EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

May 25, 2012

The Honorable Claire McCaskill
Chairman
Subcommittee on Contracting Oversight
Committee on Homeland Security
and Governmental Affairs
United States Senate
Washington, DC 20510

Dear Madam Chairman:

This letter is in response to questions posed to the Office of Management and Budget (OMB) following a March 29, 2012, hearing to examine the cost of using contractors. You asked when OMB plans to release additional guidance to agencies on insourcing and cost analysis and what topics the guidance will address. You also asked when OMB plans to issue a decision regarding a request by the Department of Defense for an exemption from the Paperwork Reduction Act (PRA) in connection with the planned collection of information from contractors to support the development of its annual service contractor inventory.

As part of President Obama's commitment to changing the way Washington does business, the Administration has made major strides to reform contracting under this Administration. We are buying less and buying smarter. Agencies put an end to the unsustainable growth in contracting experienced between 2000 and 2008 and, for the first time in nearly two decades, overall contract spending has declined or stayed flat two years in a row. By pooling our purchasing power and renegotiating contracts to secure deeper discounts, we are delivering better prices for taxpayers and reducing the wasteful proliferation of duplicative contracts for common needs.

Part of our contracting reform efforts have focused on striking the right balance between Federal employees and contractors that best protects the public's interest and serves the American people in a cost-effective manner. To date, most of these efforts have focused on clarifying what functions are inherently governmental or otherwise must be performed by Federal employees. These clarifications have been achieved through policy, including the issuance of a comprehensive policy letter by OMB's Office of Federal Procurement Policy, management guidance, and pilots.

We are now focusing on the development of guidance and tools, including cost comparisons, to help agencies consider where rebalancing of work can save money. The guidance will build on important cost principles OMB laid out in its 2009 memorandum on managing the multi-sector workforce – namely, that if either sector can perform the work and cost is the driver, agencies should ensure their comparisons (1) address the full cost of

government and private sector performance and (2) compare like costs. See OMB Memorandum M-09-26 available at http://www.whitehouse.gov/sites/default/files/omb/assets/memoranda_fy2009/m-09-26.pdf.

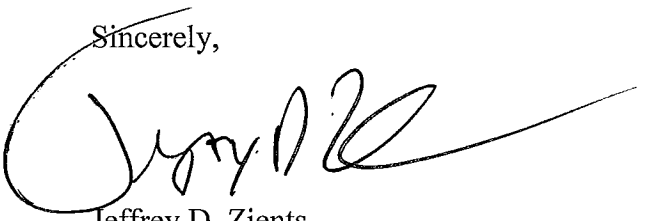
The guidance will be further shaped by experiences gained by the Departments of Defense (DoD) and Homeland Security and include management practices for identifying where analyses are likely to be most effective. We expect to issue guidance by mid-July.

Closely related to these efforts is our work with DoD and civilian agencies to strengthen the use of service contract inventories. Service contract inventories, which help agencies better understand how contracted services are being used to support mission and operations, are an important tool for achieving greater budgetary accountability and more fiscally responsible contracting, both of which ensure investments in contract services are affordable and cost-effective.

On May 22, 2012, OMB concluded review of DoD's most recently proposed implementation of its service contract inventory requirements -- which includes obtaining information from contractors on direct labor costs -- and concluded that this guidance constitutes a "collection of information" under the PRA, 44 U.S.C. § 3502(3). Although DoD initially requested an "emergency" clearance of its information collection request, see 44 U.S.C. § 3507(j), DoD worked with OMB to process its request using the normal clearance process, similar to how OMB handled several related information collection requests in past years by the Department of the Army, on which much of the DoD-wide guidance is based. OMB has provided an approval number for the collection (OMB no. 0704-0491), which will allow DoD to begin implementing its collection process.

Thank you again for the opportunity to address these issues. We look forward to working with you and your staff as we move forward on these important matters.

Sincerely,



Jeffrey D. Zients
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