track obligations/expenditures, and rate timeliness of acquisition support;
  - mandatory COTR attendance at quarterly program reviews with senior IT and business unit stakeholders;
  - in-house training of COTRs; and,
  - Collaboration with customers to help ensure COTR personnel are given sufficient time to perform contract management duties.

In response to the determination that contractor personnel were being used to perform critical functions, the OCC determined that a rebalancing between contractor and federal employee performance of services was needed in the OCC data center’s critical services. Resultant action converted contractor positions to federal positions. OCC will continue to execute contractor to federal positions in accordance with its workforce strategy.

The information gathered and analyses made as part of this initiative will be leveraged in Treasury’s execution of related OMB requirements:

- All data has been provided to the Office of the Chief Information Officer for use in the data center consolidation initiative.
- The human capital or workforce analysis identified 21 skills and functions needed to operate a data center. Data has been included here since it also may inform the Department’s broader consolidation effort.

- Analysis results relating to projected improvements in data center efficiency will be forwarded to the DASMB for consideration in future strategic planning and performance management efforts.
- Leading practices developed by OCC as part of its improvement plan will be shared across the Department's acquisition community.

Treasury anticipates completion of the OCC/OTS data center consolidation by the end of CY 2012. Follow-up evaluation and results will be included in Treasury's report of analysis of the Department's FY11 Service Contract Inventory.

This report has been approved by:

Assistant Secretary for Management/Chief Financial Officer/Chief Acquisition Officer  
Senior Procurement Executive  
Chief Human Resources Officer  
Chief Information Officer