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CONTRACTING OUT PROCUREMENT FUNCTIONS: *CURRENT STATUS*

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For years, the Department of Defense (DoD) acquisition workforce has been decreasing, yet workload often has not kept pace. This has created a dilemma for DoD procurement organizations that many have addressed by contracting out some of the work. The Air Force Deputy Assistant Secretary (Contracting), Mr. Charlie Williams, sponsored a study to assess the current status of contracting out procurement functions within DoD and federal agencies. Our study determined that government agencies display considerable variety in their use of contractor support for procurement functions. This article summarizes the current status of contracting out procurement functions and recommends that contracting managers retain a limited capability to contract out to meet their mission requirements.

This article examines the use of contractor support to supplement government contracting personnel in the completion of procurement functions/activities using an advisory and assistance services (AAS) contract. When we address the issue of “contracting out,” many automatically think we are concerned with contracting out the entire function. That is not the case. According to the Federal Acquisition Regulation (FAR), many procurement functions/activities are inherently governmental (IG). In other words IG functions must be performed by government personnel, which include participating as a voting member on any source selection boards; approving any contractual documents; and awarding, administering, and terminating contracts (FAR 7.503). The FAR succinctly precludes contracting out these activities: “Contracts shall not be used for the performance of inherently governmental functions” (FAR 7.503).

POLICY REVIEW

It has been a long-term policy of the Executive Branch to rely on contractors in the private sector to provide the goods and services needed to act on the public's behalf (General Accounting Office [GAO], 1981). Previously, the Office of Federal Procurement Policy (OFPP) Policy Letter 92-1 stated, "inherently governmental functions necessarily involve the exercise of substantial discretion," which "must have the effect of committing the Federal Government to a course of action when two or more alternative courses of action exist." Alternately, the FAR 2.101 describes an IG function as follows:

Inherently governmental function means, as a matter of policy, a function that is so intimately related to the public interest as to mandate performance by Government employees. This definition is a policy determination, not a legal determination.... (FAR, 2005)

Guidance on IG functions was reiterated in the Office of Management and Budget (OMB) Circular A-76 when it was revised in 2003, officially superseding OFPP 92-1. The circular tightened the description of substantial discretion. It stressed that not every exercise of discretion is substantial. To quote OMB:

The use of discretion shall be deemed inherently governmental [substantial discretion] if it commits the government to a course of action when two or more alternative courses of action exist and decision making is not already limited or guided by existing policies, procedures, directions, orders, and other guidance that (1) identify specified ranges of acceptable decisions or conduct and (2) subject the discretionary authority to final approval or regular oversight by agency officials. (OMB C A-76, 2003)

If a function is determined to be IG (e.g., the procurement function), but some parts of the work (activities) are noninherently governmental, then these activities could be contracted out as AAS in accordance with FAR 37.2 and Defense FAR Supplement (DFARS) 237.2. The definition of AAS is found in FAR 2.101(b), which states in part:

Advisory and assistance services means those services provided under contract by nongovernmental sources to support or improve: organizational policy development; decision-making; management and administration; program and/or project management and administration; or research and development activities. (FAR, 2005)

A great deal of information is available on IG and the contracting-out decision. See the referenced Defense Acquisition University (DAU) Research Report for more historical detail and discussion. With respect to current policy, the FAR defines IG in FAR 2.1, lists functions normally and not normally considered IG and normally considered IG in FAR 7.5, and prescribes policies and procedures to ensure that IG functions are not performed by contractors in FAR 7.5. The DoD has chosen to supplement FAR 7.503 with some additional guidance in DFARS 207.503 with respect to those functions close to IG.

Another factor in the decision as to whether government personnel or contractors should perform specific activities deals with breadth of vision. The GAO (1991) indicated that government decision-making power means more than just being the final authority or signing the document. Government officials should be active throughout the decision-making process. The GAO related that the question often presented to courts was not whether the contractor can be involved, but to what extent can the contractor be involved. Per the GAO, a key criterion was whether the government maintains sufficient in-house capability to be thoroughly in control of the policy and management functions. It can be noted that OMB (2003) now calls for agencies to consider the ability of senior management to develop and consider options before contracting out activities. If contracting out is judged to inappropriately restrict this ability, then one may be transferring IG authority to a contractor.

To conclude this section, it should be noted that the FAR echoes OFPP Policy Letter 92-1 and specifically calls out several procurement activities as IG. This clearly establishes that the entire contracting function cannot be contracted out. On the other hand, the government policy of dependence on the commercial sector to the maximum extent for services has been in place for decades. Activities within procurement that are considered to be noninherently governmental are legitimate candidates for contracting out under AAS, consistent with the guidance in FAR 37.203 and DFARS 207.503.

RESEARCH METHODOLOGY

The research involved personal and telephone interviews with numerous contracting personnel from the military services, federal, and DoD agencies. These interviews, along with an extensive literature review, allowed development of a survey using a Microsoft Word form. The survey specifically applied to contracting-out duties performed by the Office of Personnel Management (OPM) 1102 job series/and equivalent military occupational codes and was not associated with support roles—i.e., administrative or statistical support. The sponsor (Air Force Deputy Assistant Secretary [Contracting]) helped establish links to knowledgeable focal points throughout the military services who could properly respond to the survey for their organization. Building on this start, the research team used personal contacts, the Internet, published directories, and other sources to contact other DoD and

federal agencies, soliciting them to likewise identify knowledgeable focal points and ultimately knowledgeable personnel who could provide meaningful responses with respect to contracting out procurement functions in their organization. This approach can be called “purposeful” or “snowball” sampling (McMillan, 1989; Trochim, 2001). While this approach results in a smaller sample than random sampling and reduces the statistical analysis of results, it was the only practical and efficient sampling approach for the research question, because we needed knowledgeable experts from each organization, but we did not want multiple responses from an organization.

Once the focal point for an organization had been identified, a two-stage process was utilized. The first contact tried to ensure that the representative was knowledgeable and willing to participate in the research. It is very important to note that those who received the survey had already been identified as knowledgeable about contracting activity in their organization. The intent was for each survey to address the status in a separate organization. In some cases, one representative possessed the requisite knowledge and experience to answer for a large organization such as the Department of State. In other cases, such as the National Aeronautics and Space Administration and the Department of the Navy, the organizational representatives were located at the regions and major commands respectively. Following a positive first contact, the survey was forwarded as an e-mail attachment. While the purpose was to get equal representation and responses from each military service, the interest from the Air Force and Navy is reflected in the responses received when compared to the lower Army response. Emphasis was not placed on any one particular service or agency, because the intent was to represent the extent of participation in contracting out of procurement functions. The number of surveys received reflected the responsiveness of the services and agencies contacted. Once completed, the form was returned to the research team, where it was sorted into an appropriate grouping for the organization (service, DoD agency, etc.). Discrete responses were tabulated, and comments were grouped by question and analyzed.

RESULTS

A. RESPONDENTS

The survey phase started in December 2004 and was terminated on May 5, 2005. As of that date, 57 completed surveys had been received from organizations within the agencies in Table 1.

B. ORGANIZATIONS CONTRACTING OUT PROCUREMENT SERVICES

Of the 57 respondents, 26 indicated that their organizations were contracting out for procurement services, 25 said their organizations were not contracting out for procurement services, 5 said not currently—but they had plans to do so in the future, while one indicated not currently—but they had in the past. The distribution of those

TABLE 1.
DISTRIBUTION OF RESPONDENTS AMONG MAJOR GROUPINGS

AGENCY	RESPONSES	PERCENTAGE
Air Force	23	40
Army	4	7
Navy	16	28
Other DoD Agencies	8	14
Non-DoD Federal Agencies	6	11

TABLE 2.
DISTRIBUTION OF RESPONDENTS WHOSE ORGANIZATIONS WERE CONTRACTING OUT PROCUREMENT FUNCTIONS

AGENCY	RESPONSES	PERCENTAGE
Air Force	12 of 23	52
Army	1 of 4	25
Navy	1 of 16	6
Other DoD Agencies	8 of 8	100
Non-DoD Federal Agencies	4 of 6	67

respondents who said they were contracting out procurement services is shown in Table 2.

Based on our process and our sampling procedure, it would be unfair to impute these percentages across all these agencies, but it is interesting to note that the dominant Navy response was, “we have not done, nor do we plan to do any contracting out of procurement functions,” and the Army responses send a similar message. It is also interesting that other DoD agencies, other federal respondents, and the Air Force indicated they were contracting out at a higher rate than the Army and Navy.

C. REASONS FOR NOT CONTRACTING OUT

For those who indicated their organization was not and had no plans to contract out any procurement functions, it was important to know why. Some options that had been identified through the literature search and interviews were provided. There were 26 respondents for this question. The results are in Table 3.

It is interesting to note that while the highest response was “contracting is an inherently governmental function,” running a close second was “current manpower resources are sufficient and qualified.” We solicited comments from our respondents on each question. These comments were to elaborate on their selected response(s)

TABLE 3.
**WHAT ARE THE MAJOR REASONS YOU ARE NOT CONTRACTING OUT
 PROCUREMENT SERVICES? (N=26) (MULTIPLE RESPONSES ALLOWED)**

Contracting is an inherently governmental function	15
Current manpower resources are sufficient and qualified	13
Concern with handling proprietary information	8
Could negatively impact competition	7
It is not cost efficient	4
Unsatisfactory contractor performance	2
Other	6

and/or to raise other concerns. Several respondents on this question stated that they would contract out some procurement functions if government resources became inadequate. The reservation some units have with contracting out procurement services seems to weaken when faced with the task of performing procurement services in understaffed conditions. Other concerns identified by our respondents were varied. One indicated that any organization that contracts out loses control of itself and its future. The wisdom of contracting out was questioned, along with the legality. Another specified that when contracting by negotiation (FAR 15), the procurement function becomes inherently governmental due to the managerial and business decisions that must be made. Others indicated that purely administrative functions could be contracted out, and that contracting out might be acceptable in a surge situation. Another related that contracting out procurement functions puts additional responsibilities on the contracting officer. Along with the usual responsibilities, the contracting officer would need to ensure that decisions supported by the work of a contractor were free from conflicts of interest. One was concerned with the need to maintain a pipeline of well-trained and qualified 1102s to assure a viable cadre for movement to contracting officer positions in the future.

D. PROCUREMENT SERVICES CONTRACTED OUT (PRESENT AND PROJECTED)

The next question on the survey (Table 4) attempted to ascertain which procurement functions were most commonly being contracted out. Thirty-one individuals indicated their organization either was contracting out procurement functions or planned to do so in the future. The nine responses coded “other” involved three dealing with the administration of construction contracts, one involved procurement training, and the others were clarifications or qualifications of the listed responses. It is important to see where contractor support occurs in the general flow of the procurement process.

The data show that contractors perform duties across the spectrum of procurement functions, both pre-award and post-award. It should be noted that contract closeout is

TABLE 4.
WHAT PROCUREMENT SERVICES ARE YOU OR WILL YOU BE CONTRACTING OUT? RANKED (N=31) (MULTIPLE RESPONSES ALLOWED)

Preparing contracts for closeout	24
Performing price and cost analysis	18
Providing assistance in developing a statement of work	17
Market research	15
Drafting/developing price negotiation memorandum	15
Receiving/assessing offers and preparing packages for negotiation	14
Procurement planning	14
Recommending a procurement strategy (contract type)	14
Drafting solicitation document	14
Issuing solicitation package	12
Processing award decision and distributing contract	11
Reviewing performance and advising the exercise of options	10
Investigating reports of discrepancy	10
Identifying orders for expedited delivery	8
Negotiating contract modifications	8
Negotiating price, terms, and conditions	4
Other	9

the function most heavily performed by contractors. Traditionally, this is a function that offices seek to contract out due to backlogs and attention placed on other higher-priority procurement functions. In contrast, very few are using contractor support in negotiating price, terms, and conditions. Negotiation is a function viewed by most as IG in nature. Respondents’ comments lead to the conclusion that in those organizations where contractors perform some tasks related to the negotiation function, government contracting officers perform the IG tasks. The responses and comments reflect that contractors are tasked to perform functions across the procurement spectrum.

E. REASONS FOR CONTRACTING OUT

The spectrum of possible answers was developed based on interviews with Headquarters, Air Force Materiel Command; Headquarters, Defense Logistics Agency; Defense Supply Center–Columbus; Defense Supply Center-Richmond; and the literature review. Results are shown in Table 5.

The dominant reasons for contracting out are centered on the organization’s workload. Two situations apparently drive the decision to contract out portions of

TABLE 5.
WHY ARE PROCUREMENT SERVICES BEING CONTRACTED OUT?
(N=31) (MULTIPLE RESPONSES ALLOWED)

To meet workload surge requirements	19
Inability to hire adequate resources to meet workload	18
Contracting out is faster than hiring to meet workload	11
Ability to select specific expertise required	11
Bridge to hiring permanent employees	7
More cost effective	4
Other	6

the procurement function—a temporary workload surge or a permanent increase in workload where contractor employees are needed to fill the gap until permanent government employees can be hired. The respondents indicate that contracting out is both faster than hiring government employees and that contractors offer the added ability of being able to provide the specific expertise required. The literature and interviews with government managers point out the increased flexibility contractors provide versus government personnel systems. The speed in hiring enjoyed by the contractor and the ability of the contractor to provide specific expertise were noted by government procurement managers.

F. PERCENT OF PROCUREMENT WORKFORCE PROVIDED BY THE CONTRACTOR

The proportion of the workforce provided by the contractor was also of interest for this research. The percentages from the respondent organizations are shown in Table 6.

TABLE 6.
WHAT PERCENT OF YOUR CURRENT PROCUREMENT WORKFORCE (1102 OR EQUIVALENT) CONSISTS OF CONTRACTOR EMPLOYEES? (N=31)

Less than 1%	9
At least 1%, but less than 5%	3
At least 5%, but less than 10%	4
At least 10%, but less than 20%	5
At least 20%, but less than 40%	4
At least 40%, but less than 60%	2
No response	4

The mode was 1% or less, while the median response was at least 5% but less than 10%. The results show that more than 50% of the respondents had less than 10% contractor employees in their contracting workforce. Six respondents reported 20 to 60% contractor employees in their workforce. Those organizations having contractor employees as a large percent of their total workforce were contracting organizations in Iraq and several smaller DoD agencies in the Washington, DC, area.

G. PROCUREMENT FUNCTIONS CONSIDERED INHERENTLY GOVERNMENTAL

While the items cited in the policy review section provide some detail on what GAO and OFPP felt were IG functions, the perspective of the respondents regarding IG functions was also important. A list of activities that spanned the types of work identified as either IG or of a type that could cause concern if performed by a contractor was developed and respondents were allowed to select. Responses are shown in Table 7.

The 31 respondents for this question are those who indicated their organization was either contracting out procurement functions or planned to do so in the future. From

TABLE 7.
WHAT PROCUREMENT ACTIVITIES DOES YOUR ORGANIZATION
CONSIDER INHERENTLY GOVERNMENTAL?
(N=31) (MULTIPLE RESPONSES ALLOWED)

Committing the government to take some course of action	30
Approving evaluation criteria	30
Terminating contracts	30
Approving incentive plans	29
Awarding contracts	29
Obligating funds	29
Voting member of the Source Selection Evaluation Board	28
Ordering changes/taking action based on contractor performance	28
Determining if costs are reasonable, allocable, or allowable	25
Negotiating price, terms, and conditions	24
Accepting or rejecting services or products	24
Determining what supplies or services are to be acquired	23
Use and disposition of government property	23

TABLE 8.
**WHERE DID YOU LOOK FOR GUIDANCE REGARDING POLICY/
 GUIDELINES ON CONTRACTING OUT PROCUREMENT? (N=31)**
(MULTIPLE RESPONSES ALLOWED)

Federal Acquisition Regulation and Supplement	25
Organizational Legal Office	24
Office of Federal Procurement Policy (OFPP)	17
OMB Circular A-76	16
Headquarters Legal Office	8
Other	8

their responses, it appears all have a common opinion with respect to committing the government to a course of action, approving evaluation criteria, and terminating contracts. The majority of respondents indicated their organizations considered all the listed items to be IG. Clearly, items that require a contracting officer's signature were considered IG. The reduced count for some of the items may have been impacted by the organization's mission. Some organizations may not perform certain functions, which could prompt the respondent to not select that response. In addition, based on overall survey results, analysis and staff activities were less clearly IG and more subject to a contracting out decision.

H. SOURCES OF GUIDANCE

As one would expect, organizations relied most heavily on the FAR, their specific agency FAR Supplement, and their own legal office. However, they also substantially used the OFPP and the OMB A-76 Circular, which both provide a good description and examples of what is/is not IG. Several organizations checked the "other" box and spoke to evaluating precedents in contracting out procurement. Sources of guidance for contracting out are shown in Table 8.

I. LEGAL LIMITS/CONCERNS

Nineteen of 31 respondents indicated they did not receive any legal limits or concerns in their guidance. However, a few specific concerns were brought to the forefront. The first of these was the need for contractor personnel to stay clear of any organizational conflicts of interest. The second was to ensure the contracts do not entail personal services. Many respondents pointed out that contracting out was only done for augmentation purposes. In no way was contracting out intended to displace current federal civil service employees. Many organizations' Federal Activities Inventory Reform (FAIR) Act submissions identified contracting professionals as criterion "G," which identifies IG positions. Organizations felt that these positions, though primarily governmental in nature, did include some functions that were not

IG. Those noninherently governmental functions were those that could be contracted out.

J. EXPECTED FUTURE INVOLVEMENT

Although no one can foresee the future, respondents with knowledge of contracting out procurement functions should have an understanding that would allow them to reasonably forecast future involvement by their organization. Their projections are shown in Table 9.

Of those responding to the question, 47 percent said they would be increasing the contracting out of their procurement services in the future, 20 percent said they would

TABLE 9.
HOW DO YOU FORESEE YOUR FUTURE INVOLVEMENT IN CONTRACTING OUT PROCUREMENT SERVICES? (N=32)

Increasing	14
Decreasing	6
About the same	10
No response	2

be decreasing contracting out of their procurement services in the future, and 33 percent said they did not expect their level of contracting out to change.

Those organizations foreseeing increasing involvement in contracting out procurement services attributed the anticipated increase largely to the result of more workload being placed on the organization with limited resources available to meet the workload. Conversely, those organizations foreseeing a decrease in contracting out procurement services attributed those decreases to reductions in short-term surge requirements.

CONCLUSIONS

Respondents utilizing contractor support for traditional contract specialist duties most frequently reported a positive impact on the mission. To a lesser degree, they also cited increased flexibility and generally highly qualified contractors. While some reported negative experience with contracting out (Gilbreth, et al., 2005), it is reasonable to conclude that AAS contracts for support of contracting organizations will likely increase in the future. The following specific conclusions can be drawn:

- It is reasonable to contract out noninherently governmental functions or tasks when an increased workload suddenly appears, when a requirement for extra workload is only temporary, or when special expertise is required.

- The services, the DoD, and other federal agencies seem to be contracting out similar procurement functions, but the DoD and other federal agencies report more widespread use of this alternative.
- Most organizations use contractor support when mission accomplishment drives them to make this decision.
- Most feel that development of future contracting officers should not be a problem if contracted-out procurement support is at a reasonable level.
- Contracting out procurement functions violates no laws so long as no IG functions are contracted out, unauthorized personal services contracts are avoided, core procurement capability is retained, and consistency is maintained with FAIR Act submissions.
- Many organizations' ability to perform its mission would be severely impacted if it were suddenly unable to contract out.
- The reservation some units have with contracting out procurement functions seems to weaken when faced with an understaffed condition.
- The current definition of IG and the examples provided in the OMB Circular A-76 and the FAR are well constructed and provide appropriate guidance while allowing the application of the business judgment that is necessary to accomplish the mission in today's changing environment.

RECOMMENDATIONS

While the survey results reflected that contractors are primarily used to accomplish the more administrative tasks, a few of the respondents used contractors to accomplish some of the more sensitive procurement tasks—negotiation of price, terms, and conditions—while the contracting officer (CO) made the final decision. In this type of arrangement, there must be substantial discussion between the CO and the contractor typical of the discussion that occurs between the CO and the government buyer. In essence, an atmosphere bordering closely on personal services could be created. If one believes negotiating price, terms, and conditions is inappropriate for contractors to perform, one could issue guidance precluding such, but interpretation and enforcement of this type of policy is always problematic in its implementation. Instead of a restrictive list of do's and don'ts of contracting out procurement functions, a better approach is available.

The research team recommends that each procurement activity be limited in the percentage of its workforce that may be contracted out. The appropriate limitation

can certainly be debated, but the research team recommends that in nonexceptional situations, contractor employees should not exceed 25 percent of an activity's total 1102 workforce. This approach achieves several objectives.

First, it provides each activity the flexibility to use contractors to accomplish the mission by quickly reacting to surge workload situations within its organization's funding constraints. Most respondents stated they preferred the use of a government workforce to accomplish the procurement function and only used contractors when necessary to meet the mission. While recognizing this preference, the respondents also found it necessary, at times, to use contractors to meet the mission. In fact, the findings indicate that many of the respondents who were not currently contracting out any of their procurement functions because "procurement is inherently governmental" might feel otherwise if they were confronted with a surge requirement that exceeded their capabilities and resulted in a negative mission impact. So allowing the procurement activities some authority to contract out when necessary seems prudent.

Recommend that each procurement activity be limited in the percentage of its workforce that may be contracted out.

Secondly, this approach addresses another concern when contracting out the procurement workforce. By limiting contractors to 25 percent of the total procurement workforce, a manager would typically assign the contractors to the lower priority and less sensitive tasks. This is logical because these tasks would be the ones that could not be accomplished by the government workforce, thus providing a need to contract out. By limiting the total contractor workforce to 25 percent, the assumption is that they would be less involved in the more sensitive procurement tasks. Obviously there could be exceptions, but management would make these decisions only when appropriate. For instance, a contractor employee who has extensive government contracting experience and is trusted by the contracting officer (CO) could be used to negotiate price, terms, and conditions.

Finally, this policy would also help address the concern of growing future COs. Some have expressed concern that extensive contracting out would have the long-term effect of reducing the opportunity to develop adequate government personnel who have the full range of contracting experience necessary to meet the CO needs of the future. A 25 percent limit on the contractor workforce should provide management the opportunity to develop prospective COs in all aspects of procurement.

It is also recommended that a process be established for situations when it becomes necessary to exceed the suggested contractor percentage limits. The process should

not be overly onerous, but should have an approval level outside the procurement activity with a specific time limit for the waiver. These short-term situations should be accommodated and should not have a negative impact if well managed. The CO function can still remain governmental, and a short-term situation should not impact the development of future COs.



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