

**U.S. Department of Housing and Urban Development
Office of Chief Procurement Officer**



**Service Contract Inventories
Analysis Report
For Fiscal Year 2018**

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I. Executive Summary

The Service Contract Inventory (SCI) was mandated by the Office of Management and Budget (OMB), Office of Federal Procurement Policy (OFPP) in a memorandum dated November 5, 2010, and reiterated in a SCI memorandum, dated December 19, 2011. These memorandums required a review of Department of Housing and Urban Development (HUD) service contracts coded with special interest functions identified by OMB.

OMB directed agencies to undertake a meaningful analysis of the inventory data to determine whether there is an appropriate and effective use of contract labor. Agencies were also directed to determine if the mix of federal employees and contractors is effectively balanced and to provide a report of findings to OMB by February 21, 2019.

The Office of the Chief Procurement Officer (OCPO), Risk Management & Compliance Unit (RM&CU), assembled a team to conduct an analysis of service contracts based upon a sample of 392 actions from the inventory. These actions represent 8 special interested functions identified by OMB and 1 agency specific special interest function. The agency specific function includes a PSC category that has a large percentage of obligated funds for other professional services. The team reviewed and analyzed contract documentation in HUD contract management system known as the Purchase Request Information System Management (PRISM).

In accordance with section 743(e)(2), agency inventory analyses shall include a review of the contracts and information in the inventory for the purpose of ensuring that:

- Each contract in the inventory coded as a personal services contract is being performed in accordance with applicable laws and regulations;
- The agency is giving special management attention, as set forth in Federal Acquisition Regulation (FAR) 37.114, to functions that are closely associated with inherently governmental functions;
- The agency is not using contractor employees to perform inherently governmental functions;
- The agency has specific safeguards and monitoring systems in place to ensure work being performed by contractors has not changed or expanded during performance to become an inherently governmental function;
- The agency is not using contractor employees to perform critical functions in such a way that could affect the ability of the agency to maintain control of its mission and operations; and
- There are sufficient internal agency resources to manage and oversee contracts effectively.

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The analysis showed that contractors are utilized in an appropriate manner and that the contracted services effectively support HUD's mission and operations. The analysis further showed, in keeping with Federal requirements, the primary reasons for service contracts awarded in FY 2017 were to obtain highly specialized skills not found within the Government.

The review and analysis of contracts awarded during FY 2017 revealed that all reviewed contracts and contract actions, adhered to the key parameters set forth in OMB's policy and procedures.

- No Personal Services Contracts coded R497 – Support – Professional: Personal Services Contracts were identified;
- Contracts that were for services requiring a program/project manager oversight did include program or project managers as part of the technical approach.
- There was special management attention on functions closely associated with inherently government functions;
- No contractors were used to perform inherently governmental functions;
- Safeguards and monitoring systems were in place to ensure contractor work did not expand to include governmental functions;
- Contractors did not perform critical functions in such a way that affected the ability of HUD to maintain control of its mission and operations, and;
- There were sufficient HUD internal resources to manage and oversee contracts effectively.

Finally, the analysis showed that HUD has an appropriate mix of federal employees and contractors. No contract requirements were identified that could be considered for conversion to performance by federal employees in accordance with agency in-sourcing guidelines required under section 739 of Division D of the Consolidated Appropriations Act, 2008 and OMB Memorandum M-09-26, Managing the Multi-Sector Workforce.

II. Analysis of FY 2017 Service Contract Inventory

A. Background

Section 743 of Division C of the Fiscal Year (FY) 2010 Consolidated Appropriations Act, P.L. 111-117, requires civilian agencies to prepare an annual inventory of their service contracts and to analyze the inventory to determine if the mix of federal employees and contractors is effective or if rebalancing may be required.

In accordance with the FY 2011 OMB guidance, which remained in effect for the 2017 Inventory, each agency was asked to identify the Product Service Codes (PSCs) on which they planned to conduct further analysis.

B. Scope

This analysis is submitted in accordance with Section 743 of Division Code the FY 2010 Consolidated Appropriations Act (P.L. 111-117) and the Office of Federal Procurement Policy Memorandum entitled "Service Contract Inventories" dated December 19, 2011.

HUD OCPO elected to research contracts associated with special interest functions identified by OMB in its 2010 memorandum, based on HUD's concerns of increased risk of losing control of the mission and workforce imbalance. Subsequently, HUD selected the following special interest functions for its FY 2017 Inventory. These special interest functions are provided in Table 1, below:

Table 1 – Special Interest Functions Analyzed for FY 2017 Inventory

PSC	Description of Functions	Dollars Obligated	% Total Obligation
D307	AUTOMATED INFORMATION SYSTEM SERVICES	\$114,660,306	21.85%
D302	ADP SYSTEMS DEVELOPMENT SERVICES	\$424,262	< 1%
D314	ADP ACQUISITION SUPPORT SERVICES	\$2,021,463	< 1%
R406	POLICY REVIEW/DEVELOPMENT SERVICES	\$2,398,843	< 1%
R407	PROGRAM EVALUATION SERVICES	(\$5,972,770)	-1.14%
R408	PROGRAM MANAGEMENT/SUPPORT SERVICES	\$411,148,909	78.35%
R425	ENGINEERING AND TECHNICAL SERVICES	\$8,190,978	1.56%
R707	CONTRACT, PROCUREMENT, & ACQUISITION SUPPORT SERVICES	\$700,760	< 1%
	Agency Specific PSC Description		
R499	OTHER PROFESSIONAL SERVICES	(\$8,797,984)	-1.68%

C. Methodology

In support of this analysis HUD examined randomized awards in the Federal Procurement Data System – Next Generation (FPDS-NG), reviewing statements of work from selected contracts, in addition to, utilizing findings from previous procurement related assessments.

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The sample is 392 awards between the period of October 1, 2016, thru September 30, 2017, that contained the specified PSCs in accordance with FAR Subpart 4.1703 Reporting Requirements. As a result of the collaborative effort of RM&CU, the process depicted in Figure 1, was established to comply with FY 2017 Service Contract Inventory Requirements.

To validate this review, HUD utilized tasks annotated in the Statement of Work (SOW) and/or Performance-based Work Statement (PWS) against FAR Subpart 7.5 to determine if the contractors were performing inherently governmental functions. HUD assessed labor categories to determine whether a program or project manager was included as part of the technical approach. Additionally, the coding associated with inherently government functions, found in the description of each identified FPDS-NG record, was compared to the contract terms and conditions to ensure accuracy in reporting. Finally, pursuant to FAR Subpart 4.17, HUD reviewed the System for Award Management (SAM) to ensure the contractors information on the amount invoiced and the direct labor hours expended on covered service contracts had been entered appropriately.

Figure 1: Analysis Process



D. Findings

The analysis and review of the 392 awarded actions resulted in the following findings:

- None of the contracts are characterized as “personal services” as defined by the Federal Acquisition Regulation;
- Contractor employees do not perform any inherently governmental functions;
- Ongoing comprehensive monitoring and evaluations are performed by Government personnel, and the contractor performance requirements have not changed or been expanded to be classified as inherently governmental type functions;
- Contractor employees are not performing critical functions in such a way that would affect the Department’s ability to maintain control of its missions and operations; and
- Sufficient government personnel are available and assigned to manage and oversee contracts effectively without the need to rebalance the mix of federal and contractor employees.

E. Actions Taken or Planned

A service contract inventory is a tool for assisting an agency in better understanding how contracted services are being used to support the agency's mission and operations and whether the contractors' skills are being utilized in an appropriate manner. Therefore, HUD's plan is to continue its strategic procurement management reviews focused on "at risk" contracts. Also, OCPO's Policy Office has issued guidance to the staff regarding the Service Contract Reporting Requirements to:

- Reinforce integrity in contract administration;
- Ensure high-risk contracts include adequate surveillance plans;
- Reinforce the importance of validating that PSC and inherently governmental coding is coded correctly in FPDS-NG, and;
- Require staff to work with contractors to increase the response rate of contractor-reported data into SAM.gov and decrease the number of records with incomplete data.

F. Accountable Officials

- a. The senior management official, Mr. Keith W. Surber, Chief Procurement Officer (CPO), is accountable for the development of agency policies, procedures, and training associated with OFPP Letter 11-01 addressing the performance of inherently governmental and critical functions; and
- b. The CPO, is also responsible for ensuring appropriate internal management attention is given to the development and analysis of service contract inventories.

III. Planned Analysis of FY 2018 Service Contract Inventory

A. Background

Section 743 of Division C of the Fiscal Year (FY) 2010 Consolidated Appropriations Act, Public Law (P.L.) 111-117, requires civilian agencies to prepare an annual inventory of their service contracts. It also requires that civilian agencies analyze their inventory to determine if the mix of Federal employees and contractors is effective or requires rebalancing.

Prior to issuing their inventories, civilian agencies are required to submit a planned analysis to OMB, OFPP. This document, created by RM&CU, fulfills that requirement for HUD.

B. FY 2018 Product and Service Codes (PSCs) Selected for Review

In accordance with OMB guidelines and recommendations, the planned analysis is designed to notify OFPP of the Special Interest Functions/PSCs that HUD will analyze for the FY 2018 planned analysis SCI review. Table 2 below, identifies the PSCs for the FY 2018 planned analysis review. In addition to providing a brief description of the specified PSCs, the table also includes the obligated amount for each function for FY 2018 planned analysis review.

C. Rationale for Selection

To ensure data quality, HUD will review data elements by examining the most significant awards reported in the FPDS-NG under the selected 9 special interest PSCs identified below in Table 2. The selected functions include 8 special interest functions identified by OMB and 1 agency specific special interest function. The agency specific function includes a PSC category that has a large percentage of obligated funds for other professional services.

The agency will analyze the tasks annotated in the SOW or PWS against FAR Subpart 7.5 to determine if the contractors were performing inherently governmental functions. The labor categories will be assessed to determine whether a program or project manager was included as part of the technical approach. Additionally, the coding associated with inherently government functions, found in the description of each identified FPDS-NG record, will be scrutinized against the contract terms and conditions to ensure accuracy in reporting. Finally, pursuant to FAR Subpart 4.17, SAM will be monitored to ensure that contractors entered the amount invoiced and the direct labor hours expended on covered contracts, accordingly.

The analysis of these contracts will assist the agency in guarding against contractor's duties transforming into inherently governmental functions, and ensuring that there is sufficient oversight of all agency contractors.


Table 2: PSCs Selected for FY 2018 Planned Analysis

PSC	Description of Functions	Dollars Obligated	% Total Obligation
D307	AUTOMATED INFORMATION SYSTEM	\$98,023,591	18.20%
D302	ADP SYSTEMS DEVELOPMENT SERVICES	\$172,427	< 1%
R406	POLICY REVIEW/DEVELOPMENT SERVICES	\$3,232,364	< 1%
R407	PROGRAM EVALUATION SERVICES	(\$41,192)	-0.01%
R408	PROGRAM MANAGEMENT/SUPPORT SERVICES	\$434,822,021	80.72%
R425	ENGINEERING AND TECHNICAL SERVICES	\$2,998,610	< 1%
R707	MGT SVCS/CONTRACT & PROCUREMENT SUP	\$541,001	< 1%
D314	ADP ACQUISITION SUP SVCS	\$1,674,265	< 1%
D310	ADP BACKUP AND SECURITY SERVICES	(\$12,734)	0.00%
	Agency Specific PSC Description		
R499	OTHER PROFESSIONAL SERVICES	(\$2,738,023)	-0.51%

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HUD Point of Contact:

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Approve

Disapprove



Date

Comments