



OFFICE OF THE SECRETARY OF DEFENSE  
1000 DEFENSE PENTAGON  
WASHINGTON, DC 20301-1000

MAR 25 2016

MEMORANDUM FOR: SEE DISTRIBUTION

SUBJECT: Guidance for the Submission and Review of the Fiscal Year 2015 Inventory of Contracted Services

In accordance with section 2330a of title 10, United States Code (10 USC 2330a), this memorandum and its attachments provide guidance for developing your organization's submission for the Inventory of Contracted Services (ICS) for FY 2015.

Inventories shall be submitted electronically with a signed transmittal memorandum containing a narrative describing the methodology used for collecting and populating the inventory. Components' transmittal memorandum and inventory data are due to the Office of the Under Secretary of Defense for Personnel and Readiness (OUSD(P&R)) and the Office of the Under Secretary of Defense for Acquisition, Technology, and Logistics (OUSD(AT&L)) no later than May 6, 2016. Electronic submissions shall be made to the following points of contact: Mr. Thomas Hessel (thomas.j.hessel.civ@mail.mil) for OUSD(P&R) and Mr. Jeffrey Grover (jeffrey.c.grover.civ@mail.mil) for OUSD(AT&L). Any questions regarding this guidance should be directed to these points of contact.

We have identified the current reporting alignment for each Department of Defense Component at Attachment 2. To ensure the most complete inventory this year, each Component listed shall identify, via email to Mr. Hessel and Mr. Grover, by April 1, 2016, primary and alternate action officer point(s) of contact with responsibility for the inventory submission as well as subsequent reviews. Any variance to Attachment 2 should also be identified. Unless separately identified or otherwise specified in Attachment 2, listed components are inclusive of all subordinate echelons, activities, installations, commands, directorates, business units, etc.

The Department will compile the inventories prepared by Components to transmit to Congress by June 30, 2016. Following inventory submission, each Component shall complete a review of its ICS in accordance with subsection (e) of 10 USC 2330a and this guidance. Each Component Head shall submit a letter by October 14, 2016, to OUSD(P&R), via the point of contact listed above, certifying completion of the review and delineating the results in accordance with all applicable title 10 provisions and this guidance.

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

Brad Carson  
Senior Advisor to the Under Secretary of  
Defense for Personnel and Readiness,  
Performing the Duties of the Principal  
Deputy Under Secretary of Defense for  
Personnel and Readiness



Attachments:

1. ICS Guidance
2. DoD Component Reporting Alignment
3. ICS Fields
4. Functions/Work Categories

DISTRIBUTION:

SECRETARIES OF THE MILITARY DEPARTMENTS  
CHAIRMAN OF THE JOINT CHIEFS OF STAFF  
UNDER SECRETARIES OF DEFENSE  
DEPUTY CHIEF MANAGEMENT OFFICER  
COMMANDERS OF THE COMBATANT COMMANDS  
DIRECTOR, COST ASSESSMENT AND PROGRAM EVALUATION  
DIRECTOR, OPERATIONAL TEST AND EVALUATION  
GENERAL COUNSEL OF THE DEPARTMENT OF DEFENSE  
INSPECTOR GENERAL OF THE DEPARTMENT OF DEFENSE  
DEPARTMENT OF DEFENSE CHIEF INFORMATION OFFICER  
ASSISTANT SECRETARIES OF DEFENSE  
ASSISTANTS TO THE SECRETARY OF DEFENSE  
DIRECTORS OF THE DEFENSE AGENCIES  
DIRECTORS OF THE DOD FIELD ACTIVITIES  
DIRECTORS OF THE JOINTLY MANNED ACTIVITIES  
DIRECTORS OF THE CHAIRMAN CONTROLLED ACTIVITIES  
PRESIDENT, DEFENSE ACQUISITION UNIVERSITY  
PRESIDENT, NATIONAL DEFENSE UNIVERSITY



## ICS Guidance

1. In addition to the requirements set forth in paragraph 5.b of this attachment, each Component's transmittal memorandum shall identify and designate an accountable official (at the General/Flag Officer or Senior Executive level, as well as that official's primary action officer at the O-5/6 or GS-14/15 level) to help ensure that the ICS is integrated into key management decisions.
  - a. This designation addresses the recommendation by the Government Accountability Office (GAO) in its November 2014 report, *GAO-15-88, "Defense Contractors: Additional Actions Needed to Facilitate the Use of DOD's Inventory of Contracted Services,"* (GAO Code No. 100033), that the designated official be responsible for leading and coordinating efforts across his/her Component's respective manpower, budgeting, and acquisition communities and, as appropriate, revising guidance, developing plans and enforcement mechanisms, and establishing processes to integrate the ICS into its key decisions as statutorily required.
2. Components shall submit an inventory of services provided under contract that corresponds to the spreadsheet at Attachment 3, titled "FY 2015 ICS Fields," containing field descriptions and requirements.
  - a. **All services provided** in support of, or of benefit to, a Department of Defense (DoD) organization, regardless of dollar amount, contracting agency, or security classification, will be reported on the ICS and subsequently reviewed. In accordance with 10 USC 2330a, the Department may submit annexes to the ICS with classified contract information separately, as appropriate, in coordination with the responsible Components.
  - b. Components will report contracts on the inventory by requiring activity. The organization charged with the mission being performed under contract is the requiring activity.
  - c. Components may use all reporting tools and data therein, in whole or in part, at their disposal to compile this inventory, including the Enterprise-wide Contractor Manpower Application (ECMRA).
  - d. The Director, Defense Procurement and Acquisition Policy (DPAP), provided the certified data set from the Federal Procurement Data System, Next Generation (FPDS-NG) for FY 2015 on the DPAP website, at [http://www.acq.osd.mil/dpap/cpic/cp/acquisition\\_of\\_services\\_policy.html](http://www.acq.osd.mil/dpap/cpic/cp/acquisition_of_services_policy.html). This data should be used to "cross check" against the data fields compiled by Components for their inventory.

3. Guidance for Reporting the Functions and Missions for the ICS.

- a. Function. In accordance with annual DoD Inherently Governmental and Commercial Activities Inventory guidance (most recently issued October 9, 2014), a function is defined as a description of the kind of action or activity performed. For the ICS, the function data field will be reported as the Product and Service Code (PSC)—also referred to as Federal Supply Codes (FSC)—description (at the four digit level of detail as posted at <https://www.acquisition.gov/>). The PSC is an alphanumeric categorization of the basic type of service provided, as captured in the FPDS. Each PSC corresponding to a unique location, period of performance, and unique contract, task order, delivery order, or interagency acquisition agreement shall be listed individually (table next page):

<b><u>Included PSC Categories</u></b>	
A	Research, Development, Testing & Evaluation (RDT&E)
B	Special Studies and Analysis – Not Research & Development (R&D)
C	Architect and Engineering – Construction
D	Automatic Data Processing and Telecommunication <b><i>**excluding D304 IT and Telecom - Telecommunications and Transmission and **D322 IT and Telecom - Internet</i></b>
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 <b><i>**excluding utilities: SIXX</i></b>
T	Photographic, Mapping, Printing, and Publications
U	Education and Training
V	Transportation, Travel, and Relocation <b><i>**excluding freight and shipping: V1XX, V211-224</i></b>
Z	Maintenance, Repair, or Alteration of Real Property
<b><u>Fully Excluded Product Service Codes</u></b>	
W	Lease/Rental of Equipment
X	Lease/Rental of Facilities
Y	Construction of Structures and Facilities

- b. Mission. 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,” as required by 10 USC 2330a. OUSD(AT&L)/DPAP has prepared the “Taxonomy for the Acquisition of Services,” categorizing PSCs for supply and services contracts into 16 major “portfolio groups.” Information regarding the latest Taxonomy to be used for ICS reporting can be located at the following link: <http://www.acq.osd.mil/dpap/ss/taxonomy.html>. Components should populate this field with the Service Taxonomy Portfolio Group that corresponds to the PSC. Components may use the Department’s PSC selection tool at <https://psctool.us/> to facilitate this aspect of inventory completion.

#### 4. Guidance for Estimating/Calculating the Number of Contractor Full Time Equivalents

- a. 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 1 year of full-time work (total labor hours as defined by the Office of Management and Budget Circular A-11 each year) to support a mission requirement.
- b. Each Component shall include in its ICS transmittal memorandum a description of its methodology for collecting, estimating, or calculating CFTE, and provide the justification of the methodology used. Components shall include in their narrative the percentage of their total contracts that were reported by contractors in the ECMRA in FY 2015 and the extent to which reported data was used to support their inventory submissions.
- c. The following methodologies—singularly or in combination—may be used to populate a Component’s ICS. 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, and then use formula for CFTE calculation described below:

$$\text{CFTE} = \frac{\text{Total Contractor Direct Labor Hours for a specific PSC for a contract, task or delivery order, or interagency agreement}}{\text{Total hours of labor applied in a specific labor category in a given year (i.e., 2,080)}}$$

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

- 2) Collect direct labor hours as reported by the Contracting Officer’s Representatives or Contracting Officer’s Technical Representative for the service during FY 2015.
- 3) Reference the independent government estimate or contractor technical proposals to extrapolate hours for services provided in FY 2015.
- 4) Report information collected from contract invoices.
- 5) Calculate CFTEs using a factor by PSC to be provided by the Army in early 2016 or a similar factor based on service specific CMRA data multiplied by the Total Dollar Amount Obligated for the corresponding PSC as follows:

Example: PSC = H110 - Quality Control Svcs/Weapons (Non-OCO)

Obligation amount = \$65 million.

CFTE Factor = 0.000009996258946

CFTE = (65,000,000 X 000009996258946) = 649.76

The FY 2015 CMRA Rates and Factors will be used as follows:

- a) "Generating Force - 1" – Use a factor on this sheet, only if the appropriate 4 digit code does not appear on the "Generating Force - 4" sheet (as Army does not have the 4 digit level of detail for all PSCs), for all contract services provided excluding any support provided in Afghanistan.
- b) "Generating Force - 4" – Use the factors on this sheet that correspond to the appropriate PSCs for all contract services provided excluding any support provided in Afghanistan.
- c) "OCO - 1" – Use a factor on this sheet, only if the appropriate 4 digit code does not appear on the "IA - 4" sheet (as Army does not have the 4 digit level of detail for all PSCs), for all contract services provided within Afghanistan.
- d) "OCO - 4" – Use the factors on this sheet that correspond to the appropriate PSCs for all contract services provided within Afghanistan.

5. Guidance for Completing the Review of the ICS.

In accordance with paragraph (e) of 10 USC 2330a, all services provided in support of, or benefit to, a DoD organization, regardless of dollar amount or security classification, will be reviewed by Components within 90 days of submission of the ICS to Congress by functional and organizational alignment. Components should initiate their reviews upon submission to the Office of the Secretary of Defense of their respective inventories and need not wait for the consolidated DoD submission to Congress. Components must provide input in the affirmative or negative to each requirement in the lettered and numbered items below:

- a. Functional reviews shall correspond both to the PSCs and be compared to the annually released DoD function codes for military and civilian personnel. DoD Components shall also review the inventory of military and government civilian functions compared to the inventory of contracts for services to: assess economies of scale or scope, identify potential areas of risk and overreliance on contracted services, and identify opportunities for efficiencies.
- b. Reviews of a Component's ICS shall be consistent with its organizational structure and mission, task, and function alignments, and must be based on each DoD Component's requirements, include functions associated with all contracts, task orders, delivery orders, or interagency acquisition agreements listed in the DoD Component's inventory for a given fiscal year. To the maximum extent practicable, Component reviews of the ICS should be complementary to and leverage, as well as



inform and facilitate, Service Requirement Review Board processes and ancillary institutional reform initiatives.

- c. In order to assess and assign contracts on the ICS to a category in the table shown in paragraph e(6) of this attachment, DoD Components shall review the nature or way the contract is performed and administered as well as the organizational environment within which it is operating. Designations made in contract writing systems serve a good start for such reviews but do not satisfy the requirements of 10 USC 2330a(e).
  - 1) At a minimum, consistent with recommendations made by the GAO in their November 2015 report, *GAO-16-46, "DOD INVENTORY OF CONTRACTED SERVICES: Actions Needed to Help Ensure Inventory Data Are Complete and Accurate,"* (GAO Code 100050), DoD Components shall review those contracts providing services in PSCs that are identified by the Office of Federal Procurement Policy as requiring heightened management attention and as more likely to include closely associated with inherently governmental functions.
- d. DoD Components shall use the inventory reviews and subsequent workforce shaping decisions to inform programming and budget matters, including requests to realign work, as appropriate, to military or civilian performance, and to inform their Strategic Workforce Planning efforts.
- e. In submitting letters to the OUSD(P&R) certifying completion of the review, Components shall also provide input to each of the numbered items on this list with the appropriate expounding information:
  - 1) Explanation of the methodology employed to conduct the review and criteria for selection of contracts for review.
  - 2) Identification of any instances in which Inherently Governmental (IG) functions or unauthorized personal services were being performed under a contract, with a plan of action to divest, correct, or realign such functions to Government performance.
  - 3) Identification of contracts under which Closely Associated with Inherently Governmental (CAIG) functions are being performed and an explanation of the steps taken to ensure appropriate Government control and oversight of such functions, or if necessary, a plan either to divest or realign such functions to Government performance.
  - 4) Identification of contracted services to be realigned to Government performance that should be:



- a) Exempt from private sector performance in accordance with DoD Instruction 1100.22, "Policy and Procedures for Determining Workforce Mix;"
  - b) Require special consideration under 10 USC 2463; or
  - c) Can be more cost effectively performed by Government civilians, consistent with DoD Instruction 7041.04, "Estimating and Comparing the Full Costs of Civilian and Active Duty Military Manpower and Contract Support."
- 5) Actions being taken or considered with regards to annual program review and budget processes to ensure appropriate (re)allocation of resources based on the reviews conducted.
- 6) Actions taken with respect to each of the above categories should be summarized as depicted in the sample table below. The results of these reviews should be represented in terms of the number of CFTE and associated dollars from the reported year of the ICS in the following categories: IG functions, Critical functions, CAIG functions, Unauthorized personal services, Authorized personal services, and Commercial functions.

If a Component relies on Overseas Contingency Operation (OCO) funded functions, to the maximum extent practicable, these should be presented in a separate table.

Under the area labeled "continue to contract," Components may only include FTE and dollars where no corrective action is taking place or required. Accordingly, inherently governmental or unauthorized personal services FTE and dollars may only be reported in the "divest," "modify contract," or "in-source" categories.

Inventory of Contracts for Services: REVIEW RESULTS		Continue Contract		Modify Contract		In-source		Divest	
Requiring Activity: NAME	Review Findings	CFTE	Dollars	CFTE	Dollars	CFTE	Dollars	CFTE	Dollars
	Inherently Governmental		\$ -		\$ -		\$ -		\$ -
	Critical		\$ -		\$ -		\$ -		\$ -
	Closely Associated		\$ -		\$ -		\$ -		\$ -
	Unauthorized Personal Services		\$ -		\$ -		\$ -		\$ -
	Authorized Personal Services		\$ -		\$ -		\$ -		\$ -
	Commercial		\$ -		\$ -		\$ -		\$ -

- (a) The categories in the column titled "Review Findings" on the table above are listed in descending order of precedence/occurrence related to the Office of Management and Budget's Office of Federal Procurement Policy (OFPP) policy letter 11-01, "Performance of Inherently Governmental and Critical Functions," and DoD Instruction 100.22, "Policy and Procedures for Determining Workforce Mix." Most Components have designated a senior, responsible management official who ensures its organization's

adherence to and implementation of OFPP policy letter 11-01, and those individuals should assist with this categorization.

- (b) Functions (or work), including those under contract, work orders, task orders, etc., as a result of performance in execution (not by intent or description in the statement of work or performance work statement) may be inherently governmental, critical, closely associated with inherently governmental, unauthorized personal services, authorized personal services, or commercial in nature. Additional details regarding the composition of these categories are provided for reference at Attachment 4. Additionally, consistent with findings and determinations made by the GAO in its November 2015 report, *GAO-16-46, "DOD INVENTORY OF CONTRACTED SERVICES: Actions Needed to Help Ensure Inventory Data Are Complete and Accurate,"* (GAO Code 100050), Components may, if they so choose, refer to the Department of Army's "Inherently Governmental Checklist" as a suggested framework/roadmap to support their ICS reviews and determinations of contracted services alignment into these categories (available at <http://www.asamra.army.mil/scra/documents/ServicesContractApprovalForm.pdf>).
- (c) Contracts that are not summarized and listed in the categories inherently governmental, critical, closely associated, unauthorized personal services, or authorized personal services should be listed as "commercial." Components should be prepared to substantiate the rigor of the methodology used to support their certifications.

**Department of Defense Component Reporting Alignment  
for the FY 2015 Inventory of Contracted Services**

No	Component Required to Report Per OUSD Memo	Required to Submit ICS	Required to Certify
1	Department of the Army	Yes	Yes
2	Department of the Air Force	Yes	Yes
3	Department of the Navy	Yes	Yes
4	Joint Chiefs of Staff (Joint Staff)	Yes	Yes
5	Office of the Under Secretary of Defense for Acquisition, Technology, and Logistics (OUSD(AT&L))	Yes *§	Yes *§
6	Office of the Under Secretary of Defense Comptroller/Chief Financial Officer (OUSD(C)/CFO)	Yes *§	Yes *§
7	Office of Under Secretary of Defense for Intelligence (OUSD(I))	Yes *§	Yes *§
8	Office of the Under Secretary of Defense for Personnel and Readiness (OUSD(P&R))	Yes *§	Yes *§
9	Office of the Under Secretary of Defense for Policy (OUSD(P))	Yes *§	Yes *§
10	Office of the Deputy Chief Management Officer (ODCMO)	Yes *§	Yes *§
11	Africa Command (AFRICOM)	Yes	Yes
12	Central Command (CENTCOM)	Yes	Yes
13	European Command (EUCOM) incl. NATO	Yes	Yes
14	Northern Command (NORTHCOM) incl. NORAD	Yes	Yes
15	Pacific Command (PACOM)	Yes	Yes
16	Southern Command (SOUTHCOM)	Yes	Yes
17	Special Operations Command (SOCOM)	Yes	Yes
18	Strategic Command (STRATCOM) incl. Cyber Command (CYBERCOM)	Yes	Yes
19	Transportation Command (TRANSCOM)	Yes	Yes
20	Office of the Director, Cost Assessment and Program Evaluation (CAPE)	Yes *§	Yes *§
21	Office of the Director, Operational Test and Evaluation (ODOT&E)	Yes *§	Yes *§
22	Office of the General Counsel of the Department of Defense (OGC)	Yes ∞	Yes ∞
23	Office of the Inspector General of the Department of Defense (OIG)	Yes	Yes
24	Office of the Assistant Secretary of Defense for Legislative Affairs (OASD(LA))	Yes *§	Yes *§
25	Office of the DoD Chief Information Officer (DoD CIO)	Yes *§	Yes *§
26	Office of the Assistant to the Secretary of Defense for Public Affairs (OATSD(PA))	Yes *§	Yes *§
27	Office of the Director, Net Assessment (ODNA)	Yes *§	Yes *§
28	Defense Media Activity (DMA)	Yes	Yes

**Department of Defense Component Reporting Alignment  
for the FY 2015 Inventory of Contracted Services**

29	Defense Personnel Accounting Agency (DPAA), formerly Defense POW/Missing Personnel Office (DPMO)	Yes	Yes
30	Defense Technical Information Center (DTIC)	Yes	Yes
31	Defense Technology Security Administration (DTSA)	Yes	Yes
32	DoD Education Activity (DoDEA)	Yes	Yes
33	DoD Human Resources Activity (DHRA)	Yes	Yes
34	DoD Test Resource Management Center (DTRMC)	Yes	Yes
35	Office of Economic Adjustment (OEA)	Yes	Yes
36	Defense Health Agency (DHA), formerly, TRICARE Management Activity (TMA)	Yes	Yes
37	Washington Headquarters Services (WHS)	Yes <sup>s</sup>	Yes <sup>s</sup>
38	Defense Advanced Research Projects Agency (DARPA)	Yes	Yes
39	Defense Commissary Agency (DeCA)	Yes	Yes
40	Defense Contract Audit Agency (DCAA)	Yes	Yes
41	Defense Contract Management Agency (DCMA)	Yes	Yes
42	Defense Finance and Accounting Service (DFAS)	Yes	Yes
43	Defense Information Systems Agency (DISA)	Yes	Yes
44	Defense Intelligence Agency (DIA)	Yes for MIP (classified)	Yes for MIP (classified)
45	Defense Legal Services Agency (DLSA) (DoD/GC (#22) Included when applicable))	Yes <sup>s</sup>	Yes <sup>s</sup>
46	Defense Logistics Agency (DLA)	Yes	Yes
47	Defense Security Cooperation Agency (DSCA)	Yes	Yes
48	Defense Security Service (DSS)	Yes	Yes
49	Defense Threat Reduction Agency (DTRA)	Yes	Yes
50	Missile Defense Agency (MDA)	Yes	Yes
51	National Geospatial-Intelligence Agency (NGA)	Yes for MIP (classified)	Yes for MIP (classified)
52	National Reconnaissance Office (NRO)	Yes for MIP (classified)	Yes for MIP (classified)
53	National Security Agency/Central Security Service (NSA/CSS)	Yes for MIP (classified)	Yes for MIP (classified)
54	Pentagon Force Protection Agency (PFPA)	Yes <sup>s</sup>	Yes <sup>s</sup>
55	Defense Acquisition University (DAU)	Yes	Yes

ATTACHMENT 2



**Department of Defense Component Reporting Alignment  
for the FY 2015 Inventory of Contracted Services**

56	National Defense University (NDU)	Yes	Yes
57	Defense Microelectronics Activity (DMEA)	Technically part of DLA but has contracting authority and submits	Technically part of DLA but has contracting authority and submits
58	USFK	Yes, but sub-unified under PACOM	Yes, but sub-unified under PACOM

\* On behalf of the 13 OSD PSAs identified in lines #5, #6, #7, #8, #9, #10, #20, #21, #22, #24, #25, # 26, and #27, the Office of the Deputy Chief Management Officer (ODCMO) is responsible for collecting all 13 OSD PSA specific annual ICS certification memos, supporting data, consolidating and submitting a single initial ICS report (Phase-I), and a subsequent 90-day (Phase-II) ICS review report to USD(AT&L) and USD(P&R). Responsibility for ensuring compliance with this guidance and criteria for the ICS and subsequent review resides with the individual OSD PSA offices. The ODCMO may opt to provide additional guidance and support beyond that which is contained within this guidance.

§ WHS/Acquisition Directorate (AD), is designated as the Subject Matter Expert (SME), assisting all 13 OSD PSAs (\*), WHS Directorates<sup>(§)</sup>, identified in line #37, PFPA<sup>(§)</sup>, identified in line #54, and DLSA<sup>(§)</sup>, identified in line #45 in retrieving the Defense Procurement and Acquisition Policy certified ICS data from the Federal Procurement Data System-Next Generation (FPDS-NG) Database and delivering applicable data to the organizations identified above within 15 days after the ICS data for specific fiscal year becomes available in the FPDS-NG database. In addition, WHS/AD SME assists all WHS/AD customers in calculating the CFTE, obligated dollar amount, and other required figures for the 13 OSD PSAs, WHS, PFPA, and DLSA, whose contracts are serviced by WHS/AD and other contracting service providers, and facilitates submission of annual ICS (Phase-I) and the follow-on 90 day (Phase-II) reviews.

∞ ICS for the Office of the General Counsel of the Department of Defense (DoD GC) will be part of DLSA's ICS submission when applicable.

## Function/Work Categories

Functions (or work), including those under contract, work orders, task orders, etc., as a result of performance in execution (not by intent or description in the statement of work or performance work statement), may be inherently governmental, critical, closely associated with inherently governmental, unauthorized personal services, authorized personal services, or commercial in nature. Statute, Federal Acquisition Regulation, Office of Management and Budget Circular A-76, the Office of Federal Procurement Policy letter 11-01, and Department guidance provide the basis for these categories as follows:

1. **Inherently governmental (IG)** – An activity is IG when it is so intimately related to the public interest as to mandate performance by Federal employees. An IG function requires the exercise of discretion in applying Federal Government authority, or the making of value judgments in making decisions for the Federal Government, or the making of judgments relating to monetary transactions and entitlements. It involves the interpretation and execution of the laws of the United States so as to bind the United States to take or not take some action by contract, policy, regulation, authorization, order, or otherwise. If a contract is found to include IG functions, consistent with paragraph 6.e.2 of Attachment 1 of this guidance, the Component should take action to divest, correct, or realign such work to Government performance. Some examples of IG functions include:
  - a. Command of military forces
  - b. Determination of agency policy
  - c. Determination of program priorities for budget requests
  - d. Involve the direction and control of Federal employees
  - e. Involve the direction and control of intelligence and counter-intelligence operations
  - f. Involve the selection or non-selection of individuals for Federal Government employment, including the interviewing of individuals for employment
  - g. Involve the approval of position descriptions and performance standards for Federal employees
  - h. Involve the determination of what Government property is to be disposed of and on what terms
  - i. Involve determining what supplies or services are to be acquired by the Government
  - j. Involve participating as a voting member on any source selection boards
  - k. Involve approving any contractual documents, including documents defining requirements, incentive plans, and evaluation criteria
  - l. Involve awarding contracts
  - m. Involve administering contracts (including ordering changes in contract performance or contract quantities, taking action based on evaluations of contract performance, and accepting or rejecting contractor products or services)
  - n. Terminating contracts
  - o. Determining whether contract costs are reasonable, allocable, and allowable
  - p. Participating as a voting member on performance evaluation boards

- q. Involve the approval of agency responses to Freedom of Information Act requests
  - r. Involve the conduct of administrative hearings to determine the eligibility of any person for a security clearance, or involve actions that affect matters of personal reputation or eligibility to participate in Government programs
  - s. Involve the approval of Federal licensing actions and inspections
  - t. Involve the determination of budget policy, guidance, and strategy
  - u. Involve the collection, control, and disbursement of fees, royalties, duties, fines, taxes, and other public funds, unless authorized by statute, such as 31 USC 952 (relating to private collection contractors) and 31 USC 3718 (relating to private attorney collection services), but does not include 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 routine voucher and invoice examination
  - v. Involve 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. IG functions are also listed in FAR Part 7.5
2. **Critical** – Critical functions are “necessary to the agency being able to effectively perform and maintain control of its mission and operations.” Critical functions may be performed under contract; however, the organization must ensure it has an adequate number of positions filled by Federal employees with appropriate training, experience, and expertise to understand the agency’s requirements, formulate alternatives, manage work product, and monitor contractors. Pursuant to 10 USC 2463(b) and OFPP Policy Letter 11-01, Components should give special consideration to in-sourcing “critical functions” to ensure that agencies have sufficient internal capability to maintain control over functions that are central to the agency’s missions and operations. In the event that a function is determined to be critical in nature, but not appropriate for in-sourcing, Components should ensure that adequate government oversight will be available, pursuant to OFPP Policy Letter 11-01.
3. **Closely associated with inherently governmental work (CAIG)** – These functions are “other activities performed in conjunction with the IG functions.” Specifically, when functions that generally are not considered to be IG approach being in that category, because of the nature of the function and the risk that performance may impinge on Federal officials’ performance of an IG function, agencies must give special consideration to using Federal employees to perform these functions. If contractors are used to perform such work, agencies must give special management attention to contractors’ activities to guard against their expansion into IG functions and reduce reliance on such contracted functions to the “maximum extent practicable.” Examples include:

- a. Services that involve or relate to budget preparation, including workload modeling, fact finding, efficiency studies, and should-cost analyses
- b. Services that involve or relate to reorganization and planning activities
- c. Services that involve or relate to analyses, feasibility studies, and strategy options to be used by agency personnel in developing policy
- d. Services that involve or relate to the development of regulations
- e. Services that involve or relate to evaluation of another contractor's performance
- f. Services in support of acquisition planning
- g. Contractors providing assistance in contract management (such as where the contractor might influence official evaluations of other contractors)
- h. Contractors providing technical evaluation of contract proposals
- i. Contractors providing assistance in the development of statements of work
- j. Contractors providing support in preparing responses to Freedom of Information Act requests
- k. Contractors working in any situation that permits or might permit them to gain access to confidential business information and/or other sensitive information (other than situations covered by the National Industry Security Program)
- l. 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
- m. Contractors participating in any situation where it might be assumed that they are agency employees or representatives
- n. Contractors participating as technical advisors to a source selection board or participating as non-voting members of a source selection board
- o. Contractors serving as arbitrators or providing alternative methods of dispute resolution
- p. Contractors constructing buildings or structures intended to be secure from electronic eavesdropping or other penetration by foreign governments
- q. Contractors providing inspection services
- r. Contractors providing special non-law enforcement, security activities that do not directly involve criminal investigations

4. **Unauthorized personal services and authorized personal services** – “A personal services contract is characterized by the employer-employee relationship it creates between the Government and the contractor's personnel. The Government is normally required to obtain its employees by direct hire under competitive appointment or other procedures required by the civil service laws. Obtaining personal services by contract, rather than by direct hire, circumvents those laws unless Congress has specifically authorized acquisition of the services by contract.”

Personal services are authorized under very limited circumstances when expressly identified by statute, such as those provided in title 10 USC 129b, for experts and consultants where the services cannot be adequately provided by the Department; direct support of a defense intelligence component or counter-intelligence organization of the DoD where the services are urgent or unique and cannot be practically obtained within



the Department; direct support of special operations where the services are urgent or unique and cannot be practically obtained within the Department; or provided by individuals outside the United States, regardless of their nationality, and are determined by the Secretary to be necessary and appropriate for supporting the activities and programs of DoD outside the United States; or for carrying out healthcare responsibilities in medical treatment facilities of the DoD pursuant to 10 USC 1091.

Authorized personal services should be designated as such in the Department contract writing system at the time of award after obtaining complete documentation and approvals at the appropriate level. From FAR Part 37.104(f), "Personal services contracts for the services of individual experts or consultants are limited by the Classification Act. In addition, the Office of Personnel Management has established requirements which apply to acquiring the personal services of experts or consultants in this manner (e.g., benefits, taxes, conflicts of interest). Therefore, the contracting officer shall effect necessary coordination with the cognizant civilian personnel office." Performance of service contracts may become personal in execution as defined above, and so Components must review the performance of the contractors each year to ensure this does not occur.

A contract may involve unauthorized personal services either by its written terms or in the way it is actually performed. Care should be taken to avoid situations that may lend themselves to the performance of personal services (for example, having contractors on-site can lead to a "blended workforce" where contractors are treated in the same way as government personnel).

5. **Commercial** – "[A] recurring service that could be performed by the private sector and is resourced, performed, and controlled by the agency through performance by government personnel, a contract, or a fee-for-service agreement. A commercial activity is not so intimately related to the public interest as to mandate performance by government personnel. Commercial activities may be found within, or throughout, organizations that perform inherently governmental activities or classified work" (OMB Circular A-76).