

GAO

Report to the Committee on Homeland  
Security and Governmental Affairs,  
U.S. Senate

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# MANAGING SERVICE CONTRACTS

## Recent Efforts to Address Associated Risks Can Be Further Enhanced

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Highlights of [GAO-12-87](#), a report to the Committee on Homeland Security and Governmental Affairs, U.S. Senate

## Why GAO Did This Study

In fiscal year 2010, civilian agencies obligated \$136 billion on service contracts, including obligations for professional and management support services such as program evaluation and acquisition support. Many of these services increase the risk that contractors may inappropriately influence the government's authority, control, and accountability for inherently governmental decisions. GAO was asked to (1) determine the extent to which civilian agencies use professional and management support service contracts and the types of activities acquired, (2) determine if agencies consider and mitigate risks associated with contractors providing these services, and (3) assess agencies' response to recent Office of Management and Budget (OMB) efforts related to acquiring these services. GAO analyzed Federal Procurement Data System – Next Generation (FPDS-NG) data and selected a nongeneralizable sample of 230 statements of work and 12 case studies from five agencies with one-third of obligations for these services in fiscal year 2010. GAO also reviewed agency and governmentwide guidance and met with agency and OMB officials.

## What GAO Recommends

GAO recommends that OMB establish a deadline for its recent requirement that agencies develop procedures for services, including those that closely support inherently governmental functions, and include two FPDS-NG codes in guidance for agencies' use of service contracts and in the cost savings initiative for management support services. OMB generally agreed with the recommendations.

View [GAO-12-87](#). For more information, contact John Hutton at (202) 512-4841 or [huttonj@gao.gov](mailto:huttonj@gao.gov).

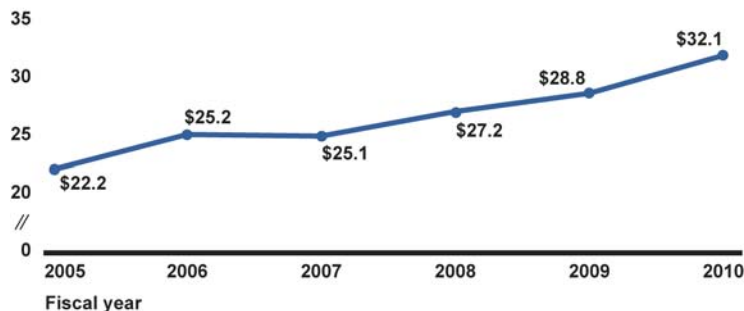
# MANAGING SERVICE CONTRACTS

## Recent Efforts to Address Associated Risks Can Be Further Enhanced

### What GAO Found

From fiscal years 2005 through 2010, civilian agency obligations on contracts for professional and management support services increased 44 percent, from \$22 billion to \$32 billion (in 2010 dollars), more than twice the rate of increase for other services. For the five agencies GAO reviewed—the Departments of Homeland Security, Transportation, and Housing and Urban Development, the United States Agency for International Development, and the National Science Foundation—more than half of the 230 statements of work for professional and management support service contracts requested services that closely support the performance of inherently governmental functions. Using these services can inappropriately influence government decisionmaking if proper oversight is not provided.

**Professional and Management Support Service Contracting Obligations at Civilian Agencies**  
2010 dollars (in billions)



Source: GAO analysis of FPDS-NG data.

The five agencies generally did not consider and mitigate risks of acquiring professional and management support services prior to awarding the 12 contracts GAO reviewed. The Federal Acquisition Regulation requires agencies to provide enhanced management oversight for contracts that closely support inherently governmental functions. For the 12 contracts, few of the officials said they considered whether contracted services included such functions. In some cases, officials said they later became concerned that contractors might perform inherently governmental functions or that government employees lacked expertise to oversee contracted work, and took steps to mitigate risks. Guidance from four of the five agencies did not include processes to identify risks or ensure enhanced management oversight when contractors perform such services.

Recent congressional and OMB guidance has emphasized the need for agencies to examine their use of service contracts and the related risks. The five agencies have participated in these efforts, including service contract inventories and multisector workforce pilots, to varying degrees, but only DHS has taken steps to incorporate related OMB efforts into processes that examine their use of professional and management support services. A September 2011 OMB policy letter requires agencies to develop procedures to improve their management of risks when contracting for these services, but does not include an implementation deadline. Further, two OMB efforts have focused on selected professional and management support service codes from FPDS-NG that require increased agency attention, but the efforts exclude two related codes that accounted for significant obligations and that may similarly contain risks.

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## Abbreviations

AMS	Acquisition Management System
COTR	contracting officer's technical representative
DHS	Department of Homeland Security
DOD	Department of Defense
DOT	Department of Transportation
FAIR Act	Federal Activities Inventory Reform Act
FAR	Federal Acquisition Regulation
FPDS-NG	Federal Procurement Data System – Next Generation
HUD	Department of Housing and Urban Development
NSF	National Science Foundation
OFPP	Office of Federal Procurement Policy
OMB	Office of Management and Budget
SOW	statement of work
USAID	United States Agency for International Development

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Accountability \* Integrity \* Reliability

United States Government Accountability Office  
Washington, DC 20548

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December 7, 2011

The Honorable Joseph I. Lieberman  
Chairman  
The Honorable Susan M. Collins  
Ranking Member  
Committee on Homeland Security and Governmental Affairs  
United States Senate

The government relies on contractor services to meet a variety of mission needs, and these contracts account for the majority of agencies' contract dollars. In fiscal year 2010, almost 80 percent, or \$136 billion, of civilian agency contract obligations were used to purchase contractor services. This includes contracts for professional and management support services, a category of services in which contractors perform functions ranging from program evaluation and acquisition support to systems engineering services.<sup>1</sup>

While there are benefits to using contractors, such as addressing surge capacity needs, the use of many of the services categorized as professional and management support increases the risk that contractors may inappropriately influence the government's authority, control, and accountability for decisions. Our prior work has examined these issues at the Departments of Defense (DOD) and Homeland Security (DHS).<sup>2</sup> More recently, Congress has enacted a law to ensure that special consideration be given to using federal employees to perform certain functions, and the executive branch has raised specific concerns about the governmentwide use of professional and management support services and whether agencies rely too heavily on contractors to provide these services. In 2009, Congress directed agencies to give special consideration to using

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<sup>1</sup>For the purpose of this report, professional and management support service contracts refers to contracts categorized as "Professional, Administrative and Management Support Services" in the Federal Procurement Data System Product and Service Code Manual. See app. III for a list of these product service codes.

<sup>2</sup>GAO, *Defense Acquisitions: Further Actions Needed to Address Weakness in DOD's Management of Professional and Management Support Contracts*, [GAO-10-39](#) (Washington, D.C.: Nov. 20, 2009) and *Department of Homeland Security: Improved Assessment and Oversight Needed to Manage Risk of Contracting for Selected Services*, [GAO-07-990](#) (Washington, D.C.: Sept. 17, 2007).

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federal employees rather than contractors for functions closely associated with the performance of inherently governmental work, which may be found in contracts for professional and management support services.<sup>3</sup> Inherently governmental functions require discretion in applying government authority or value judgments in making decisions for the government; as such they must be performed by government employees and not contractors. The Office of Management and Budget (OMB) has initiated several efforts to improve how agencies manage their multisector workforce of federal employees and contractor personnel and which address the inherent risk involved in contracting for functions closely associated with the performance of inherently governmental functions. In this context, you asked us to review how civilian agencies manage their use of contracts for professional and management support services. Specifically, you asked us to (1) determine to what extent civilian agencies use professional and management support service contracts and what types of activities are being acquired, (2) determine if agencies considered and mitigated risks associated with contractors providing such services, and (3) assess agencies' responses to recent governmentwide efforts related to contracting for professional and management support services.

To conduct this work, we analyzed contract data from the Federal Procurement Data System – Next Generation (FPDS-NG) and selected and reviewed 230 contract statements of work (SOW) for professional and management support services, from which we selected 12 contracts and task orders for more in-depth case-study reviews. We also reviewed agency and governmentwide guidance related to professional and management support services and their related risks and spoke with agency and OMB officials.

To determine the extent to which civilian agencies contract for professional and management support services, we reviewed FPDS-NG data for fiscal years 2005 through 2010 for contracts categorized as "Professional, Administrative, and Management Support Services." We selected five civilian agencies to provide a closer review: the Departments of Homeland Security (DHS), Transportation (DOT), and Housing and Urban Development (HUD), the U.S. Agency for International Development (USAID), and the National Science Foundation (NSF). They

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<sup>3</sup>Omnibus Appropriations Act, 2009, Pub. L. No. 111-8, Division D, § 736.

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were chosen in part to represent a variety of agency missions and based on the proportion of their obligations for professional and management support services in relation to their overall service obligations. Together, these agencies accounted for one-third of civilian agency obligations for professional and management support services in fiscal year 2010. Because FPDS-NG does not provide definitions for service codes, to better understand the services provided we judgmentally selected a nongeneralizable sample of 235 SOWs from the five agencies, selecting 50 each from DHS, DOT, HUD, and USAID and 35 from NSF (which had fewer contracts and task orders to select from compared to the other four agencies). To obtain a range of services and contract sizes, the selection factors included varying contract obligation amounts and types of services, and, when available, descriptions of the services that indicated the requested services closely supported inherently governmental functions or functions that might be close to their agencies' missions. Five of the 235 SOWs were either not available from the agencies during the course of our audit work or not sufficiently detailed for our review purposes, so we ultimately reviewed 230 SOWs.

To determine if agencies consider and mitigate risks associated with professional and management support services, we judgmentally selected 12 contracts and task orders for further review as case studies based on a range of factors, including comparing the contract description to guidance in the Federal Acquisition Regulation (FAR) to help ensure we selected services that might closely support inherently governmental functions. For each case study, we met with contracting officers, contracting officer's technical representatives (COTR), and other program officials and reviewed selected contract documents for evidence of risk consideration and mitigation. We also reviewed agency guidance and interviewed senior agency officials in procurement, management, and human capital offices and reviewed agency documents to learn about guidance that assists in mitigating risks associated with professional and management support services contracting. We compared these policies and practices to OMB and FAR guidance.

To assess agencies' response to OMB efforts, we met with Office of Federal Procurement Policy (OFPP) officials and reviewed statutes and OMB documents, memos, and policy letters that address service contracting. We interviewed agency officials and reviewed available documentation about steps taken to respond to these efforts. See appendix I for a more in-depth description of our scope and methodology.



We conducted this performance audit from December 2010 to December 2011 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

## Background

The Federal Procurement Data System – Next Generation (FPDS-NG) uses more than 300 codes, organized in 23 categories, to describe the services purchased by federal agencies. Among these categories—which capture services ranging from utilities and housekeeping services to medical services—are professional and management support services. Examples of service categories and codes are listed in table 1.

**Table 1: Examples of Service Categories and Codes**

Examples of FPDS-NG categories of services	Examples of service codes in each category
Housekeeping Services	<ul style="list-style-type: none"> <li>• Food Services (S203)</li> <li>• Interior Landscaping (S217)</li> <li>• Other Housekeeping Services (S299)</li> </ul>
Medical Services	<ul style="list-style-type: none"> <li>• Nursing Services (Q401)</li> <li>• Anesthesiology Services (Q501)</li> <li>• Pediatric Services (Q516)</li> </ul>
Professional, Administrative, and Management Support Services	<ul style="list-style-type: none"> <li>• Program Management/Support Services (R408)</li> <li>• Legal Services (R418)</li> <li>• Other Management Services (R799)</li> </ul>

Source: FPDS-NG and U.S. General Services Administration data.

Note: Data are from FPDS-NG and the U.S. General Services Administration's *Federal Procurement Data System Product and Service Codes Manual*.

For almost 20 years, OMB procurement policy has indicated that agencies should provide a greater degree of scrutiny when contracting for professional and management support services, which include acquisition support, program evaluation, and other services that can affect the

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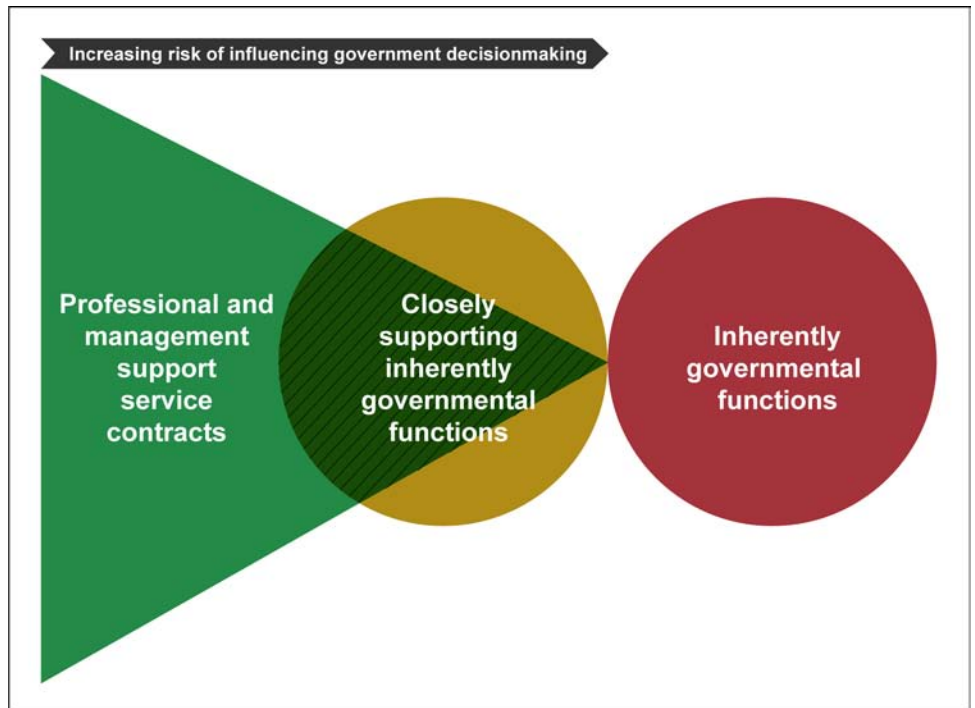
government's decision-making authority.<sup>4</sup> Without proper management and oversight, such services risk inappropriately influencing the government's control over and accountability for decisions that may be supported by contractors' work. Thus, the policy directs agencies to ensure that they maintain sufficient government expertise to manage the contracted work. The FAR also addresses the greater need for management oversight associated with contractors providing services that have the potential to influence the authority, accountability, and responsibilities of government employees. Contractors are prohibited from performing inherently governmental functions, such as determining agency policy, directing federal employees, and approving contractual documents, which require such discretion in applying government authority or value judgments in making decisions that they can only be performed by government employees.<sup>5</sup> The FAR also identifies services that can approach being inherently governmental, based on the nature of the function or the manner in which the work is performed or administered. Contractors can provide services that closely support inherently governmental functions, but agencies must provide greater scrutiny and enhanced management oversight to ensure that the contractors' work does not limit the authority, accountability, and responsibilities of government employees. The FAR includes an illustrative list of 19 services that closely support inherently governmental functions, many of which—such as supporting policy development and providing legal advice—are captured in FPDS-NG codes in the professional and management support services category. See appendix II for examples of inherently governmental and closely supporting inherently governmental functions outlined in the FAR. Figure 1 illustrates how the risk of contractors influencing government decision making is increased as professional and management support services move closer toward supporting inherently governmental functions.

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<sup>4</sup>Office of Federal Procurement Policy, *Inherently Governmental Functions*, OFPP Policy Letter 92-1 (Sept. 23, 1992 [Rescinded]); Office of Federal Procurement Policy, *Management Oversight of Service Contracting*, OFPP Policy Letter 93-1 (May 18, 1994).

<sup>5</sup>FAR 7.503(c) includes a list of functions that are considered to be inherently governmental. See app. II for the complete list.

**Figure 1: Risk Associated with Professional and Management Support Services**



Source: GAO.

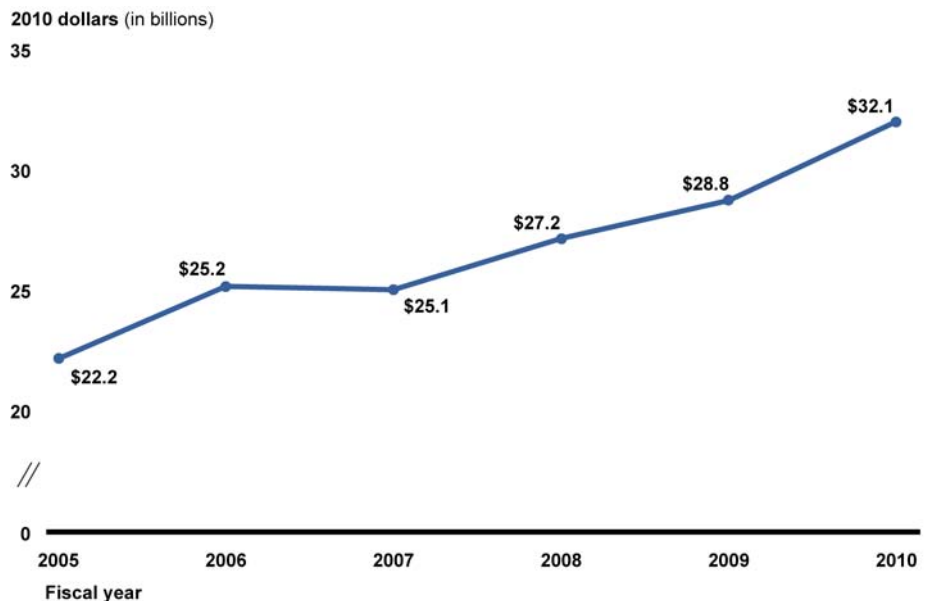
Long-standing FAR and OMB guidance addresses the need for enhanced oversight, but in prior work we found that DOD and DHS officials were often unaware of this policy.<sup>6</sup> The guidance states that having a sufficient number of trained and experienced government employees is necessary when contracting for professional and management support services, but does not describe how agencies should provide enhanced management oversight for such contracts.

<sup>6</sup>[GAO-10-39](#) and [GAO-07-990](#).

## Civilian Agencies Have Increasingly Acquired a Wide Range of Professional and Management Support Services, Which May Include Risks

Federal civilian agencies have increasingly relied on contractors to provide professional and management support services—such as program management and evaluation, engineering and technical services, and acquisition support—with a growth rate of obligations in this category that is more than twice the growth rate of all other service contract obligations over a 5-year period. From fiscal year 2005 through fiscal year 2010, civilian agency obligations for professional and management support service contracts increased \$9.9 billion dollars, or 44 percent, to \$32 billion (adjusted for inflation to 2010 dollars). (See fig. 2.) This was more than double the 19 percent increase experienced by all other service contracts, which increased from \$87.8 billion to \$104 billion in inflation-adjusted dollars during the same time period.

**Figure 2: Professional and Management Support Service Contracting Obligations at Civilian Agencies, Fiscal Years 2005 through 2010**



Source: GAO analysis of FPDS-NG data.

The five agencies selected for review—DHS, USAID, DOT, HUD, and NSF—obligated a larger percentage of their fiscal year 2010 service contract dollars on professional and management support services compared to all civilian agencies, including the five reviewed. (See table 2.)

**Table 2: Professional and Management Support Service Contracts at Selected Agencies, Fiscal Year 2010**

Dollars in billions

	Professional and management support service contracts			Primary services requested
	Obligations for all service contracts	Obligations	Obligations as a percentage of all service contracts	
HUD	\$1.6	\$1.3	80%	More than 85 percent of professional and management support service obligations were for services coded as Other Professional Services, Personal Property Management Services, and Financial Services.
USAID	6.3	4.7	75	Technical Assistance contracts accounted for three-quarters of professional and management support service contract obligations.
NSF	0.4	0.2	36	Two contract codes—Other Professional Services and Logistics Support Services—accounted for more than two-thirds of professional and management support service contract obligations.
DHS	10.4	3.1	30	Nearly two-thirds of professional and management support service contract obligations were for services in three codes: Program Management/Support Services, Engineering and Technical Services, and Other Professional Services.
DOT	4.7	1.4	30	Engineering and Technical Services contracts accounted for slightly more than half of professional and management support service contract obligations.
<b>Total for selected agencies</b>	<b>\$23.4</b>	<b>\$10.7</b>	<b>46%</b>	
<b>Total for all civilian agencies</b>	<b>\$136.4</b>	<b>\$32.1</b>	<b>24%</b>	

Source: GAO analysis of FPDS-NG data.

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**Professional and Management Support Service Contracts Frequently Included Services That Closely Support Inherently Governmental Functions**

For the five agencies we reviewed, the activities contractors provided through agencies' professional and management support service contracts often appeared to closely support the performance of inherently governmental functions. Use of these services can result in the loss of government accountability and control if proper oversight is not provided. Of the 230 professional and management support service contract statements of work (SOW) we reviewed from the five agencies, at least 120 contracts—or more than half—requested services that the FAR identifies as closely supporting inherently governmental functions, including services related to budget preparation, reorganization and planning activities, evaluation of another contractor's performance, and acquisition support.<sup>7</sup> For example, a DOT contract requested support for acquisition functions, including the creation of independent government cost estimates and analysis and recommendations related to new acquisitions. In another contract, HUD requested that contractors assist management and staff in developing a new strategic plan for the agency. The SOW called for contractors to work with stakeholders inside and outside the agency by conducting interviews, documentation reviews and surveys to understand the agency's current operational environment and associated challenges, risks, and opportunities. Tasks also included assisting in the identification of agency priorities and transformation initiatives. The remaining SOWs we reviewed included services that did not closely support inherently governmental functions, such as a contract for records management and processing at DHS.

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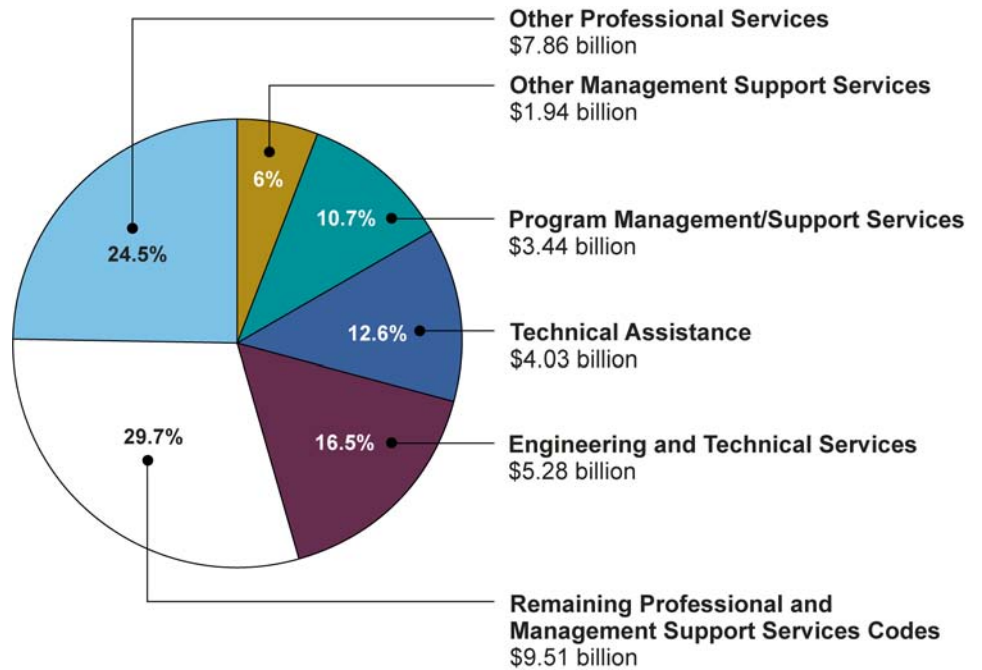
**Five Professional and Management Support Services Codes Accounted for the Majority of Obligations**

A significant portion of the growth in civilian agency contracts for professional and management support services was driven by an increase in obligations for contracts coded in FPDS-NG as Other Professional Services. This category accounted for \$3.4 billion of the \$9.9 billion increase in contract obligations for professional and management support services from fiscal year 2005 to fiscal year 2010. Overall, 5 of the 56 codes for professional and management support services accounted for 70 percent of civilian agency obligations for these services in fiscal year 2010, representing over \$22 billion in overall obligations. (See fig. 3.)

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<sup>7</sup>For the purposes of our review of contract statements of work (SOW), acquisition support includes assisting with acquisition planning, contract management, technical evaluation of contract proposals, and developing contract requirements such as SOWs.

**Figure 3: Civilian Agencies' Professional and Management Support Service Contract Obligations, Fiscal Year 2010**



Source: GAO analysis of FPDS-NG data.

Of the 230 contract SOWs we reviewed, 171 contracts were in the top five codes and covered a wide range of services. For example:

- **Other Professional Services.** SOWs requested support including risk management and analysis, records management, assistance to a foreign government, physical and administrative security, budget and program management support, financial and information technology audits, strategic planning, program administration, acquisition support, project management, technical assistance and training, workforce analysis, and website development and content management.
- **Engineering and Technical Services.** SOWs requested services including architectural planning and construction, testing and evaluation of radar and weather systems, ship inspection services, and information technology systems support.
- **Technical Assistance.** SOWs requested services including support to foreign governments, such as support for security and governance in Nepal and local government capacity building in unstable areas of

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Afghanistan, as well as contracts to update information technology systems and manuals and provide technical and administrative support to meet information technology security requirements.<sup>8</sup>

- Program Management/Support Services. SOWs requested services including support to evaluate internal controls, manage audit compliance and the tracking of audit recommendations, and provide project management oversight to ensure grantee compliance in administering federally funded programs.
- Other Management Support Services. SOWs requested services including technical and program expertise related to technologies' compliance with federal laws and guidelines; support to develop a program management plan for project monitoring and oversight; information systems, hardware, and software support; technical expertise to improve data collection and program evaluation; and loan servicing activities including payment collection, risk management, and customer service.

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## Officials Identified Various Reasons for Contracting for Services

We conducted a more in-depth review of 12 contracts or task orders for professional and management support services. On the basis of our review, at least 9 of the 12 contracts or task orders involved services that closely support inherently governmental functions, including acquisition support, reorganization and planning support, and support for policy development. The selected contracts or task orders originated from 2005 through 2009 and included a mix of both long-standing and new contract requirements. For example, the DOT project management oversight contracts at the Federal Transit Administration include services that have been performed by contractors for more than 20 years.

Contracting and program officials identified several reasons why their agencies chose to award contracts for these professional and management support services. Six of the 12 contracts or task orders were issued or expanded in response to new requirements or workload increases, such as the watch officer positions created to provide surge capacity at DHS' Transportation Security Administration, an expanded

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<sup>8</sup>In fiscal year 2010, USAID accounted for 83 percent of civilian agency obligations for contracts coded as Technical Assistance. The majority of SOWs we reviewed in this code (21 out of 27) were USAID contracts. The Technical Assistance code was merged into the code for Engineering and Technical Services effective October 1, 2011. See app. III for a list of professional and management support service codes and a crosswalk showing changes that took effect October 1, 2011.



Sudan mission support contract at USAID, and short-term need for procurement office support at HUD. The 12 case-study contracts and task orders are described in table 3.

**Table 3: Professional and Management Support Service Contracts and Task Orders Reviewed**

Agency / contracting organization	Obligations in fiscal year 2009 (dollars in millions)	Service code	Fiscal year of award	Program office supported	Summary of services provided
<b>DHS</b>					
Citizenship and Immigration Services	\$20.6	Other Professional Services	2007	Office of Administration	Acquisition and program support services
Office of the Secretary	10.9	Program Management/ Support Services	2009	Office of Intelligence and Analysis	Intelligence and analytic support
Transportation Security Administration	2.6	Intelligence Services	2007	Transportation Security Operations Center	Watch Officer support
<b>HUD</b>					
	27.5	Financial Services	2006	Government National Mortgage Association (Ginnie Mae)	Administration of mortgage-backed securities programs
	0.3	Other Professional Services	2009	Office of the Chief Procurement Officer	Acquisition support services
<b>DOT</b>					
Federal Aviation Administration	1.2	Engineering and Technical Services	2009	Western Logistics Service Area Field Offices	Logistics support services, including acquisition support and management
Federal Transit Administration	6.0	Program Management/ Support Services	2009	Region 2	Project management oversight for grants to state and local governments
Office of the Secretary	2.5	Other Professional Services	2009	Office of Airline Information, Research and Innovative Technology Administration	Analytic and technical services, including database administration
<b>NSF</b>					
	0.7	Other Professional Services	2009	National Nanotechnology Coordination Office <sup>a</sup>	Analytical, operational, technical, and administrative support
	4.7	Other Administrative Support Services	2005	National Coordination Office for Information Technology Research and Development <sup>a</sup>	Technical assistance, meeting facilitation, communications, information technology, and administrative support

Agency / contracting organization	Obligations in fiscal year 2009 (dollars in millions)	Service code	Fiscal year of award	Program office supported	Summary of services provided
USAID	9.3	Technical Assistance	2008	Program Office, USAID Sudan Mission	Performance evaluation, technical, logistical support
	0.6	Program Management/ Support Services	2009	Chief Operating Officer, Bureau for Policy, Planning and Learning	Administrative and analytic support

Source: GAO analysis of FPDS-NG data and other federal agency data.

Notes: For task orders, data shown are related to the individual task order and not the overall contract.

<sup>a</sup>The National Coordination Office for Information Technology Research and Development and the National Nanotechnology Coordination Office are interagency coordinating offices that receive payments from participating agencies. While these offices are not technically a part of NSF, they use NSF's procurement office to obtain contracted services, and as such are subject to the acquisition guidance and rules of NSF.

Agency officials noted that the temporary nature of some work or the need for surge capacities made contracting preferable to using federal employees because of the flexibility it offers, such as the ability to increase or decrease scope in response to program needs. Often, agency officials pointed to constraints on the use of federal employees such as limitations for hiring federal staff or budget restrictions as a factor that led to contracting for services. For example, NSF provides support to two interagency offices established by memorandums of understanding, which program officials told us have the effect of limiting the number of government personnel who can work in the offices, so the majority of the work is performed by contractors. Similarly, a senior Federal Transit Administration official said that while Congress has authorized a portion of annual program funds to be used for oversight services, the administration is constrained from using these funds to hire federal employees for this purpose.<sup>9</sup> In another case, officials from HUD's Government National Mortgage Association said that the agency increasingly used contractors for data analysis related to mortgage-backed securities, in part because their hiring authority had not increased

<sup>9</sup>Under 49 U.S.C. § 5327(c), Congress authorizes the Federal Transit Administration to use a percentage of annual program funds to contract for oversight services. According to a senior agency official, approximately \$77,000,000 was available to contract for oversight services in fiscal year 2011. The official said that employees are paid through a separate Administrative Expense Account.

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in several years, so they did not have enough government staff to meet their increased workload.

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## Agency Officials Generally Did Not Consider and Mitigate Risks Associated with Contracts for Professional and Management Support Services

Agency officials generally did not consider the risks of acquiring professional and management support services before awarding the 12 contracts we reviewed. In some cases, however, officials later became concerned and took steps to mitigate potential risks that contractors might perform inherently governmental functions, or that government employees might lack sufficient expertise to oversee the contractors' work. Four of the five agencies did not have guidance to help identify risks prior to award and ensure enhanced oversight is provided when services closely support inherently governmental functions.

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## Few Officials Considered Risks When Awarding Contracts That Closely Support Inherently Governmental Functions

For the contracts we reviewed, few of the contracting or program officials said they considered whether the services they were contracting for closely supported inherently governmental functions or took steps to address the related risks before award. In almost all of the cases, officials explained that they conducted reviews, as required by the FAR, to determine if the services requested included inherently governmental functions, but none stated that these review processes specifically determined whether services might closely support inherently governmental functions and thus require enhanced management oversight.<sup>10</sup> The FAR guidance requiring enhanced management oversight when contracting for services that closely support inherently governmental functions is located in a different part of the FAR than that on inherently governmental functions, and agencies did not seem to link the two FAR sections, as none of the officials identified services that

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<sup>10</sup>GAO, *Standards for Internal Control in the Federal Government*, [GAO/AIMD-00-21.3.1](#) (Washington, D.C.: November 1999). The federal internal control standards provide a framework to identify and address areas at greatest risk of mismanagement, waste, fraud, and abuse, and require assessments of risks.

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closely support inherently governmental functions as triggering a need for increased oversight.<sup>11</sup>

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### Some Officials Raised Concerns during Contract Performance

During the performance period of the contract, contracting and program officials said they relied on routine oversight procedures, such as assigning COTRs, reviewing contractors' work products, and reviewing contractor invoices and status reports. In cases where officials did have additional oversight measures in place, they did not link their actions to concerns associated with risks from acquiring professional and management support services. For example, the Federal Transit Administration program office at DOT had developed standard oversight procedures to address the contractors' roles and responsibilities for overseeing grant recipients, including their responsibilities for conducting assessments of the grantees and providing recommendations to the agency. While the procedures acknowledge the government's decision-making role, they are an application of long-standing guidance that officials said was created to ensure that each project meets its goals, rather than additional oversight to address the risk of contractors supporting inherently governmental functions. For other contracts, contracting or program officials became concerned during the course of contract performance that contractors were at risk of performing inherently governmental functions, or that government personnel might lack the expertise needed to oversee contractors' work, and took various steps to help mitigate those risks. In these cases, we found that concerns were generally raised by officials who were new to a program office or contracting officials who had assumed responsibilities for an existing contract. For example:

- A senior official in DOT's Office of Airline Information became concerned about the lack of government employee expertise to oversee information technology functions that had been developed and exclusively operated by contractors for several years. The office is planning to convert some of the contractor duties to federal employee positions, but efforts to hire new employees have not been

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<sup>11</sup>A senior OFPP official told us that it anticipates potential FAR changes as a result of the OFPP Policy Letter 11-01. These changes may include cross-references to better link the FAR section that describes services that closely support the performance of inherently governmental functions (FAR 7.503(d)) and the section describing the need for enhanced management oversight (FAR 37.114(b)).

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completed because of budget constraints and competing priorities within the Research and Innovative Technology Administration.

- The contracting officer and COTR in USAID's Sudan Mission had concerns about interaction among federal employees and contractor staff in a newly established mission office, fearing that security and logistic challenges had left the government overly reliant on contractors' expertise. To prevent the performance of inherently governmental work by contractors and to ensure appropriate oversight and capacity among the federal employee workforce, they developed a mission order nearly 3 years after the contract was awarded that outlined the government's responsibilities and provided training for all personnel in the mission office.
- In the two NSF contracts we reviewed, contracting and program officials developed policy and procedure manuals after the contracts were awarded to outline the responsibilities and workflow among contractor and federal staff. Officials said that because each of these offices is staffed primarily by contractors, with only one or two federal employees, these technical documents primarily serve a business continuity function. However, officials also said they help to ensure that contractors will not accidentally perform or be tasked with inherently governmental work.
- In two of the DHS contracts we reviewed, officials identified risks associated with some of the activities performed by contractors and are now requiring the work to be performed by government employees. According to a senior procurement official with Citizenship and Immigration Services, the component has reduced the number of contractors supporting the contract from 90 to approximately 22, primarily by insourcing work—moving it from contractor to government performance—such as acquisition and budget support. The contract positions that remain are largely administrative specialist positions that officials determined do not support inherently governmental functions. Likewise, the Transportation Security Administration insourced 12 contracted watch officer support positions, which involve collecting information and monitoring domestic events that affect air passenger security, and program officials said they plan to insource the remaining call center positions in the near future.

According to agency officials, at least 6 of the 12 contracts we reviewed have been recently recompeted or will be in the coming year. Officials identified various changes to the contracts going forward, but only a few indicated that the changes were due to concerns with contractors providing professional and management support services. For example, USAID's policy office is changing some of the types of work performed by

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contractors in that office, but officials indicated that these changes are determined by how contract support can most effectively help the office function, not by consideration of risk or reliance on contractors. Similarly, HUD's Office of the Chief Procurement Officer ended its use of contractors when it received additional funding for federal employees, though program officials did not express any concerns about the type of work done by those contractors. DOT's Office of Airline Information is rolling its current contract into a larger, administrationwide contract vehicle for the sake of potential cost savings, not to address its concerns about the type of work being performed. Although the DHS Office of Intelligence and Analysis contract we reviewed expired, officials said that the succeeding contract, which is classified, contains similar types of services.

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#### Four Agencies' Guidance Did Not Address Risks Related to Professional and Management Support Services

Agencies use a variety of tools to guide procurement practices prior to contract award and during contract performance, including agency-specific FAR supplements, acquisition manuals, and COTR handbooks, and some of the materials we reviewed mention professional and management support services. The FAR requires agencies to provide enhanced management oversight for contracts that closely support inherently governmental functions, and federal internal control standards require assessments of risks. However, four of the five agencies reviewed did not have processes, through guidance or other means, to help identify risks or ensure greater scrutiny and enhanced management oversight when contractors provide expertise or perform services that closely support inherently governmental work.

In 2007, we recommended that DHS assess the risk of selected contractor services as part of the acquisition planning process and modify existing acquisition guidance to address when to use and how to oversee those services in accordance with federal acquisition policy.<sup>12</sup> DHS did not have guidance when two of the three contracts we reviewed were awarded,<sup>13</sup> but it subsequently established a review process for all professional and management support service contracts over \$1 million to identify related risks, including services that closely support inherently

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<sup>12</sup>[GAO-07-990](#).

<sup>13</sup>The third DHS task order we reviewed was awarded in 2009, shortly after the issuance of DHS guidance.

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governmental functions.<sup>14</sup> The review is required before contracts are awarded or option years are exercised. According to an official from one of the three DHS components we reviewed, this process helped contracting officials pay closer attention to oversight capacities of government staff, such as whether there were a sufficient number of employees available.

Beyond DHS, one other agency—USAID—had established contract review processes, but it did not address risks related to professional and management support services. USAID’s process requires a review of some service contracts for institutional support before the initial contract award and before exercising option years, but these reviews were intended to ensure all contracts were essential and efficient rather than to address risks related to contractors performing services that closely support inherently governmental functions.<sup>15</sup> In the few cases where agencies’ acquisition guidance specifically touches on issues related to professional and management support services, the guidance did not appear to affect risk assessment related to closely supporting inherently governmental functions. For example, HUD’s contract monitoring manual for government technical representatives specifically mentions professional and management support services, but contracting and program officials did not acknowledge the guidance or cite it as influencing any oversight they provided. Similarly, one DOT component we reviewed had established acquisition guidance that specifically identifies support services, including professional and management support, and states that they require expertise to monitor contractor

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<sup>14</sup>DHS requires all contract awards, options, and task or delivery orders with an annual value greater than \$1 million but less than \$50 million to be reviewed by the applicable Head of Contracting Activity. Awards, options, and orders with an annual value greater than \$50 million must be reviewed by the Component Acquisitions Executive, with concurrence from the Chief Procurement Officer.

<sup>15</sup>USAID’s institutional support contracts can include program support functions similar to professional and management support services. USAID defines institutional support contractor as a non-personal-services contractor, funded by USAID to support agency operations or to augment the agency’s direct hire and personal services staff, or both. Personnel employed by an Institutional Support Contractor may be seated within USAID space, space rented by or on behalf of the agency, or in the Institutional Support Contractor’s space. Institutional Support Contractors may be funded by either program or operating expense. While the majority of these individuals provide administrative and information technology support to the agency, some personnel employed by non-personal-services contractors in headquarters provide program-related support.

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performance.<sup>16</sup> However, the guidance does not have a process for providing enhanced management oversight for services that closely support inherently governmental functions.

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### OMB Multisector Workforce Efforts Seek to Improve Agency Management of Professional and Management Support Service Contracts

Through several efforts that address agencies' multisector workforce of federal employees and contractor personnel, OMB addresses professional and management support service risks, including recent guidance that establishes agency management responsibilities for services that closely support inherently governmental functions. The five agencies we reviewed have responded to these efforts to varying degrees, but only DHS has taken steps to incorporate all of these efforts. In recent initiatives, OMB may have missed opportunities to address risks associated with two specific codes for professional and management support services.

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### Recent OMB Efforts Establish Guidance That Addresses Risks Associated with Service Contracts

OMB has initiated a number of interrelated efforts that address agencies' use of service contractors, including contractors for professional and management support services, in the context of maintaining a balanced workforce with the appropriate mix of federal employees and contractors. Primarily in response to congressional requirements, since 2009 OMB has developed guidance and facilitated efforts to improve how agencies manage their multisector workforce, which includes addressing the risks that overreliance on contractors can pose to government control and accountability. Through these efforts, Congress and OMB have emphasized the need to examine contracted functions where agencies risk becoming overreliant on contractors, such as professional and management support service contracts. By focusing on the role that both government and contractor employees have in performing work that supports agency missions, these efforts emphasize the need to consider how contracted functions fit into agency goals and priorities as part of strategic planning processes. The resulting multisector workforce efforts seek to broaden decisions about the use of contractors from primarily a procurement office function, or a series of individual, program-office-level

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<sup>16</sup>The Federal Aviation Administration is exempt from the FAR and follows the guidance of the Acquisition Management System (AMS). AMS incorporates FAR language regarding prohibition on contractors performing inherently governmental functions but does not specifically call for greater scrutiny or enhanced oversight when contracting for services that closely support inherently governmental functions.



decisions, to a shared agency responsibility that requires the involvement of human capital, budget, and program, as well as procurement offices. Recent efforts that address professional and management support services are described in table 4.

**Table 4: Selected OMB Guidance Related to Professional and Management Support Service Contracts**

OMB guidance	Source of guidance	Summary	Agencies' implementation status (as of August 2011)
Insourcing guidance: OMB Memo, Managing the Multisector Workforce (M-09-26) July 29, 2009	Congress Omnibus Appropriations Act, 2009 Pub. L. No. 111-8, Div. D, § 736	OMB issued criteria to help civilian agencies respond to the statute, which requires that they develop procedures to ensure that they regularly give special consideration to using federal employees for certain functions, including those that closely support inherently governmental functions. This guidance identifies professional and technical service contracts as areas agencies should routinely monitor for risks.	<ul style="list-style-type: none"> <li>DHS issued guidance in 2009.</li> <li>USAID developed an insourcing plan and guidelines in 2010 and piloted the planning process in two offices in 2011.</li> <li>DOT, HUD, and NSF have not issued guidance</li> </ul>
Multisector workforce pilot: OMB Memo, Managing the Multisector Workforce (M-09-26) July 29, 2009	OMB	This OMB-initiated effort directs agencies to study an office or program that may be reliant on contractors to gain experience with multisector workforce analysis and planning. Approximately one-third of the 24 pilots examined functions that are generally considered to be professional and management support services.	<ul style="list-style-type: none"> <li>All five agencies completed the pilot and submitted reports to OMB in 2010.</li> </ul>
Service contract inventories and analysis: OFPP Memo, Service Contract Inventories November 5, 2010	Congress Consolidated Appropriations Act, 2010 Pub. L. No. 111-117, Div. C, § 743	In response to statutory requirement for civilian agencies subject to the Federal Activities Inventory Reform Act (FAIR Act) to submit to OMB an annual inventory of their service contracts, OMB guidance requires agencies to collect and analyze data on their service contracts to promote better decisions about their use and to help agencies give special management attention where contractors perform services that closely support inherently governmental functions. It also identifies specific professional and management support service codes that pose an increased risk to loss of government control.	<ul style="list-style-type: none"> <li>All five agencies completed the fiscal year 2010 inventory data collection efforts.</li> <li>Agencies' analyses are due to OMB by December 2011.</li> </ul>
OFPP Policy Letter 11-01: Performance of Inherently Governmental and Critical Functions 76 Fed. Reg. 56227, September 12, 2011	Congress Duncan Hunter National Defense Authorization Act for Fiscal Year 2009 Pub. L. No. 110-417, § 321	In response to statutory requirement, OMB revised the definition for inherently governmental functions and established criteria for identifying critical functions. The policy also establishes agency management responsibilities for contracts that are closely associated with inherently governmental functions or are critical functions.	<ul style="list-style-type: none"> <li>The effective date of OFPP Policy 11-01 is October 12, 2011.</li> </ul>

Source: GAO analysis of OMB data.

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OMB established criteria to help agencies respond to the statutory requirement to develop a process for reviewing service contractor activities to consider if contractor performance is appropriate, referred to as insourcing guidance. OMB's guidance identifies professional services as an area of risk, thus requiring increased agency monitoring. In 2009, OMB also required agencies to conduct multisector workforce planning pilots in one office or unit to gain experience with determining optimal workforce balance and submit summary reports on their workforce analysis.<sup>17</sup> More recently, in 2010, OMB issued guidance to help agencies conduct inventories of their fiscal year 2010 service contracts and an analysis of the inventory, which provides a more detailed list of professional and management support service codes, including program management support and intelligence services that require increased attention from agencies. OMB stated that it will issue additional guidance to agencies for the preparation of the fiscal year 2011 inventories, taking into consideration experiences with the development and use of the initial fiscal year 2010 inventories effort. The recent OMB OFPP Policy Letter 11-01 seeks to broaden agencies' focus to include critical functions, which can pose a risk if not carefully monitored. Similar to the risks associated with contractors performing work that closely supports inherently governmental functions, OMB states that relying on contractors for critical functions can affect the government's control of mission and operations, unless the government maintains sufficient in-house capability to manage and oversee the contractors' work. The policy letter requires agencies to develop and maintain internal procedures to address the requirements of the guidance, but does not state when the procedures should be implemented.

According to a senior OMB official, these pieces of guidance, working together, are intended to build the different capacities agencies need to examine their use of contractors and balance their workforce. For example, the insourcing guidance helps agencies develop the procedures needed to determine the appropriate use of public and private labor resources. The workforce analysis pilots were intended, in part, to help agencies build relationships among key stakeholders, furthering the collaboration needed to implement strategic approaches. Similarly, the contract inventories and analysis are ongoing efforts to collect and share the information stakeholders need to understand their areas of greatest

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<sup>17</sup>This requirement applied to the 24 agencies subject to the Chief Financial Officers Act.

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risk. The official also said that the policy letter ties all of these efforts together and provides agencies with instructions regarding their responsibilities to address risks associated with contractors performing services that closely support inherently governmental functions or are considered critical functions.

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### Agencies Have Responded to Multisector Workforce Initiatives to Varying Degrees

The five agencies we reviewed have participated in many of OMB's efforts related to the multisector workforce, but only DHS has taken steps to incorporate guidance to examine its use of contractors and balance its workforce. The four remaining agencies we reviewed—DOT, HUD, NSF, and USAID—are increasingly responding to the various segments of OMB's guidance by participating in the multisector workforce pilots and developing an inventory of service contracts, but have not fully implemented insourcing guidance that could provide greater scrutiny of professional and management support service contracts. Through the multisector workforce pilots, all five agencies we reviewed conducted a limited workforce analysis to gain an understanding of the steps needed to achieve a balanced workforce and submitted reports on the pilots to OMB in April 2010. While OMB initially stated that a summary of agency best practices would result from the pilot efforts, agencies have not yet received feedback from OMB on their reports and results have not been made public. The agencies we reviewed also completed their initial service contract inventory, which is an annual requirement of all of the civilian agencies subject to the FAIR Act of 1998 to understand how contractors are being used and to help identify contracted functions that may require workforce rebalancing due to overreliance on contractors. An additional analysis of this inventory is due at the end of 2011.<sup>18</sup> OMB is planning to provide updated guidance to the agencies for the fiscal year 2011 inventory analysis, but it had not been issued as of November 2011.

As of August 2011, three agencies—DOT, HUD, and NSF—had not yet developed the insourcing guidance that was due in 2009 for considering whether government or contractor employees are best suited for certain functions, particularly professional support services and services that closely support inherently governmental functions or are similar to work

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<sup>18</sup>GAO, *OMB Service Contracts Inventory Guidance and Implementation*, [GAO-11-538R](#) (Washington, D.C.: May 27, 2011).

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already performed by federal employees.<sup>19</sup> USAID has developed insourcing guidance, but is implementing it incrementally through its operating units with the assistance of a workforce planning contractor. According to USAID officials, the process has been piloted in two offices to date. In its most recent guidance, OMB's OFPP Policy Letter 11-01 reiterates a statutory requirement that agencies must give special consideration to using federal employees to perform work that closely supports inherently governmental functions.<sup>20</sup>

DHS developed insourcing guidance in 2009, and later expanded its efforts by introducing a strategy that provides a more comprehensive review process to help program offices balance their use of contracted and government personnel. The Balanced Workforce Strategy includes a decision-making tool intended to help program offices and the department assess various risks associated with service contracts, including whether the service supports a critical agency function. Using the tool, DHS program offices are systematically reviewing all of their existing service contracts to determine, among other factors, whether the services requested closely support inherently governmental functions, their degree of criticality, and the appropriate number of government personnel needed to maintain workforce balance. According to DHS officials, the review is being conducted in segments and contracts considered to be at higher-risk—including professional and management support service contracts—were prioritized for the initial reviews.

The Balanced Workforce Strategy leverages the efforts of DHS reviews, including the Quadrennial Homeland Security Review and Bottom-Up Review completed in 2010. According to DHS officials, it is also in response to congressional concerns about their use of contracted services and our 2007 report on their use of professional and management support services.<sup>21</sup> However, DHS is also developing the strategy to meet the various statutory and OMB requirements associated with the multisector workforce, such as developing insourcing guidelines

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<sup>19</sup>In 2009, we reported that nine civilian agencies we reviewed (including DHS and DOT) had not met the statutory date for developing and implementing their insourcing guidelines and procedures. GAO, *Civilian Agencies' Development and Implementation of Insourcing Guidelines*, [GAO-10-58R](#) (Washington, D.C.: Oct. 6, 2009).

<sup>20</sup>Omnibus Appropriations Act, 2009, Pub. L. No. 111-8, Division D, § 736.

<sup>21</sup>[GAO-07-990](#).

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as required in statute and identifying critical functions, as was outlined in OMB's OFPP Policy Letter 11-01. At the time of our review, DHS officials said the strategy was moving forward, but they considered the guidance to be a draft because it had been based on OMB's notice of proposed policy letter, and they were anticipating the final policy letter might require changes to the DHS strategy.<sup>22</sup>

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### OMB May Have Missed Opportunities to Address Cost Savings and Risk in Two Recent Initiatives

Two recent OMB efforts have highlighted a group of service codes for increased attention as agencies address their use of service contracts, but do not contain two codes—Other Professional Services and Other Management Support Services—that accounted for a significant amount of dollars obligated by civilian agencies on professional and management support service contracts in fiscal year 2010 and may contain risks to the government's control of mission and operations. At a White House forum in July 2011, OMB announced an effort to achieve cost savings by reducing agencies' spending on management support service contracts by 15 percent by the end of fiscal year 2012.<sup>23</sup> OMB later identified 12 service codes to define management support service functions, but did not include these two codes, which together comprised 30 percent of dollars obligated on professional and management support service contracts in fiscal year 2010.<sup>24</sup> The two codes were also not included in a similar list of service codes provided in OMB's November 2010 guidance for conducting service contract inventories and analysis.<sup>25</sup> In the guidance, OMB states that agencies should give priority consideration to reviewing contracts for professional and management support services and provides the list to illustrate codes that should be considered in agencies' analysis.<sup>26</sup> According to OMB, these codes were identified for heightened management attention due to concerns of their increased risk

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<sup>22</sup>OMB Notice of Proposed Policy Letter, *Work Reserved for Performance by Federal Government Employees*, 75 Fed. Reg. 16188 (Mar. 31, 2010).

<sup>23</sup>White House Forum on Accountability in Federal Contracting, July 7, 2011.

<sup>24</sup>OMB Memorandum, *Reduced Contract Spending for Management Support Services* (Nov. 7, 2011).

<sup>25</sup>OFPP Memorandum, *Service Contract Inventories* (Nov. 5, 2010).

<sup>26</sup>Two-thirds of the codes identified by OMB are professional and management support services, including program management support, acquisitions support, and policy development services.

to the government's control of mission and operations. See appendix IV for a complete list of the service codes identified in both initiatives.

While OMB took steps to provide agencies with guidance on codes for certain services that may have increased risks, our analysis of 230 contract SOWs, which included 83 contracts categorized as Other Professional Services or Other Management Support Services, showed that contracts in these codes include some of the same functions identified in the inventory guidance as requiring heightened management attention. (See table 5.) For example, requests for acquisition support were included in contracts in the two codes at all five of the agencies we reviewed. Additionally, because contracts in these codes can include a wide range of functions, they may include multiple activities that potentially support inherently governmental functions. For example, a DHS contract coded Other Professional Services requested services ranging from supporting program development and implementation, policy, workforce analysis, statistical and financial analysis, and economic analysis, to technical writing, web maintenance, mail and file operations, training, and information technology support for various programs.

**Table 5: Services Requested in Contracts Coded as Other Professional Services or Other Management Support Services**

	DHS	DOT	USAID	HUD	NSF	Total
<b>Total contracts reviewed</b>	22	11	16	18	16	<b>83</b>
<b>Services that closely support inherently governmental functions requested in one or more contract statements of work</b>						
Acquisition support <sup>a</sup>	✓	✓	✓	✓	✓	✓
Support for policy development <sup>a</sup>	✓			✓	✓	✓
Budget preparation	✓	✓	✓	✓	✓	✓
Reorganization and planning activities	✓		✓	✓	✓	✓
Evaluating another contractor's performance			✓			✓
Responding to FOIA requests				✓		✓
Inspection services	✓			✓		✓
<b>Contracts requesting these services</b>	18	3	7	8	5	<b>41</b>
Dollars obligated in fiscal year 2009 on contracts requesting these services (in millions)	\$336.6	\$2.5	\$200.0	\$15.2	\$78.1	<b>\$632.3</b>

Source: GAO analysis of FPDS-NG data and agency data.

<sup>a</sup>Indicates a service aligned with codes identified by OMB for special management attention.

According to a senior OMB official, OMB kept its list of inventory service codes concise to help agencies focus their attentions on a manageable number of services. However, by omitting these codes from receiving

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priority attention in agencies' inventory analysis, particularly considering that many of the services requested under these codes may closely support inherently governmental functions, agencies may not conduct a full analysis of risks related to loss of control and operations. While the services specified in the inventory analysis list are intended to be illustrative, the significant amount of obligations spent in the two excluded codes also warrants attention, particularly for efforts aimed at reducing spending for such services.

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## Conclusions

Long-standing OMB and FAR guidance has established the need for federal agencies to consider risks associated with contractors providing professional and management support services, particularly with services that closely support inherently governmental functions. However, the five agencies we reviewed generally did not consider these risks prior to contract award. Additionally, only one of the five agencies had developed guidance or practices over time to improve management of these risks. Recent OMB efforts associated with the multisector workforce look to increase agency focus on services acquired, not necessarily to reduce the number of contractors, but to ensure agencies have sufficient knowledge of the activities performed by contractors. The efforts particularly focus on whether the government may be overly reliant on contractors for certain functions and whether such reliance presents risks to government control and accountability for decision making. OMB's most recent policy guidance, OFPP Policy Letter 11-01, requires agencies to develop procedures to address these issues. Such procedures are an important step toward improved agency consideration of risks. However, OMB has not established a deadline for when agencies need to complete these procedures, which, if established, may help better focus agency efforts to address risks.

In the context of better managing the multisector workforce, there are further opportunities to enhance the results of OMB's efforts. Agencies are required to conduct inventory analyses to help them understand the extent to which contractors support their work. Under current OMB inventory guidance, agencies have been asked to focus on a detailed list of professional and management support service codes, but not two codes that account for one-third of fiscal year 2010 obligations under this services category. According to our analysis, these codes contain the same risks to mission and operation that OMB is intending to address. The same two codes are also not cited in OMB's more recent effort to reduce agency spending for management support service contracts.

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## Recommendations for Executive Action

To address these issues, we are making two recommendations to the Director of OMB. To better focus agencies' efforts to manage the risks related to professional and management support service contracts we recommend that the Director of OMB, through the Office of Federal Procurement Policy

- establish a near-term deadline for agencies to develop internal procedures required by OFPP Policy Letter 11-01, including for services that closely support inherently governmental functions.

To ensure that the risks of professional and management support service contracts are more fully considered and addressed, we recommend that the Director of OMB, through the Office of Federal Procurement Policy

- include contracts coded in the Federal Procurement Data System – Next Generation (FPDS-NG) as Other Professional Services and Other Management Support Services in the cost savings initiative for management support services and planned service contract inventory guidance to agencies for conducting analysis of special interest functions.

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## Agency Comments and Our Evaluation

We provided a draft of this report to OMB, DHS, DOT, HUD, USAID, and NSF for review and comment. DHS provided a written response stating that it is committed to ensuring risks related to professional and management support service contracts are mitigated (see app. V) and technical comments that were incorporated into the report as appropriate. DOT, HUD, and NSF also provided technical comments that were incorporated into the report as appropriate. USAID responded that it did not have comments.

OMB's Office of Federal Procurement Policy (OFPP) provided comments by e-mail on this report. OFPP generally agreed with our findings and recommendations, but provided technical comments on our recommendations. For our first recommendation, OFPP commented that the OFPP Policy Letter 11-01 addresses multiple management responsibilities related to professional and management support service contracts and it would likely establish agency time frames for agencies to develop the required internal procedures more broadly, not just for services that closely support inherently governmental functions. In recognition of the interrelatedness of the critical functions that may be performed by contractors, including those that closely support inherently governmental functions, we modified the recommendation to reflect the broader scope of OMB's policy letter.



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For our second recommendation, OFPP commented that it would consider addressing contracts coded in FPDS-NG as Other Professional Services and Other Management Support Services in the planned service contract inventory guidance to agencies, but expressed concerns with including these contracts under its current cost savings initiative for management support services contracts. OFPP noted that the initiative is focused on this fiscal year's spending and that changing the baseline several months into the fiscal year would create confusion at the agencies. OFPP stated that it viewed having clear and consistent baselines as consistent with our recommendations on OMB's fiscal year 2010 contracts savings initiative and that it could consider expanding the list of codes for a future service contract cost savings initiative.<sup>27</sup> As our analysis has shown, Other Professional Services and Other Management Support Services accounted for a significant amount of dollars obligated by civilian agencies on professional and management support services contracts in fiscal year 2010 and may contain risks to the government's control of mission operations. Including them in the planned service contract inventory guidance to civilian agencies will be a good step in expanding the agencies' focus on the use of contractors. In recognition that agencies may have already started to respond to the cost savings initiative for this fiscal year, we modified the recommendation to provide OMB some flexibility for including these codes under the cost savings initiative in the subsequent years.

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As agreed with your offices, unless you publicly announce the contents of this report earlier, we plan no further distribution until 30 days from the report date. At that time, we will send copies to the appropriate congressional committees and the Director of OMB, the Secretaries of DHS, DOT, and HUD, and the Administrators of USAID and NSF. In addition, the report will be available at no charge on the GAO website at <http://www.gao.gov>.

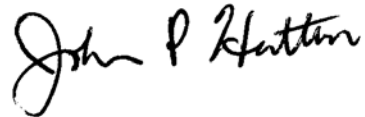
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<sup>27</sup>GAO, *Federal Contracting: OMB's Acquisition Savings Initiative Had Results, but Improvements Needed*, [GAO-12-57](#) (Washington, D.C.: Nov. 15, 2011).

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Affairs may be found on the last page of this report. Other staff making key contributions to this report are listed in appendix VI.

A handwritten signature in black ink that reads "John P. Hutton". The signature is written in a cursive style with a large, stylized initial "J".

John P. Hutton  
Director  
Acquisition and Sourcing Management

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# Appendix I: Scope and Methodology

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To conduct this work, we analyzed contract data from the Federal Procurement Data System – Next Generation (FPDS-NG) and selected and reviewed 230 contract statements of work (SOW) for professional and management support services, from which we selected 12 contracts and task orders for more in-depth case-study reviews. To assess the reliability of FPDS-NG data fields used in our analysis, we confirmed through the SOWs that selected contracts and task orders were correctly categorized as professional and management support services. We determined that the data were sufficiently reliable for overall trend analysis of these services. We also reviewed agency and governmentwide guidance and spoke with agency and Office of Management and Budget (OMB) officials.

To determine the extent to which civilian agencies contract for professional and management services, we compiled information from FPDS-NG on procurement spending at civilian agencies for fiscal years 2005 through 2010. For the purposes of this report, contracts described as professional and management support services are contracts categorized as “Professional, Administrative and Management Support Services” in the Federal Procurement Data System Product and Service Codes Manual. To gain greater insight into the types of activities included in contracts under these codes, we judgmentally selected five civilian agencies, the Departments of Homeland Security (DHS), Transportation (DOT), and Housing and Urban Development (HUD), the U.S. Agency for International Development (USAID), and the National Science Foundation (NSF), based in part on their obligations for professional and management support services in fiscal year 2009 as a proportion of overall service obligations, as well as to represent varying agency missions and amounts of service contract obligations. Using the same criteria, we selected three components each at DHS and DOT, as these two agencies had FPDS-NG data available at these levels. The DHS components are the Office of the Secretary, the Transportation Security Administration, and U.S. Citizenship and Immigration Services. At DOT, we selected the Office of the Secretary of Transportation, the Federal Aviation Administration, and the Federal Transit Administration.

From these agencies, we reviewed FPDS-NG data on obligations in fiscal year 2009, which at the time was the most recent full year data available, to select professional and management support service contracts and task orders for further review. To focus our analysis, we obtained FPDS-NG data on contract obligations from 20 specific service codes for professional and management services, which included codes identified in prior GAO work and services listed in OMB’s inventories guidance as

requiring heightened management attention. We also included service codes that were frequently used by the five agencies and that might relate to specific agency missions. See table 6 for a list of service codes considered.

**Table 6: Professional and Management Support Service Codes Included in Selection Sample**

Professional and management support services	Service code	Description
Identified in OMB contract inventories guidance as requiring special management attention	R406	Policy Review/Development Services
	R407	Program Evaluation Services
	R408	Program Management/Support Services
	R409	Program Review/Development Services
	R413	Specifications Development Services
	R414	Systems Engineering Services
	R423	Intelligence Services
	R425	Engineering and Technical Services
	R497	Personal Services Contracts
	R707	Contract, Procurement, and Acquisition Support Services
"Other" professional, administrative, and management services	R499	Other Professional Services
	R699	Other Administrative Support Services
	R799	Other Management Support Services
Services that may relate to individual agency's mission	R402	Real Estate Brokerage Services
	R411	Real Property Appraisals
	R421	Technical Assistance
	R426	Communication Services
	R498	Patent and Trademark Services
	R706	Logistics Support Services
	R710	Financial Services

Source: GAO analysis of OMB, FPDS-NG, and U.S. General Services Administration data.

Note: Data are from OMB guidance, FPDS-NG product service codes data, and the U.S. General Services Administration's Federal Procurement Data System Product and Service Codes Manual.

From the contract obligations included under the selected codes, we judgmentally selected a nongeneralizable sample of 235 contracts and task orders to cover a range of services and obligation amounts. We also included contracts and task orders with descriptions, when available, that indicated the requested services closely supported inherently governmental functions or could be considered functions close to agencies' missions. We requested 50 contract and task order SOWs each

from DHS, DOT, USAID, and HUD. We requested 35 SOWs from NSF, which had a smaller number of contracts and task orders from which to select in these codes. Of the 235 contracts and task orders requested across the five agencies, five SOWs were either not available from the agencies during the course of our audit work or not sufficiently detailed for our review purposes.<sup>1</sup>

We reviewed the SOWs from the 230 contracts and task orders provided and compared the services requested to the descriptions of services that closely support the performance of inherently governmental functions that are available in federal acquisition guidance. After conducting an initial SOW review for all of the categories describing services that closely support inherently governmental functions, we judgmentally identified 10 of the categories for more detailed review, including 4 categories that we addressed collectively as acquisition support. (See table 7.) These categories were primarily selected because their descriptions available in federal acquisition regulations allowed for a more definitive determination of services supporting inherently governmental functions, based on the descriptions available in the SOWs.

**Table 7: FAR-Identified Services That May Closely Support Inherently Governmental Functions Included in Our Review**

Number	Description
1	Services that involve or relate to budget preparation, including workload modeling, fact finding, efficiency studies, and should-cost analyses, etc.
2	Services that involve or relate to reorganization and planning activities.
3	Services that involve or relate to analyses, feasibility studies, and strategy options to be used by agency personnel in developing policy.
5	Services that involve or relate to the evaluation of another contractor's performance.
6 <sup>a</sup>	Services in support of acquisition planning.
7 <sup>a</sup>	Contractors providing assistance in contract management (such as where the contractor might influence official evaluations of other contractors).

<sup>1</sup>Two of the five SOWs that were not reviewed were placed under simplified acquisition procedures and did not provide enough detail for our review. For the three remaining SOWs, in one case agency officials told us an SOW was awarded by an agency component that we did not select for our review. For another SOW, an agency official said that it did not use a SOW for an order for a licensing agreement; we did not look into the circumstances under which that order was placed. Finally, one SOW was not provided by the agency in a timely manner.

Number	Description
8 <sup>a</sup>	Contractors providing technical evaluation of contract proposals.
9 <sup>a</sup>	Contractors providing assistance in the development of statements of work (SOW).
10	Contractors providing support in preparing responses to Freedom of Information Act requests.
17	Contractors providing inspection services.

Source: GAO.

Notes: The numbers associated with each service correspond to their placement in the list of services identified in FAR section 7.503(d). See app. II for the complete list of services.

<sup>a</sup>For the purposes of our review, we refer to these services collectively as acquisition support services.

To determine if agency officials consider and mitigate risks associated with using contracts for selected professional and management support services, we reviewed available agency guidance and conducted a detailed review of 12 contracts or task orders as case studies. From the 230 SOWs reviewed, we judgmentally selected the 12 contracts or task orders to provide a range of obligation amounts and service codes, and to include cases in which the services requested might closely support inherently governmental functions, or represent contracting activity that might be typical or indicative of types of work contracted by that agency. We selected three contracts or task orders each from DHS and DOT, one from each of the selected components, and two contracts or task orders from each of the three remaining agencies. For each case study, we reviewed contract documentation, including available acquisition plans, oversight plans, and records, and interviewed contracting and program officials about the decision to use contractors and contractor oversight, including any processes and guidance used and the extent to which they considered potential risks. To review agency guidance and practices, we interviewed agency officials, including procurement, management, and human capital offices, to help identify available guidance. We requested and reviewed agency-level guidance documents, including FAR supplements and acquisition manuals, to identify guidance that addresses risks associated with professional and management support services contracting. We also requested and reviewed available guidance from the component organizations we reviewed in DHS and DOT.

To assess agency responses to OMB efforts to address professional and management support services, we met with officials from the Office of Federal Procurement Policy and reviewed statutes and OMB documents, memos and policy letters that address the multisector workforce, as well as contracting for professional and management support services. We

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interviewed agency procurement and human capital officials about actions taken to respond to OMB's efforts and reviewed available documentation.

# Appendix II: Examples of Inherently Governmental and Closely Supporting Inherently Governmental Functions and Associated Special Acquisition Requirements

The Federal Acquisition Regulation (FAR) section 7.503 provides examples of inherently governmental functions and services or actions that are not inherently governmental but may approach being inherently governmental functions based on the nature of the function, the manner in which the contractor performs the contract, or the manner in which the government administers contractor performance. These examples are listed in tables 8 and 9, respectively.

Additionally, FAR section 37.114 requires agencies to provide special management attention to contracts for services that require the contractor to provide advice, opinions, recommendations, ideas, reports, analyses, or other work products, as they have the potential for influencing the authority, accountability, and responsibilities of government officials. It directs agencies to take steps to ensure these contracts do not result in performance of inherently governmental functions by the contractor and that government officials properly exercise their authority. Table 10 lists the steps agencies must take.

**Table 8: Examples of Inherently Governmental Functions**

Number	Description
1	The direct conduct of criminal investigations.
2	The control of prosecutions and performance of adjudicatory functions other than those relating to arbitration or other methods of alternative dispute resolution.
3	The command of military forces, especially the leadership of military personnel who are members of the combat, combat support, or combat service support role.
4	The conduct of foreign relations and the determination of foreign policy.
5	The determination of agency policy, such as determining the content and application of regulations, among other things.
6	The determination of Federal program priorities for budget requests.
7	The direction and control of Federal employees.
8	The direction and control of intelligence and counter-intelligence operations.
9	The selection or non-selection of individuals for Federal Government employment, including the interviewing of individuals for employment.
10	The approval of position descriptions and performance standards for Federal employees.
11	The determination of what Government property is to be disposed of and on what terms (although an agency may give contractors authority to dispose of property at prices within specified ranges and subject to other reasonable conditions deemed appropriate by the agency).



**Appendix II: Examples of Inherently  
Governmental and Closely Supporting  
Inherently Governmental Functions and  
Associated Special Acquisition Requirements**

Number	Description
12	In Federal procurement activities with respect to prime contracts: (i) Determining what supplies or services are to be acquired by the Government (although an agency may give contractors authority to acquire supplies at prices within specified ranges and subject to other reasonable conditions deemed appropriate by the agency); (ii) Participating as a voting member on any source selection boards; (iii) Approving any contractual documents, to include documents defining requirements, incentive plans, and evaluation criteria; (iv) Awarding contracts; (v) Administering contracts (including ordering changes in contract performance or contract quantities, taking action based on evaluations of contractor performance, and accepting or rejecting contractor products or services); (vi) Terminating contracts; (vii) Determining whether contract costs are reasonable, allocable, and allowable; and (viii) Participating as a voting member on performance evaluation boards.
13	The approval of agency responses to Freedom of Information Act requests (other than routine responses that, because of statute, regulation, or agency policy, do not require the exercise of judgment in determining whether documents are to be released or withheld), and the approval of agency responses to the administrative appeals of denials of Freedom of Information Act requests.
14	The conduct of administrative hearings to determine the eligibility of any person for a security clearance, or involving actions that affect matters of personal reputation or eligibility to participate in Government programs.
15	The approval of Federal licensing actions and inspections.
16	The determination of budget policy, guidance, and strategy.
17	The collection, control, and disbursement of fees, royalties, duties, fines, taxes, and other public funds, unless authorized by statute, such as 31 U.S.C. 952 (relating to private collection contractors) and 31 U.S.C. 3718 (relating to private attorney collection services), but not including: (i) Collection of fees, fines, penalties, costs, or other charges from visitors to or patrons of mess halls, post or base exchange concessions, national parks, and similar entities or activities, or from other persons, where the amount to be collected is easily calculated or predetermined and the funds collected can be easily controlled using standard case management techniques; and (ii) Routine voucher and invoice examination.
18	The control of the treasury accounts.
19	The administration of public trusts.
20	The drafting of Congressional testimony, responses to Congressional correspondence, or agency responses to audit reports from the Inspector General, the Government Accountability Office, or other Federal audit entity.

Source: FAR section 7.503(c).

**Table 9: Examples of Services That May Closely Support Inherently Governmental Functions**

Number	Description
1	Services that involve or relate to budget preparation, including workload modeling, fact finding, efficiency studies, and should-cost analyses, etc.
2	Services that involve or relate to reorganization and planning activities.
3	Services that involve or relate to analyses, feasibility studies, and strategy options to be used by agency personnel in developing policy.
4	Services that involve or relate to the development of regulations.
5	Services that involve or relate to the evaluation of another contractor's performance.
6	Services in support of acquisition planning.
7	Contractors providing assistance in contract management (such as where the contractor might influence official evaluations of other contractors).

**Appendix II: Examples of Inherently  
Governmental and Closely Supporting  
Inherently Governmental Functions and  
Associated Special Acquisition Requirements**

Number	Description
8	Contractors providing technical evaluation of contract proposals.
9	Contractors providing assistance in the development of statements of work.
10	Contractors providing support in preparing responses to Freedom of Information Act requests.
11	Contractors working in any situation that permits or might permit them to gain access to confidential business information and/or any other sensitive information (other than situations covered by the National Industrial Security Program described in 4.402(b)).
12	Contractors providing information regarding agency policies or regulations, such as attending conferences on behalf of an agency, conducting community relations campaigns, or conducting agency training courses.
13	Contractors participating in any situation where it might be assumed that they are agency employees or representatives.
14	Contractors participating as technical advisors to a source selection board or participating as voting or nonvoting members of a source evaluation board.
15	Contractors serving as arbitrators or providing alternative methods of dispute resolution.
16	Contractors constructing buildings or structures intended to be secure from electronic eavesdropping or other penetration by foreign governments.
17	Contractors providing inspection services.
18	Contractors providing legal advice and interpretations of regulations and statutes to Government officials.
19	Contractors providing special non-law enforcement, security activities that do not directly involve criminal investigations, such as prisoner detention or transport and non-military national security details.

Source: FAR section 7.503(d).

**Table 10: Special Acquisition Requirements for Services That Have the Potential for Influencing the Authority, Accountability, and Responsibilities of Government Officials**

**Agencies must ensure that:**

(a) A sufficient number of qualified government employees are assigned to oversee contractor activities, especially those that involve support of government policy or decision making. During performance of service contracts, the functions being performed shall not be changed or expanded to become inherently governmental.

(b) A greater scrutiny and an appropriate enhanced degree of management oversight is exercised when contracting for functions that are not inherently governmental but closely support the performance of inherently governmental functions (see 7.503(c)).

(c) All contractor personnel attending meetings, answering government telephones, and working in other situations where their contractor status is not obvious to third parties are required to identify themselves as such to avoid creating an impression in the minds of members of the public or Congress that they are government officials, unless, in the judgment of the agency, no harm can come from failing to identify themselves. They must also ensure that all documents or reports produced by contractors are suitably marked as contractor products or that contractor participation is appropriately disclosed.

Source: GAO analysis of FAR section 37.114.

# Appendix III: Service Codes for Professional and Management Support Services

Executive departments and agencies are responsible for collecting and reporting data to the Federal Procurement Data System – Next Generation (FPDS-NG). Contracting officers must submit data to FPDS-NG, including selecting a product or service code from the product service code field to describe the items or services requested by the contract. If more than one code is applicable, officials must report the code that describes the predominance of dollars obligated for the contract. Table 11 lists the codes for Professional and Management Support Services as defined in the Federal Procurement Data System Product and Service Codes Manual, both the August 1998 edition that was in effect at the time of our review and the August 2011 edition that became effective October 1, 2011.

**Table 11: Service Codes for Professional and Management Support Services**

August 1998 manual		August 2011 manual	
Product Service Code	Description	Product Service Code	Description
R401	Personal Care Services (includes such services as barber and beauty shop, shoe repairs, tailoring, etc.)	R401	Support- Professional: Personal Care (Non-Medical) Includes: Barber and Beauty Shop, Shoe Repairs, Tailoring Excludes: Medical Services (PSC Q)
R402	Real Estate Brokerage Services	R402	Support- Professional: Real Estate Brokerage
R404	Land Surveys, Cadastral Services (non-construction)	R404	Support- Professional: Land Surveys-Cadastral (Non-Construction)
R405	Operations Research and Quantitative Analysis Services	R405	Support- Professional: Operations Research/Quantitative Analysis
R406	Policy Review/Development Services	R406	Support- Professional: Policy Review/Development
R407	Program Evaluation Services		Merged with R409 into new code R410
R408	Program Management/Support Services	R408	Support- Professional: Program Management/Support Includes: Situations Where The Contractor Is Solely Responsible for Program Management As Well As Situations Where The Contractor Provides Program Management Support to A Government Program Manager Excludes: Program Evaluation/Review/Development (PSC R410), Contract/Procurement/Acquisition Support (PSC R707)
R409	Program Review/Development Services		Merged with R407 into new code R410
		R410	Support- Professional: Program Evaluation/Review/Development Excludes: Program Management/Support (PSC R408), Contract/Procurement/Acquisition Support (PSC R707)

**Appendix III: Service Codes for Professional  
and Management Support Services**

August 1998 manual		August 2011 manual	
Product Service Code	Description	Product Service Code	Description
R411	Real Property Appraisals Services (SIC 6531)	R411	Support- Professional: Real Property Appraisals
R412	Simulation	R412	Support- Professional: Simulation
R413	Specifications Development Services	R413	Support- Professional: Specifications Development
R414	Systems Engineering Services		Merged with R421 into R425 based on FAR definition
R415	Technology Sharing/Utilization Services	R415	Support- Professional: Technology Sharing/Utilization
R416	Veterinary/Animal Care Services	R416	Support- Professional: Veterinary/Animal Care
R418	Legal Services	R418	Support- Professional: Legal Includes: Attorney Services, Such As Testimony Preparation; Adjudication; Arbitration; Mediation Excludes: Environmental Legal Support (PSC F115), Expert Witness (PSC R424), Court Reporting (PSC R606)
R419	Educational Services		Duplicate of PSC U009
R420	Certifications and Accreditations for products and institutions other than educational institutions	R420	Support- Professional: Certifications and Accreditations (Other Than Educational Institutions or Info Tech C&A) Excludes: Educational Institutions and Information Technology Certifications and Accreditations
R421	Technical Assistance		Merged with R414 into R425 based on FAR definition
R422	Market Research and Public Opinion Services (includes telephone and field interviews, focus testing, and surveys)	R422	Support- Professional: Market Research/Public Opinion Includes: Telephone and Field Interviews, Focus Testing, and Surveys
R423	Intelligence Services	R423	Support- Professional: Intelligence
R424	Expert Witness	R424	Support- Professional: Expert Witness
R425	Engineering and Technical Services	R425	Support- Professional: Engineering/Technical Includes: Systems Engineering, Technical Assistance, and Other Services Used to Support The Program Office During The Acquisition Cycle
R426	Communications Services	R426	Support- Professional: Communications Excludes: Language Translation and Sign Language Interpretation (PSC R608)
R427	Weather Reporting/Observation Services	R427	Support- Professional: Weather Reporting/Observation
R428	Industrial Hygienics	R428	Support- Professional: Industrial Hygienics
		R429	Support- Professional: Emergency Response, Disaster Planning, and Preparedness Support
		R430	Support- Professional: Physical Security and Badging
		R431	Support- Professional: Human Resources
R497	Personal Services Contracts	R497	Support- Professional: Personal Services Contracts

**Appendix III: Service Codes for Professional  
and Management Support Services**

August 1998 manual		August 2011 manual	
Product Service Code	Description	Product Service Code	Description
R498	Patent and Trademark Services	R498	Support- Professional: Patent and Trademark
R499	Other Professional Services	R499	Support- Professional: Other
R602	Courier and Messenger Services	R602	Support- Administrative: Courier/Messenger
R603	Transcription Services	R603	Support- Administrative: Transcription Excludes: Court Reporting (PSC R606), Stenographic (PSC R609)
R604	Mailing and Distribution Services	R604	Support- Administrative: Mailing/Distribution Excludes: Courier/Messenger (PSC R602)
R605	Library Services	R605	Support- Administrative: Library
R606	Court Reporting Services	R606	Support- Administrative: Court Reporting Excludes: Transcription (PSC R603), Stenographic (PSC R609)
R607	Word Processing/Typing Services	R607	Support- Administrative: Word Processing/Typing
R608	Translation and Interpreting Services (Including Sign Language)	R608	Support- Administrative: Translation and Interpreting Includes: Language Translation; Sign Language Interpretation
R609	Stenographic Services	R609	Support- Administrative: Stenographic Excludes: Court Reporting (PSC R606), Transcription (PSC R603)
R610	Personal Property Management Services	R610	Support- Administrative:- Personal Property Management
R611	Credit Reporting Services	R611	Support- Administrative: Credit Reporting
R612	Information Retrieval	R612	Support- Administrative: Information Retrieval Includes: Services Related to Search and Storage of Text, Images, Video, and Other Such Data
R613	Post Office Services	R613	Support- Administrative: Post Office
R614	Paper Shredding Services	R614	Support- Administrative: Paper Shredding
R615		R615	Support- Administrative: Background Investigation
R699	Other Administrative Support Services	R699	Support- Administrative: Other
R701	Advertising Services	R701	Support- Management: Advertising
R702	Data Collection Services	R702	Support- Management: Data Collection Excludes: Market Research/Public Opinion, to Include Telephone and Field Interviews, Focus Testing, and Surveys (PSC R422)
R703	Accounting Services (NOTE: New code created for Financial Services See R710 below)	R703	Support- Management: Accounting
R704	Auditing Services	R704	Support- Management: Auditing

**Appendix III: Service Codes for Professional  
and Management Support Services**

August 1998 manual		August 2011 manual	
Product Service Code	Description	Product Service Code	Description
R705	Debt Collection Services	R705	Support- Management: Debt Collection
R706	Logistics Support Services	R706	Support- Management: Logistics Support
R707	Contract, Procurement, and Acquisition Support Services	R707	Support- Management: Contract/Procurement/Acquisition Support
R708	Public Relations Services (includes writing services, event planning and management, media relations, radio and television analysis, and press services)	R708	Support- Management: Public Relations Includes: Writing Services, Event Planning and Management, Media Relations, Radio and Television Analysis, Press Services
R709	Ongoing Audit Operations Support		Duplicate of R704
R710	Financial Services (includes credit card services and any other financial services. See revision to description for code R703 above)	R710	Support- Management: Financial Includes: Credit Card Services
R711	Banking Services (includes accepting and cashing government checks and other payment instruments, accepting direct deposits, accepting payments to the government from the public such as excise taxes and duties, maintaining bank accounts)	R711	Support- Management: Banking Includes: Accepting and Cashing Government Checks and Other Payment Instruments, Accepting Direct Deposits, Accepting Payments to The Government From The Public
R712	Coin Minting	R712	Support- Management: Coin Minting
R713	Banknote Printing	R713	Support- Management: Banknote Printing
R799	Other Management Support Services	R799	Support- Management: Other

Source: U.S. General Services Administration.

Note: Information obtained from the U.S. General Services Administration's Federal Procurement Data System Product and Service Codes Manual, August 1998 edition and August 2011 edition.

# Appendix IV: List of Services Requiring Special Consideration in OMB Inventory Guidance and Services Identified in OMB Cost Savings Initiative

In November 2010, the Office of Management and Budget (OMB) issued an Office of Federal Procurement Policy (OFPP) memo with guidance to help agencies conduct a required service contract inventory for fiscal year 2010.<sup>1</sup> According to the guidance, the insight obtained from conducting the inventories is especially important for contracts whose performance may involve critical functions or functions closely associated with inherently governmental functions, as may be the case, for example, with contracts for various professional, administrative and management services falling within “Code R” of the Federal Procurement Data System Product and Services Codes Manual. The guidance further states that agencies should conduct an analysis of their inventories, giving priority consideration to functions that require increased management attention due to heightened risk of workforce imbalance. It provided an illustrative list of functions and their service code identified by OMB for heightened management consideration, based on concerns of increased risk of losing control of mission and operations as identified through a review of reports issued in recent years.

In July 2011, OMB announced a cost savings initiative focused on agency contracts for management support services.<sup>2</sup> Agencies were directed to reduce their spending on such services by 15 percent by the end of fiscal year 2012. In November 2011, OMB issued guidance identifying 12 service codes that describe management support services.<sup>3</sup> Table 12 shows the list of service codes from both initiatives.

**Table 12: Service Codes Identified in Recent OMB Initiatives**

Service Code	Description	Codes in inventory guidance	Codes in cost savings initiative
B505	Cost Benefit Analyses	✓	
D302	ADP Systems Development Services	✓	✓
D307	Automated Information Systems Services	✓	✓
D310	ADP Backup and Security Services	✓	✓

<sup>1</sup>OFPP Memorandum, *Service Contract Inventories* (Nov. 5, 2010).

<sup>2</sup>White House Forum on Accountability in Federal Contracting, July 7, 2011.

<sup>3</sup>OMB Memorandum, *Reduced Contract Spending for Management Support Services* (Nov. 7, 2011).

**Appendix IV: List of Services Requiring  
Special Consideration in OMB Inventory  
Guidance and Services Identified in OMB Cost  
Savings Initiative**

<b>Service Code</b>	<b>Description</b>	<b>Codes in inventory guidance</b>	<b>Codes in cost savings initiative</b>
D314	ADP System Acquisition Support Services	✓	✓
R406	Policy Review/Development Services	✓	
R407	Program Evaluation Services	✓	
R408	Program Management/Support Services	✓	✓
R409	Program Review/Development Services	✓	
R413	Specifications Development Services	✓	✓
R414	Systems Engineering Services	✓	✓
R421	Technical Assistance		✓
R423	Intelligence Services	✓	✓
R425	Engineering and Technical Services	✓	✓
R497	Personal Services Contracts	✓	✓
R707	Contract, Procurement, and Acquisition Support Services	✓	✓

Source: GAO analysis of Federal Procurement Data System – Next Generation (FPDS-NG) and OMB data.



# Appendix V: Comments from Department of Homeland Security

U.S. Department of Homeland Security  
Washington, DC 20528



**Homeland  
Security**

November 15, 2011

John P. Hutton  
Director, Acquisition and Sourcing Management  
441 G Street, NW  
U.S. Government Accountability Office  
Washington, DC 20548

Re: Draft Report GAO-12-87, "MANAGING SERVICE CONTRACTS: Recent Efforts to Address Associated Risks Can be Further Enhanced"

Dear Mr. Hutton:

Thank you for the opportunity to review and comment on the subject draft report. The U.S. Department of Homeland Security (DHS) appreciates the U.S. Government Accountability Office's (GAO's) work in planning and conducting its review and issuing this report.

The Department is pleased to note that GAO found that of the five agencies reviewed, DHS alone had taken steps to incorporate all related Office of Management and Budget efforts into processes that examine the use of professional and management support services. In addition, the report also recognizes that DHS was the only agency with a policy in place for reviewing service contracts to help program offices balance their use of contracted and government personnel.

Although the draft report contains no recommendations for DHS, the Department remains committed to ensuring risks related to professional and management support service contracts are mitigated to the maximum extent reasonably possible. For example, since the Office of Federal Procurement Policy (OFPP) Policy Letter (PL) 11-01 was issued in September, DHS has:

- Issued a new Acquisition Alert 11-30, rescinding Acquisition Alert 09-06, which allows each Head of Contracting Activity to establish implementing policies, processes, and procedures including internal controls and review processes. The new Alert 11-30 is currently being amended to include legal concurrence for service contracts equal to or exceeding the Simplified Acquisition Threshold of \$150,000.
- Expanded its Special Interest Function Codes to include R499, R699, and R799.
- Compiled with the training requirement outlined in OFPP PL 11-01. DHS provided training on November, 2011, to the acquisition workforce on Balanced Workforce Strategy Guidance as well as Acquisition Alert 11-30. Training is on-going and additional sessions have been scheduled for November, December, and January.

Again, thank you for the opportunity to review and comment on this draft report. General, technical and sensitivity comments were previously provided under separate cover. We look forward to working with you on future Homeland Security issues.

Sincerely,



Jim H. Crumpacker  
Director  
Departmental GAO-OIG Liaison Office

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# Appendix VI: GAO Contact and Staff Acknowledgments

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## GAO Contact

John P. Hutton, (202) 512-4841 or [huttonj@gao.gov](mailto:huttonj@gao.gov)

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## Staff Acknowledgments

In addition to the contact named above, Katherine Trimble, Assistant Director; Jennifer Dougherty; Jacques Arsenault; Robert Campbell; Kristin Van Wychen; Sarah Viranda; Laura Greifner; Julia Kennon; Sylvia Schatz; and Kenneth Patton made key contributions to this report.

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