

**U.S. Department of Transportation  
Office of the Secretary of Transportation**

**FY 2010  
SERVICE CONTRACT INVENTORY  
ANALYSIS REPORT**

**December 12, 2011**

Submitted to  
Office of Management and Budget

## EXECUTIVE SUMMARY

The Department of Transportation (DOT) is working successfully to improve the management of service contracts. Recognizing tough current and future budget constraints, DOT's ability to manage service contracts more effectively and to proactively find cost savings without adversely affecting the mission remains a top priority. During FY 2011, DOT analyzed the service contract inventory concentrating on management support services to identify ways to reduce spending in these areas by 15% by the end of FY 2012.

In FY 2010, DOT spent \$5.7 billion on contracts. Eighty four percent, \$4.8 billion, was spent on service contracts. Five operating administrations (OAs) spent more than 80 percent of their contract dollars on service contracts, while another four OAs spent more than 50 percent of their contract dollars on service contracts. In FY 2010:

- 30.4 percent of spending was in Professional/Administrative/Management Support (R);
- 7.1 percent of spending was in Information Technology/Telecommunications (D); and
- 35.7 percent of spending was in high-risk contract types.

In FY 2010, DOT spent \$1.1 billion on the Office of Management and Budget (OMB)-selected management support services, which represents 21 percent of the total spend on all service contracts.

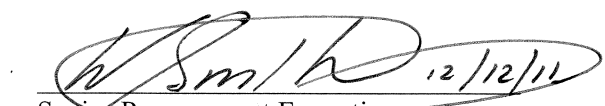
- 62.3 percent of spending in management support services is in engineering and technical services;
- 52.9 percent of spending in management support services is in high-risk contract types;


To meet the OMB goal to reduce spending in management support services by 15 percent, DOT must reduce spending by nearly \$180 million. In FY 2011, DOT began three important initiatives to reduce overall contract spending and to specifically meet the OMB 15 percent reduction goal:

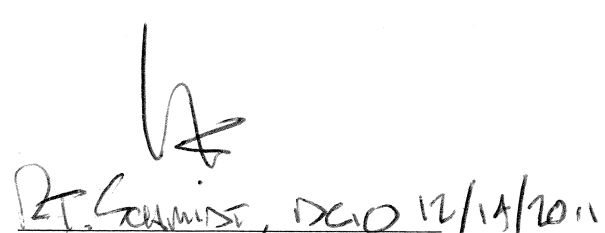
1. Increasing awareness;
2. Reducing high-risk contracting; and
3. Implementing DOT-wide strategic sourcing.

In FY 2011, DOT made significant progress in reducing spending to achieve the 15 percent reduction and reducing high-risk contracts:

- In FY 2011, DOT spent \$998 million on OMB-select management support services, this represents a 16 percent (\$190M) reduction from FY 2010 spending of 1.1 billion; and
- For FY 2011, DOT has reduced spending in the high-risk time and materials contracts by more than 40 percent from spending in FY 2010.

  
Senior Procurement Executive

  
Chief Human Capital Officer

  
Chief Information Officer

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## 1.0 INTRODUCTION

The Office of Management and Budget (OMB) is asking agencies to improve the management of service contracts to ensure that contract labor is used appropriately and efficiently. This improved management includes:

- Understanding the functions that contract labor performs to ensure that contractors are not performing inherently governmental or critical functions;
- Using a multi-sector workforce approach to avoid over reliance on contractors and to ensure the right mix of federal employees and contractors; and
- Using acquisition processes and contract management to reduce contract costs.

The Department of Transportation (DOT) is working successfully to improve the management of service contracts. Recognizing tough current and future budget constraints, DOT's ability to manage service contracts more effectively and to proactively find cost savings without adversely affecting the mission remains a top priority. During FY 2011, DOT analyzed the service contract inventory concentrating on management support services and identifying ways to reduce spending in these areas by 15% by the end of FY 2012.

This Service Contract Inventory Analysis Report presents the analysis methodology, findings, and the resulting recommendations and actions.

## 2.0 ANALYSIS METHODOLOGY

Section 743 of Division C of the FY10 Consolidated Appropriations Act, Public Law 111-117 requires civilian agencies to prepare an annual inventory of their service contracts. OMB issued a memorandum for Chief Acquisition Officers and Senior Procurement Executives, dated November 5, 2010, providing specific guidance for developing, analyzing, and reporting on the Service Contract Inventory. In response to this guidance, DOT:

- Developed an FY 2010 Service Contract Inventory of its service contract actions over \$25,000 awarded in FY 2010. This inventory was submitted to OMB by December 30, 2010;
- Conducted analysis on the FY 2010 Service Contract Inventory to determine if contract labor is being used appropriately and efficiently; and
- Developed recommendations and took actions to improve the use of contract labor.

A list of the applicable legislation and guidance is provided in *Appendix A: Applicable Legislation and Guidance*.

## 2.1 Service Contract Inventory

The FY 2010 Service Contract Inventory was developed by querying the Federal Procurement Data System (FPDS) for all service contract actions over \$25,000 awarded in FY 2010. The query was run in accordance with the November 5, 2010 OMB Memorandum, which specified the FPDS data elements and format for the inventory. The FPDS data elements and descriptions are shown in Table 2-1.

**Table 2-1: Service Contract Inventory FPDS Data Elements**

OMB Required FPDS Data Element		FPDS Data Element Description
1	<b>PSC</b>	The code that best identifies the product or service procured. Codes are defined in the Product and Service Codes Manual.
2	<b>Product or Service Code (PSC) Description</b>	A description of the product or service designated by the product code.
3	<b>Contracting Agency</b>	The code for the agency of the contracting office that executed or is otherwise responsible for the transaction.
4	<b>Contracting Department</b>	The code for the Department of the contracting office that executed or is otherwise responsible for the transactions
5	<b>Funding Agency</b>	The code for the agency that provided the preponderance of the funds obligated by this transaction.
6	<b>Place of Performance City</b>	This is the location of the principal plant or place of business where the items will be produced, supplied from stock, or where the service will be performed.
7	<b>State</b>	
8	<b>Country</b>	
9	<b>Date Signed</b>	The date that a mutually binding agreement was reached. The date signed by the Contracting Officer or the Contractor, whichever is later.
10	<b>Extent Competed</b>	A code that represents the competitive nature of the contract.
11	<b>Fair Opportunity/ Limited Sources</b>	The type of statutory exception to Fair Opportunity.
12	<b>Type of Contract</b>	The type of contract as defined in FAR Part 16 that applies to this procurement.
13	<b>Description of Requirement</b>	A brief description of the contract or award.
14	<b>Vendor Name</b>	The name of the vendor supplying the product or service as it appears in CCR or as entered by the user if CCR exception is selected.
15	<b>Action Obligation</b>	The amount that is obligated or de-obligated by this transaction.
16	<b>PIID</b>	The unique identifier for each contract, agreement or order.
17	<b>Referenced IDV PIID</b>	When reporting orders under Indefinite Delivery Vehicles (IDV) such as a GWAC, IDC, FSS, BOA, or BPA, report the Procurement Instrument Identifier (Contract Number or Agreement Number) of the IDV. For the initial load of a BPA under a FSS, this is the FSS contract number.
18	<b>DUNS Number</b>	The DUNS number of the contractor. Used as a key to CCR. Maps to the DUNS Number in CCR.

## 2.2 Service Contract Inventory Analysis

DOT analyzed the FY 2010 Service Contract Inventory concentrating on the OMB-selected special interest functions, which then became the basis for the management support services cost reduction initiative.

In the November 5, 2010 Memorandum, OMB identified 15 product and service codes (PSCs) in the areas of professional and management services and information technology support services as “special interest functions.” These special interest functions were identified based on four management concerns:

1. Spending in these areas had increased four-fold in the last decade, outpacing spending in most other areas;
2. The majority of contracts in these areas are high risk type contracts; i.e., time-and-materials, labor hour, or cost-plus;
3. Using contractors in these areas increases the risk of contracting out inherently governmental functions and potentially losing control of mission and operations; and
4. These areas are vulnerable to misuse as a means to augment federal government staff.

In February 2011, DOT asked each operating administration (OA) to identify specific contracts within the OMB special interest functions they would review. This list of contracts was submitted to OMB on March 1, 2011. The OAs reviewed the selected contracts in accordance with the requirement in Section 743 (e) for the purpose of ensuring that:

- “(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.”<sup>1</sup>

The review process included the completion of a template to ensure that all the Section 743(e) requirements were addressed, as well as questions to address the extent of competition, the business status, plans to re-compete the contract, and whether or not this contract work should be insourced. To complete the template, the OAs reviewed the contract file and, as necessary, conducted interviews with the relevant program and acquisition offices.

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<sup>1</sup> Service Contract Inventory Requirement. Public Law 111-117. Section 743. December 16, 2009.

### 2.3 Management Support Services Savings Initiative

In early July 2011, OMB identified the special interest functions as part of a Management Support Savings Initiative asking all agencies to cut spending in these areas by 15 percent by the end of FY 2012.

In August 2011, OMB then revised this list to exclude the four program review and analyses service codes (PSCs). This was done to avoid unintentionally signaling that OMB is no longer committed to the value of independent analysis, which contractors can often provide. OMB also added PSC R421 Technical Assistance as a special interest function to avoid misinterpretations of sudden increase in R425 spending in FY 2012 when spending in R421 will be reported under R425.

On November 7, 2011, OMB issued a Memorandum for Chief Financial Officers, Chief Acquisition Officers, and Senior Procurement Executives on “Reduced contract spending for management support services.” The memorandum asked all agencies to reduce spending on selected management support services by 15 percent by the end of FY 2012 as part of the Campaign to Cut Waste and the Executive Order on Delivering and Efficient, Effective, and Accountable Government. Table 2-2 provides the initial list of 15 special interest functions and the revised list of 12 service codes which comprises the Management Support Services Savings Initiative.

**Table 2-2: OMB Selected Management Support Services**

OMB Special Interest Functions November 5, 2010		OMB Change	Management Support Services Savings Initiative Revised as of August 2011	
B505	Cost Benefit Analyses	<b>Excluded</b>		
D302	ADP Systems Development Services		D302	ADP Systems Development Services
D307	Automated Information System Services		D307	Automated Information System Services
D310	ADP Backup and Security Services		D310	ADP Backup and Security Services
D314	ADP Acquisition Support Services		D314	ADP Acquisition Support Services
R406	Policy Review/Development Services	<b>Excluded</b>		
R407	Program Evaluation Services	<b>Excluded</b>		
R408	Program Management/Support Services		R408	Program Management/Support Services
R409	Program Review/Development Services	<b>Excluded</b>		
R413	Specifications Development Services		R413	Specifications Development Services
R414	Systems Engineering Services		R414	Systems Engineering Services
		<b>Added</b>	R421	Technical Assistance
R423	Intelligence Services		R423	Intelligence Services
R425	Engineering and Technical Services		R425	Engineering and Technical Services
R497	Personal Services Contracts		R497	Personal Services Contracts
R707	Mgt Svcs/Contract & Procurement Sup		R707	Mgt Svcs/Contract & Procurement Sup

### 3.0 ANALYSIS FINDINGS

#### 3.1 Service Contract Inventory Analysis

DOT spent \$5.7 billion on contracts (action obligations) in FY 2010. Eighty six percent, \$4.8 billion was spent on service contracts. Five operating administrations (OAs) spent more than 80 percent of their contract dollars on service contracts, while another four OAs spend more than 50 percent of their contract dollars on service contracts. In FY 2010:

- Federal Aviation Administration was responsible for 49.1 percent of DOT total spending on service contracts at DOT, with 68.8 percent of their total contract spending on services;
- Federal Highway Administration was responsible for 13.5 percent of DOT total spending on service contracts at DOT, with 78.8 percent of their total contract spending on services; and
- Federal Motor Carrier Safety Administration, Federal Railroad Administration, and the Federal Transit Administration together are responsible for about 4 percent of total spending on service contracts at DOT, with each spending more than 90 percent of their OA total contract spending on services.

Table 3-1 provides a breakdown of total spending and spending for service contracts by Operating Administration (OA).

**Table 3-1: Service Contract Spending by Operating Administration**

Operating Administration	FY 2010 Action Obligations		Percentage of Total Service Contract Inventory
	Total Contract	Total Service Contract Inventory	
Federal Aviation Administration (FAA)	\$ 3,467,772,376	\$ 2,387,490,687	49.1%
Federal Highway Administration (FHWA)	\$ 835,174,411	\$ 658,064,832	13.5%
Federal Motor Carrier Safety Administration (FMCSA)	\$ 43,533,808	\$ 46,059,204	0.9%
Federal Railroad Administration (FRA)	\$ 47,523,378	\$ 49,108,072	1.0%
Federal Transit Administration (FTA)	\$ 97,465,947	\$ 89,002,665	1.8%
Maritime Administration (MARAD)	\$ 389,047,154	\$ 48,330,619	1.0%
National Highway Traffic Safety Administration (NHTSA)	\$ 97,414,718	\$ 39,671,432	0.8%
Office of the Secretary of Transportation (OST)	\$ 478,803,091	\$ 271,369,182	5.6%
Pipeline and Hazardous Materials Safety Administration (PHMSA)	\$ 37,067,725	\$ 31,580,004	0.7%
Research and Innovative Technology Administration (RITA)	\$ 169,262,758	\$ 87,986,926	1.8%
Saint Lawrence Seaway Development Corporation (SLSDC)	\$ 11,255,325	\$ 7,542,613	0.2%
Other	\$ (621)	\$ 1,141,508,114	23.5%
<b>Total</b>	<b>\$ 5,674,320,069</b>	<b>\$ 4,857,714,350</b>	<b>100.0%</b>

85.6%



DOT reviewed the service contract spending by service code categories finding:

- 30.4 percent of spending was in category R—Support (Professional/Administrative/Management);
- 7.1 percent of spending was in category D—Information Technology and Telecommunications;
- 62.4 percent of spending was within the three top spending categories; and
- 85.1 percent of spending was within the top six categories.

Table 3-3 provides DOT spending by service code category rank ordered from largest to smallest amount.

**Table 3-2: DOT Spending by Service Code Category**

Service Code Category		FY 2010 Action Obligations	Percentage of Total	
R	Support (Professional/ Administrative/ Management)	\$ 1,477,683,720	30.4%	} 62.4% } 85.1%
A	Research and Development	\$ 777,759,454	16.0%	
Y	Construction of Structures/Facilities	\$ 777,360,576	16.0%	
V	Transportation/Travel/Relocation	\$ 382,450,777	7.9%	
S	Utilities and Housekeeping	\$ 376,113,952	7.7%	
D	Information Technology and Telecommunications	\$ 343,852,260	7.1%	
M	Operation of Structures/Facilities	\$ 178,278,529	3.7%	} 2.46%
U	Education/Training	\$ 158,827,854	3.3%	
B	Special Studies/Analysis, Not R&D	\$ 107,785,376	2.2%	
C	Architect and Engineering Services	\$ 97,465,418	2.0%	
Z	Maintenance, Repair, Alteration of Structures/Facilities	\$ 60,801,608	1.3%	
X	Lease/Rental of Structures/Facilities	\$ 35,008,418	0.72%	
J	Maintenance, Repair, and Rebuilding of Equipment	\$ 25,051,771	0.52%	
H	Quality Control, Testing, and Inspection	\$ 18,852,484	0.39%	
N	Installation of Equipment	\$ 15,912,043	0.33%	
P	Salvage	\$ 7,977,334	0.16%	
T	Photo/Map/Print/Publication	\$ 7,609,149	0.16%	
L	Technical Representative	\$ 2,387,401	0.05%	
Q	Medical	\$ 2,380,722	0.05%	
E	Purchase of Structures/Facilities	\$ 1,159,480	0.02%	
F	Natural Resources Management	\$ 1,112,588	0.02%	
K	Modification of Equipment	\$ 828,184	0.02%	
W	Lease/Rental of Equipment	\$ 752,595	0.02%	
G	Social	\$ 302,656	0.01%	
<b>Total</b>		<b>\$ 4,857,714,350</b>	<b>100.0%</b>	

In Table 3-3, DOT examined service contract spending by service code category and type of contract. The contract dollars shown as a percentage reveal that 63% of total spending is on fixed price type contracts, 25.3 percent is on cost type contracts, and 10.4 percent is on time and material type contracts. Within specific service codes, more than half of the spend is on high-risk contract types.

**Table 3-3: DOT Spending by Service Code Category and Type of Contract**

Service Code Category		FY 2010 Action Obligations				
		Total Cost Contracts	Total Fixed Price Contracts	Total T&M Contracts	Total Other Contracts	Total Contracts
<b>R</b>	Support (Professional/ Administrative/ Management)	27.8%	46.9%	23.5%	1.9%	\$ 1,477,683,720
<b>A</b>	Research and Development	38.0%	50.4%	9.5%	2.2%	\$ 777,759,454
<b>Y</b>	Construction of Structures/Facilities		100.0%			\$ 777,360,576
<b>V</b>	Transportation/Travel/Relocation	0.1%	99.9%			\$ 382,450,777
<b>S</b>	Utilities and Housekeeping	23.1%	76.3%	0.1%	0.4%	\$ 376,113,952
<b>D</b>	Information Technology and Telecommunications	40.1%	42.5%	15.9%	1.5%	\$ 343,852,260
<b>M</b>	Operation of Structures/Facilities	50.9%	46.8%	0.2%	2.1%	\$ 178,278,529
<b>U</b>	Education/Training	83.2%	15.4%	0.4%	1.0%	\$ 158,827,854
<b>B</b>	Special Studies/Analysis, Not R&D	42.6%	43.1%	13.3%	0.9%	\$ 107,785,376
<b>C</b>	Architect and Engineering Services	20.7%	76.6%	1.8%	1.0%	\$ 97,465,418
<b>Z</b>	Maintenance, Repair, Alteration of Structures/Facilities	5.9%	92.2%	1.6%	0.3%	\$ 60,801,608
<b>X</b>	Lease/Rental of Structures/Facilities	0.2%	99.8%			\$ 35,008,418
<b>J</b>	Maintenance, Repair, and Rebuilding of Equipment		96.6%	3.4%	0.0%	\$ 25,051,771
<b>H</b>	Quality Control, Testing, and Inspection	33.4%	24.5%	39.2%	2.8%	\$ 18,852,484
<b>N</b>	Installation of Equipment		100.0%			\$ 15,912,043
<b>P</b>	Salvage		100.0%			\$ 7,977,334
<b>T</b>	Photo/Map/Print/Publication		71.3%	23.7%	5.0%	\$ 7,609,149
<b>L</b>	Technical Representative		49.3%	50.7%		\$ 2,387,401
<b>Q</b>	Medical	10.8%	89.2%			\$ 2,380,722
<b>E</b>	Purchase of Structures/Facilities		100.0%			\$ 1,159,480
<b>F</b>	Natural Resources Management		84.8%	3.0%	12.1%	\$ 1,112,588
<b>K</b>	Modification of Equipment		100.0%			\$ 828,184
<b>W</b>	Lease/Rental of Equipment		100.0%			\$ 752,595
<b>G</b>	Social		100.0%			\$ 302,656
		<b>25.3%</b>	<b>63.0%</b>	<b>10.4%</b>	<b>1.2%</b>	<b>\$ 4,857,714,350</b>

### 3.2 OMB Special Interest Functions—Management Support Services Analysis

In FY 2010, DOT spent \$1.2 billion on management support services, which is 21 percent of spending on all service contracts. To meet the OMB goal to reduce spending by 15 percent, DOT needs to reduce spending within these areas by nearly \$180 million in FY 2012. Table 3-4 provides the breakdown of contract spending on service contracts and management support services.

**Table 3-4: Management Support Services Spend**

Spend Category	FY 2010 Action Obligations	Percentage of Total Contract Spend
Total Contract	\$ 5,674,320,069	
Service Contract Inventory	\$ 4,857,714,350	86%
OMB Selected Management Support Services	\$ 1,197,622,441	21%

Management support services spending in the 12 OMB selected codes is rank ordered from largest to smallest in Table 3-5 showing:

- 86.8 percent of management support services spending is in the top four categories; and
- 62.3 percent of spending is in engineering and technical services (R425).

**Table 3-5:  
Management Support Services Spend by Service Code**

OMB Selected Management Support Services		FY 2010 Action Obligations	Percentage of Total
R425	Engineering and Technical Services	\$ 745,683,277	62.3%
R408	Program Management/Support Services	\$ 125,924,310	10.5%
R421	Technical Assistance	\$ 92,888,628	7.8%
D302	ADP Systems Development Services	\$ 74,845,352	6.2%
D307	Automated Information System Services	\$ 63,043,517	5.3%
R414	Systems Engineering Services	\$ 39,768,046	3.3%
R707	Mgt Svcs/Contract & Procurement Sup	\$ 26,711,831	2.2%
D314	ADP Acquisition Support Services	\$ 24,462,312	2.0%
D310	ADP Backup and Security Services	\$ 1,504,829	0.1%
R423	Intelligence Services	\$ 1,345,047	0.1%
R497	Personal Services Contracts	\$ 1,108,590	0.1%
R413	Specifications Development Services	\$ 336,700	0.0%
		<b>\$ 1,197,622,441</b>	<b>100.0%</b>

} 86.8%

Table 3-6 provides a breakdown of the management support services spend by operating administration. The Federal Aviation Administration (FAA) spends 67.7 percent of the total DOT spending on management support services. DOT spending designated as “Other,” ranks second at 14.1 percent, while the Federal Transit Administration is third in the ranking, with 5.4% of the spending.

**Table 3-6:  
Management Support Services Spend by Operating Administration**

Operating Administration	FY 2010 Management Support Services Action Obligations	Percentage of Total	
FAA	\$ 810,966,583	67.7%	1
FHWA	\$ 38,699,659	3.2%	
FMCSA	\$ 2,545,224	0.2%	
FRA	\$ 17,070,038	1.4%	
FTA	\$ 64,281,417	5.4%	3
MARAD	\$ 6,643,948	0.6%	
NHTSA	\$ 12,456,151	1.0%	
OST	\$ 2,685,179	0.2%	
PHMSA	\$ 12,735,021	1.1%	
RITA	\$ 60,290,613	5.0%	4
SLSDC	\$ 417,384	0.0%	
Other	\$ 168,831,224	14.1%	2
<b>Total</b>	<b>\$ 1,197,622,441</b>	<b>100.0%</b>	

While FAA is responsible for 67.7 percent of the total DOT spending for management support services, spending in this category is only 34 percent of their total spending on service contracts. Whereas FTA and RITA together are responsible for 5.4 percent of DOT total spending, FTA (72.2 percent) and RITA (68.5 percent) spend a much higher percentage of their contract dollars on these selected management support services.

**Table 3-7:  
Management Support Services Spend as a Percentage of Service Contract Spend**

Operating Administration	FY 2010 Action Obligations		Management Support Services Percentage of SCI
	Service Contract Inventory	OMB Selected Management Support Services	
<b>FAA</b>	\$ 2,387,490,687	\$ 810,966,583	34.0%
<b>FHWA</b>	\$ 658,064,832	\$ 38,699,659	5.9%
<b>FMCSA</b>	\$ 46,059,204	\$ 2,545,224	5.5%
<b>FRA</b>	\$ 49,108,072	\$ 17,070,038	34.8%
<b>FTA</b>	\$ 89,002,665	\$ 64,281,417	72.2%
<b>MARAD</b>	\$ 48,330,619	\$ 6,643,948	13.7%
<b>NHTSA</b>	\$ 39,671,432	\$ 12,456,151	31.4%
<b>OST</b>	\$ 271,369,182	\$ 2,685,179	1.0%
<b>PHMSA</b>	\$ 31,580,004	\$ 12,735,021	40.3%
<b>RITA</b>	\$ 87,986,926	\$ 60,290,613	68.5%
<b>SLSDC</b>	\$ 7,542,613	\$ 417,384	5.5%
<b>Other</b>	\$ 1,141,508,114	\$ 168,831,224	14.8%
<b>Total</b>	<b>\$ 4,857,714,350</b>	<b>\$ 1,197,622,441</b>	<b>24.7%</b>

Tables 3-8 and 3-9 show the spending for management support services by service code and contract type in two ways—Table 3-8 as a percentage and Table 3-9 in dollars. The findings were:

- 45.1 percent (\$540 M) is in fixed price contracts;
- 37.3 percent (\$447M) is in cost type contracts;
- 15.6 percent (\$187M) is in time and material type contracts;
- For service code R425—Engineering and Technical Services (representing 62.3 percent of total spending), 48 percent is in fixed price contracts (\$746M); and
- For service codes D302—ADP Systems Development Services and D307—Automated Information System Services, more than 70 percent of spending is in cost type contracts.

**Table 3-8:  
Management Support Services Spend by Service Code and Contract Type**

OMB Selected Management Support Services		FY 2010 Action Obligations					Percentage of Total Spend
		Total Cost Contracts	Total Fixed Price Contracts	Total T&M Contracts	Total Other Contracts	Total Contracts	
R425	Engineering and Technical Services	31.7%	48.0%	18.7%	1.7%	\$ 745,683,277	62.3%
R408	Program Management/Support	54.6%	32.6%	11.6%	1.2%	\$ 125,924,310	10.5%
R421	Technical Assistance	4.5%	72.6%	17.6%	5.3%	\$ 92,888,628	7.8%
D302	ADP Systems Development Services	73.0%	19.8%	1.2%	6.0%	\$ 74,845,352	6.2%
D307	Automated Information System Services	82.5%	15.1%	2.4%		\$ 63,043,517	5.3%
R414	Systems Engineering Services	74.6%	12.4%	13.0%		\$ 39,768,046	3.3%
R707	Mgt Svcs/Contract & Procurement Sup	5.6%	74.8%	19.5%		\$ 26,711,831	2.2%
D314	ADP Acquisition Support Services		85.0%	15.0%		\$ 24,462,312	2.0%
D310	ADP Backup and Security Services		87.4%	12.6%		\$ 1,504,829	0.1%
R423	Intelligence Services		100.0%			\$ 1,345,047	0.1%
R497	Personal Services Contracts		100.0%			\$ 1,108,590	0.1%
R413	Specifications Development Services		100.0%			\$ 336,700	0.0%
		<b>37.3%</b>	<b>45.1%</b>	<b>15.6%</b>	<b>2.0%</b>	<b>\$ 1,197,622,441</b>	<b>100.0%</b>

Table 3-9 shows the spending in dollar amounts for FY 2010.

**Table 3-9:  
Management Support Services Percentage Spend by  
Service Code and Contract Type**

OMB Selected Management Support Services		FY 2010 Action Obligations				
		Total Cost Contracts	Total Fixed Price Contracts	Total T&M Contracts	Total Other Contracts	Total Contracts
R425	Engineering and Technical Services	\$ 236,059,298	\$ 357,755,346	\$ 139,132,300	\$ 12,736,333	\$ 745,683,277
R408	Program Management/Support	\$ 68,771,696	\$ 41,082,850	\$ 14,553,426	\$ 1,516,338	\$ 125,924,310
R421	Technical Assistance	\$ 4,195,246	\$ 67,395,135	\$ 16,328,842	\$ 4,969,406	\$ 92,888,628
D302	ADP Systems Development Services	\$ 54,672,444	\$ 14,791,730	\$ 870,032	\$ 4,511,145	\$ 74,845,352
D307	Automated Information System Services	\$ 51,986,046	\$ 9,546,147	\$ 1,511,324	\$ -	\$ 63,043,517
R414	Systems Engineering Services	\$ 29,681,345	\$ 4,919,193	\$ 5,167,509	\$ -	\$ 39,768,046
R707	Mgt Svcs/Contract & Procurement Sup	\$ 1,505,738	\$ 19,991,921	\$ 5,214,172	\$ -	\$ 26,711,831
D314	ADP Acquisition Support Services	\$ -	\$ 20,796,910	\$ 3,665,402	\$ -	\$ 24,462,312
D310	ADP Backup and Security Services	\$ -	\$ 1,314,829	\$ 190,000	\$ -	\$ 1,504,829
R423	Intelligence Services	\$ -	\$ 1,345,047	\$ -	\$ -	\$ 1,345,047
R497	Personal Services Contracts	\$ -	\$ 1,108,590	\$ -	\$ -	\$ 1,108,590
R413	Specifications Development Services	\$ -	\$ 336,700	\$ -	\$ -	\$ 336,700
		<b>\$ 446,871,813</b>	<b>\$ 540,384,399</b>	<b>\$ 186,633,007</b>	<b>\$ 23,733,222</b>	<b>\$ 1,197,622,441</b>

Table 3-10 shows the number of contract actions by service code and contract type.

**Table 3-10:  
Management Support Services Contract Actions by  
Service Code and Contract Type**

OMB Selected Management Support Services		FY 2010 Action Obligations					Percentage of Total Contract Actions
		Cost Contract Actions	Fixed Price Contract Actions	T&M Contract Actions	Other Contract Actions	Total Contract Actions	
R425	Engineering and Technical Services	336	464	235	15	1050	63.6%
R408	Program Management/Support Services	107	86	30	12	235	14.2%
R421	Technical Assistance	6	33	28	7	74	4.5%
D302	ADP Systems Development Services	8	43	4	12	67	4.1%
D314	ADP Acquisition Support Services		47	12		59	3.6%
R414	Systems Engineering Services	34	14	6		54	3.3%
D307	Automated Information System Services	21	20	7		48	2.9%
R707	Mgt Svcs/Contract & Procurement Sup	3	26	10		39	2.4%
D310	ADP Backup and Security Services		8	2		10	0.6%
R497	Personal Services Contracts		7			7	0.4%
R413	Specifications Development Services		4			4	0.2%
R423	Intelligence Services		4			4	0.2%
		<b>515</b>	<b>756</b>	<b>334</b>	<b>46</b>	<b>1,651</b>	<b>100.0%</b>
		31.2%	45.8%	20.2%	2.8%	100.0%	



**Table 3-11:  
Management Support Services Contract Actions Percentage by  
Service Code and Contract Type**

OMB Selected Management Support Services		FY 2010 Action Obligations				
		Cost Contract Actions	Fixed Price Contract Actions	T&M Contract Actions	Other Contract Actions	Total Contract Actions
R425	Engineering and Technical Services	32.0%	44.2%	22.4%	1.4%	1050
R408	Program Management/Support Services	45.5%	36.6%	12.8%	5.1%	235
R421	Technical Assistance	8.1%	44.6%	37.8%	9.5%	74
D302	ADP Systems Development Services	11.9%	64.2%	6.0%	17.9%	67
D314	ADP Acquisition Support Services		79.7%	20.3%		59
R414	Systems Engineering Services	63.0%	25.9%	11.1%		54
D307	Automated Information System Services	43.8%	41.7%	14.6%		48
R707	Mgt Svcs/Contract & Procurement Sup	7.7%	66.7%	25.6%		39
D310	ADP Backup and Security Services	0.0%	80.0%	20.0%		10
R497	Personal Services Contracts		100%			7
R413	Specifications Development Services		100%			4
R423	Intelligence Services		100%			4
		<b>515</b>	<b>756</b>	<b>334</b>	<b>46</b>	<b>1,651</b>
		31.2%	45.8%	20.2%	2.8%	100.0%

### 3.3 Selected Individual Contract Review

The OAs identified and reviewed 42 contracts within the original set of 15 OMB –selected special interest functions. The review process included the completion of a template to ensure that all the Section 743(e) requirements were addressed, as well as questions to address the extent of competition, the business status, plans to re compete the contract, and whether or not this contract work should be insourced.

To complete the template, the OAs reviewed the contract file and, as necessary, conducted interviews with the relevant program and acquisition offices. For the reviewed contracts, the findings were:

- Contractor employees are not performing inherently governmental functions;
- None of the contracts reviewed were determined to be personal services;
- For one FAA contract, the work was considered critical, but not inherently governmental. The work is for 24 x 7 National Airspace System lab support—FAA provides continuous oversight and maintains its ability to control its mission and operations;
- Contractor employees are performing essential, but not inherently governmental work; while the OAs agreed that these functions could be insourced, the OAs either cited no available FTEs, lack of government expertise, or they valued the flexibility of a contractor workforce. No insourcing was recommended;
- Thirty-three percent of the 42 contracts reviewed were fixed price contracts, with two-thirds with high risk contract types, such as CPFF, CPIF, and T&M; and
- For 27% of the contracts reviewed, the services were needed one time and, therefore, the contract would not be re competed.

## 4.0 RECOMMENDATIONS AND ACTIONS

To meet the OMB goal to reduce spending in management support services by 15 percent, DOT must reduce spending by nearly \$180 million. In FY 2011, DOT began three important initiatives to reduce overall contract spending and to specifically meet the OMB 15 percent reduction goal:

1. Increasing awareness;
2. Reducing high-risk contracting; and
3. Implementing DOT-wide strategic sourcing.

DOT recognized that managing contract services more effectively requires a collaborative approach, so the Office of the Procurement Executive has worked closely with the program, finance, and information technology offices to develop recommendations and take action.

### 4.1 Increasing Awareness

The Office of the Senior Procurement Executive has taken the lead role to increase awareness of the need for more effective service contract management throughout DOT. By increasing awareness at the acquisition, administrative, and program executive levels throughout DOT, the OAs began immediately to identify ways that they could reduce spending and better manage contract risk. The initial approaches to reducing spend are:

- Finding duplication in contracting services and eliminating redundancies;
- Negotiating labor rates in a more focused and consistent manner;
- Negotiating labor mixes; and
- Cutting services.

At the acquisition level, the Senior Procurement Executive established and chairs the Strategic Acquisition Council, which is made up of the Directors of Acquisition from each OA. They meet monthly to share ideas and information, establish priorities and goals, and report on progress toward goals.

At the administrative level, the Senior Procurement Executive has used the Administrative Management Council (AMC) as a key forum for making more effective service contract management a priority. The AMC meets quarterly and is comprised of the Associate Administrators for Administration for each OA, which provides an important liaison to bring these issues to the attention of the legal, budget and finance, human capital, information technology, and facilities offices.

At the program executive level, in FY 2011, the Senior Procurement Executive worked to establish the Strategic Sourcing Executive Steering Committee (SSESC). The SSESC is chaired by the Deputy Secretary and is an executive-level, decision-making body made of the Administrators from each OA or their designated representative. The purpose of the SSESC is to ensure executive level support and buy-in to DOT-wide cost reduction strategies. The SSESC meets quarterly or as needed, and is supported by spend analysis teams who are researching, analyzing, and developing recommendations for SSESC consideration.

In FY 2011, DOT spent \$998 million on OMB-select management support services; this represents a 16 percent reduction from FY 2010 spending of 1.1 billion.

#### 4.2 High-Risk Contracting

DOT has taken a two-pronged approach to high-risk contracting.

1. Reducing high-risk contacts; and
2. Managing risk effectively in high-risk contracts

Through increased awareness and education, DOT has worked to reduce high risk contracting. For FY 2011, DOT has reduced spending in the high-risk time and materials contracts by more than 40 percent from spending in FY 2010.

Understanding that in some cases, a cost reimbursement type contract is most appropriate for some work, the DOT Office of the Senior Procurement Executive developed and issued a “Cost Plus Award Fee Contracting Guide” July 1, 2011. The guide provided information on effectively managing the risk in these types of contracts through the (1) proper selection of cost reimbursement contract types, (2) elements of the award fee contract, and (3) organization and administration.

#### 4.3 Strategic Sourcing

In FY 2011, DOT initiated a DOT-wide strategic sourcing initiative as proven method to reduce the cost of commodities and services. DOT defined strategic sourcing broadly as the collaborative and structured process of critically analyzing current spending to develop future buying strategies that are more effective and efficient. This broad definition encompasses more than just sourcing opportunities, but also includes analysis of the usage patterns and need.

To ensure the success of the DOT-wide initiative, DOT established the Strategic Sourcing Executive Steering Committee (SSESC) to provide active and visible oversight of the initiative. The DOT SSESC is chaired by the Deputy Secretary.

The strategic sourcing initiative will be implemented in three phases:

**Phase 1** will focus on near-term cost reduction opportunities. During this phase, DOT will leverage the success of the Federal Aviation Administration FAA’s strategic sourcing program across all the OAs. The FAA has been using strategic sourcing to achieve significant savings since 2005. They have awarded a FAA-wide set of contracts, known as the SAVES contracts, for office supplies, printers, courier services, and IT hardware and software. Phase I will focus on cost reduction opportunities for:

- Printers and managed printing;
- Personal computing devices--workstations, laptops, tablets, notebooks;
- Peripherals and office equipment—cables, memory devices, power devices;
- Servers, storage, network devices; and
- Enterprise postage solutions.

**Phase 2** will focus on areas that will require more time for analysis and implementation of cost reduction strategies. During this phase, DOT will focus on cost reduction opportunities for:

- Management support services;
- Furniture;
- Cellular services; and
- Software and maintenance.

**Phase 3** addresses more complex categories and will require a long-term approach. During this phase, DOT will focus on cost reduction opportunities for:

- Engineering services;
- Program management support services;
- Administrative support services; and
- Custodial services.

## **APPENDIX A: APPLICABLE LEGISLATION AND GUIDANCE**

This appendix provides the applicable legislation and guidance in chronological order beginning with the most recent.

### **Legislation**

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December 16, 2009  
Public Law 111-117  
Section 743. Service Contract Inventory Requirement

October 19, 1998  
Public Law 105-270  
Federal Activities Inventory Reform Act of 1998  
(Inherently Governmental)

### **Office of Management and Budget Policy Letters**

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September 12, 2011  
Policy Letter 11-01  
Performance of Inherently Governmental and Critical Functions