



OFFICE OF THE SECRETARY OF DEFENSE
WASHINGTON, D.C. 20301

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MEMORANDUM FOR SECRETARIES OF THE MILITARY DEPARTMENTS
COMMANDERS OF THE COMBATANT COMMANDS
DIRECTOR, ADMINISTRATION AND MANAGEMENT
DIRECTORS OF THE DEFENSE AGENCIES
DIRECTORS OF THE DoD FIELD ACTIVITIES
DIRECTOR, JOINT STAFF
PRESIDENT, DEFENSE ACQUISITION UNIVERSITY
PRESIDENT, NATIONAL DEFENSE UNIVERSITY

SUBJECT: Department of Defense Compliance Plan for Section 8108(c) of Public Law 112-10

This memo, and its enclosure, represents the Department of Defense plan to meet the requirements of Section 8108(c) of the Department of Defense and Full Year Continuing Appropriations Act, 2011, Public Law 112-10 (hereinafter Section 8108(c)), which required the Secretaries of the Army, Navy, Air Force, and the Directors of the Defense Agencies and Field Activities (in coordination with the appropriate Principal Staff Assistant), in coordination with the Under Secretary of Defense for Personnel and Readiness (USD(P&R)), to report to the Congressional defense committees within 60 days of enactment of the Act their plan for documenting the number of full-time contractor employees (or its equivalent) as required by 10 USC 2330a.

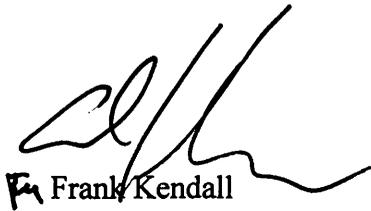
Section 2330a of title 10, United States Code (10 USC 2330a), requires the Secretary of Defense to submit to Congress an annual inventory of contracts for services performed during the prior fiscal year for or on behalf of the Department of Defense (DoD). The inventory must include the number of contractor employees, expressed as full-time equivalents for direct labor, using direct labor hours and associated cost data collected from contractors, except that estimates may be used where such data is not available and cannot reasonably be made available in a timely manner for purposes of the inventory.

In an interim response provided to the congressional defense committees on July 18, 2011, the USD(P&R) stated that the 44 individual Components would develop their respective plans in coordination with his staff and would submit these plans directly to the congressional defense committees by September 30, 2011. To date, the Office of the USD(P&R) has reviewed 41 of 44 plans, of which 36 have been signed by Directors/Commanders or other senior Component leadership official. The 36 signed plans received to date were provided to the Congress and serve as the basis for the Department's plan at Enclosure 1. The remainder of the individual Component plans shall be provided to Congress by December 31, 2011.

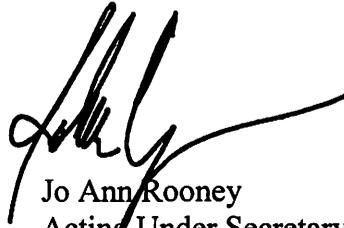
While some variance exists in the level of detail, or specific methodologies provided by the individual Components in their plans, a majority reflect intent to insert the reporting requirements for direct labor hours and associated costs from contractors into statements of work or performance work statement requirements, consistent with the methodology the Army

currently employs. Most of the individual Component plans also request a common DoD reporting system to capture information reported by contractors similar to the Army's "Contractor Manpower Reporting Application" tool and processes. Additionally, many of the individual Component plans recommend that the Department consider pursuing a standardized contract clause to enforce this requirement at option exercise. A small number of the Components, such as the Department of the Army and the United States Special Operations Command, currently have reporting processes and infrastructure in place to fully comply with 10 USC 2330a and do not require additional DoD support.

After a thorough review, the Department is committed to assisting Components as they implement their plans, especially those currently without reporting processes or infrastructure in place, by leveraging the Army processes, best practices, and tools to the maximum extent possible. The Department believes that its plan, which involves both short-term and long-term improvements and solutions, will result in the best approach to responding to the requirements of 10 USC 2330a.



Frank Kendall
Acting Under Secretary of Defense
for Acquisition, Technology, and Logistics



Jo Ann Rooney
Acting Under Secretary of Defense
for Personnel and Readiness

Enclosure: As stated

Department of Defense Near-Term (FY2012) Actions for 10 USC 2330a Compliance:

1. The Office of the Under Secretary of Defense for Acquisition, Technology, and Logistics (OUSD(AT&L)), Director of Defense Procurement and Acquisition Policy memorandum of October 11, 2011, is superseded by this compliance plan, and Component Acquisition Executives are directed to support their individual component plans, as well as the plans of those organizations for whom they provide contracting services, consistent with this plan, as the Department's way ahead for the Inventory of Contracts for Services (ICS). While actions will begin this year, complete reporting compliance is not expected until 2014.
2. No later than December 1, OUSD(P&R) will submit an emergency processing request to the Office of Management of Budget related to a Paperwork Reduction Act (PRA) filing on behalf of the entire Department, prior to beginning implementation of Component plans. If an emergency processing is not approved, DoD will continue to pursue PRA approval as required. The Army has currently met PRA requirements that have been recertified three times. After five years of reporting, the Army has found that costs and administrative burden on the private sector have been minimal as well as the associated costs to Army organizations. The Department-wide effort will include prospective actions, leverage Army best practices and lessons learned, and rely on a common reporting website.
3. The Office of the Under Secretary of Defense for Personnel and Readiness (OUSD(P&R)), will coordinate with the OUSD(AT&L) and Office of the Under Secretary, Comptroller (OUSD(C)) to issue guidance for the Fiscal Year (FY) 2011 ICS by December 30, 2011. This guidance will be expanded from the draft memorandum and supplementary instructions at pages three through six of this enclosure, and provide Components with the flexibility to use the best available information to populate their inventory. The Army, as well as other Components with similar solutions, will continue to use established tools and processes for submitting their ICS. Each Component responsible for providing a plan in accordance with section 8108(c) of the FY2011 Appropriations Act will prepare a FY2011 ICS. This represents a significant improvement from previous Departmental submissions, where inventories were prepared only by those organizations with contracting authority.
4. The OUSD(P&R), will coordinate with the OUSD(AT&L) to compile the inventories prepared by the Components and to transmit a consolidated submission to Congress by June 30, 2012.
5. Following submission of the FY2011 ICS, each Component shall complete a review within 90 days of their ICS submittal to OUSD(P&R) in accordance with 10 USC § 2330a subsection (e), and the Component Head shall submit a letter to the USD(P&R) certifying completion of the review, delineating the results in accordance with all applicable title 10 provisions. As required by statute and to meet Congressional intent, these reviews shall serve to, among other things: inform workforce planning, including identification of inherently governmental functions, functions closely associated with inherently governmental functions, personal services (also known as "staff augmentees"), whether authorized by statute or not, strengthen contract oversight; and the preparation of budget justification materials and spending analyses.

Department of Defense Long-Term Plan (FY2012-2016) for 10 USC 2330a Compliance:

1. The Office of the Deputy Chief Management Officer, as DoD's lead business systems integrator, will assist the OUSD(P&R) in bringing the appropriate stakeholders together to support establishment of a common hardware and software support platform to meet the requirements of 10 USC § 2330a as an enterprise. This group will ensure that the appropriate analysis is conducted in an expedited manner, leveraging existing solutions such as the Army's Contractor Manpower Reporting Application. The group will also determine a suitable Component to lead development and implementation of the enterprise solution. Each Component requiring contracted services will retain responsibility for data management. Nothing in this section shall be construed to limit or reduce the scope and effectiveness of the Army's current system and process.
2. The OUSD(P&R) will coordinate with the OUSD(AT&L) and OUSD(C) to finalize and coordinate a DoD instruction containing comprehensive guidance for the development, review, and use of the ICS to include: delineation of responsibilities amongst functional communities. Mirroring an Army best practice, primary responsibility shall be assigned to manpower/personnel communities. The guidance will also require that:
 - a. All DoD activities supported by contracted services shall include in newly issued contracts, task/delivery orders, and bi-laterally modified contracts, the requirements for contractor manpower reporting consistent with 10 USC § 2330a, DoD policies, and applicable regulations. Acquisition offices awarding and administering contracts (to include contracts that may also provide goods) shall support these actions.
 - b. All services provided in support of, or to benefit, a DoD organization, regardless of the source of the funding or acquisition agent, must be reported in the ICS. Some contracted services may support a DoD Component, and are reported in the inventory, but are funded by appropriations or reimbursable funding sources external to Components.
 - c. Each DoD Component will complete a thorough review and analysis of the contracted services for which they are the requiring activity, and the Component Head shall submit a letter to the USD(P&R) certifying completion of the review, delineating the results in accordance with all applicable title 10 provisions. This will ensure each DoD Component can report contracted services are validated against mission requirements that justify current and proposed expenditures during annual program and budget reviews, and that corrective action is taken when functions at risk of inherently governmental performance or involving unauthorized personal services are identified.
 - d. Annual budget justification materials will be based on the most recent ICS, include all services provided under contract for all appropriations (excluding construction), delineate sub activity groups for operations and maintenance funds, include major services taxonomy portfolio groups for all appropriations, and identify separately base and overseas contingency operations funds requested and executed. Execution information will separately account for direct and reimbursable funds, and all years executed. Where a Component is executing for other agencies, all funds executed will be reported.

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SUBJECT: Guidance for the Submission and Review of the FY 2011 Inventory of Contracts for Services

This memorandum and attachments provide guidance for use in developing your organization's submission for the Inventory of Contracts for Services (ICS) for Fiscal Year 2011, in accordance with section 2330a of title 10, United States Code. Each Component which developed a plan in accordance with section 8108(c) of the Department of Defense Appropriations Act and Full Year Continuing Appropriations Act, 2011, (Public 112-10), will prepare an ICS in accordance with this guidance. Inventories will be submitted electronically with a transmittal memorandum containing a narrative describing the methodology used for collecting and populating the inventory.

Component's transmittal memo and inventory data are due to OUSD(P&R) and OUSD(AT&L) no later than May 1, 2012. Electronic submission shall be made to the following points of contact for OUSD(P&R): Ms. Amy Parker (amy.parker@osd.mil) and Mr. Thomas Hessel (thomas.hessel@osd.mil); for OUSD(AT&L): Mr. John Tenaglia (john.tenaglia@osd.mil) and Mr. Jeffrey Grover (jeffrey.grover@osd.mil).

The Department will compile the inventories prepared by the Components to transmit to Congress by June 30, 2012. Following inventory submission, each Component shall complete a review of their ICS in accordance with 10 USC § 2330a subsection (e), and the Component Head shall submit a letter to the USD(P&R) via the points of contacts for the inventory, certifying completion of the review, delineating the results in accordance with all applicable title 10 provisions.

Frank Kendall
Acting Under Secretary of Defense
for Acquisition, Technology and Logistics

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Guidance for Reporting the Functions and Missions for the ICS

The functions performed by the contractor: In accordance with DoD Inherently Governmental and Commercial Activities Inventory guidance, a function is defined as a description of the kind of action or activity performed. The function data field will be reported as the Product Services Code (PSC) description (at the four digit level of detail) of the service reported on the inventory (list at page 6 of this document).

The missions performed by the contractor: For the purposes of the ICS, “mission” generally refers to an operational task. Existing fields in DoD databases do not provide for the “mission of the contractor”. In November 2010, the Director, Defense Procurement and Acquisition Policy (DPAP), Office of the Under Secretary of Defense, Acquisition, Technology, and Logistics issued a memo regarding the “Taxonomy for the Acquisition of Services” categorizing PSCs for services contracts into categories related to 6 “portfolio groups” that include 33 more specific “portfolios” describing the types of services procured. Components will use a “cross-walk” provided by DPAP to represent the mission using both one of the 6 portfolio groups in the numbered list below AND one of the 33 “sub” portfolio names listed after the major group:

1. Knowledge Based Services: Engineering Management Services, Program Management Services, Logistic Management Services, Management Support Services, Administrative and Other Services, Professional Services, and Education and Training
2. Facility Related Services: Architect/Engineering Services, Operation of Government-owned Facilities, Machinery & Equipments Maintenance, Building & Plant Maintenance, Natural Resource Management, Utilities, Housekeeping & Social Services, Purchases & Lease, and Railroad Equipment Modification
3. Transportation Services: Transportation of Things, Transportation of People, Other Travel & Relocation Services
4. Medical Services: General Medical Services, Dentistry Services, Specialty Medical Services
5. Electronics & Communications Services: ADP Services, Telecom Services, Equipment Maintenance, and Equipment Leases
6. Equipment Related Services: Maintenance, Repair and Overhaul, Equipment Modification, Installation of Equipment, Quality Control, Technical Representative Services, Purchases & Leases, and Salvage Services

Methodology for Estimating/Calculating the Number of Contractor Full Time Equivalents

10 USC § 2330a requires that Components collect direct labor hours and associated costs from contractors to calculate contractor full time equivalents (CFTE). A CFTE is defined as a standard measure of labor that equates to one (1) year of full-time work (labor hours as defined by the Office of Management and Budget Circular A-11 each year) to support a mission requirement.

Formula for CFTE calculation

$$CFTE = \frac{\text{Total Contractor Direct Labor Hours for a specific product service code for a contract, task Or delivery order, or interagency agreement}}{\text{Total hours of labor applied in a specific labor category in a given year (i.e. 2,088)}}$$

Calculations will be rounded to the one-hundredth (.xx) decimal level.

Most Components do not currently collect direct labor hours, so they may use the following methodologies – singularly or in combination - for their ICS. Each Component will submit a narrative providing justification for and describing their methodology for collecting, estimating, or calculating CFTE with their transmittal memo. The cost to use a particular option below may be an important consideration when choosing a methodology, thereby making some of the options impractical at this time:

1. Collect direct labor hour information from contractors, as required by 10 USC § 2330a, DoD policies, and applicable regulations.
2. Collect direct labor hours as reported by the Contracting Officer’s Representatives or Contracting Officer’s Technical Representative (COR/COTR) for the service during FY2011.
3. Reference the independent government estimate (IGE) or contractor technical proposals to extrapolate hours for services provided in FY2011.
4. Report information collected from contract invoices.
5. Calculate CFTE using information provided by the Army as follows:

$$CFTE = \frac{\text{Total Dollar Amount Obligated for a specific product service code for a contract, task/delivery order, interagency agreement X CFTE in corresponding category*}}{\text{Total Dollar Amount Invoiced for the corresponding labor category}}$$

*Army will provide data for base funded FTE and OCO funded FTE separately.
Calculations will be rounded to the one-hundredth (.xx) decimal level.

Each product service code (PSC) corresponding to a unique location, period of performance, and unique contract, task order, delivery order or interagency acquisition agreement shall be listed individually, at the four character level of detail. The PSC is an alphanumeric categorization of the basic type of service provided by a contractor, as captured in the Federal Procurement Data System. For the purposes of the inventory of contracts for services, DoD Components shall include all contract actions associated with the summary list of PSC categories, excluding Military Construction Appropriations, Civil Works Appropriations and Foreign Military Sales, in this Table:

<u>Included Product Service Code (PSC) Categories</u>	
A	RDT&E
B	Special Studies and Analysis – Not R&D
C	Architect and Engineering – Construction
D	Automatic Data Processing and Telecommunication
E	Purchase of Structures and Facilities
F	Natural Resources and Conservation
G	Social Services
H	Quality Control, Testing, and Inspection
J	Maintenance, Repair, and Rebuilding of Equipment
K	Modification of Equipment
L	Technical Representative Services
M	Operation of Government Owned Facilities
N	Installation of Equipment
P	Salvage Services
Q	Medical Services
R	Professional, Administrative, and Management Support
S	Utilities and Housekeeping Services **excluding utilities
T	Photographic, Mapping, Printing and Publications
U	Education and Training
V	Transportation, Travel & Relocation ** excluding freight and shipping
Z	Maintenance, Repair or Alteration of Real Property
<u>Excluded Product Service Codes</u>	
W	Lease/Rental of Equipment
X	Lease/Rental of Facilities
Y	Construction of Structures and Facilities