Federal Contractors Face Expanded Obligations Under OFCCP Director Shiu

By Patricia K. Epps and Sarah E. Bruscia

Federal contractors have numerous non-discrimination and affirmative action obligations under Executive Order 11246, the Vietnam Era Veterans’ Readjustment Assistance Act (“VEVRAA”) and the Rehabilitation Act, including the preparation of annual written affirmative action plans. These obligations are enforced by the Department of Labor’s Office of Federal Contract Compliance Programs (“OFCCP”), which is currently headed by Patricia A. Shiu. Since Shiu was appointed director in August of 2009, the OFCCP has been extremely active, increasing contractors’ affirmative action requirements and expanding the OFCCP’s role in enforcing these requirements. The OFCCP’s recent efforts are notable because they will likely increase contractors’ data collection and reporting requirements. Several of these actions are described below.

Active Case Enforcement
Effective January 1, 2011, the OFCCP adopted the Active Case Enforcement (“ACE”) to review affirmative action plans of supply and service contractors. Although the plans and supporting data are subject to audit by the OFCCP at any time, in the past they have been limited in frequency and scope. Now federal contractors will likely experience more frequent and detailed audits. Several of the key points regarding ACE:

• Once a contractor is selected for review, a full desk audit will be performed as a first step for every compliance evaluation. As a “quality control” measure, ACE requires every 25th compliance evaluation to be a full compliance review, including on-site interviews, inspections and file reviews.

• There are four types of compliance evaluations: compliance review, compliance check, off-site review of records and focused review. Under ACE, a compliance evaluation that begins as one type of evaluation can change into another type depending on whether any indicators of discrimination are found.

• Once a letter is mailed informing the contractor that a compliance evaluation has been scheduled, the OFCCP will contact the Equal Employment Opportunity Commission and the state or local employment practice agency regarding any complaints filed against the contractor at the location under review.

The OFCCP also has issued proposed rules to expand its initial requests for information and documents in connection with a compliance review. The OFCCP has proposed that applicant, hire, promotion and termination data be submitted by both job group and job
title. Currently contractors may submit this information by either job group or job title. The proposed changes require contractors to provide individual employee compensation data rather than aggregate compensation data. Contractors would be required to provide information regarding hire date, base salary or wage rate, hours worked, bonuses, incentives, commissions, merit increases and overtime for every employee. Under the proposed rule, contractors would be required to provide the actual pool of candidates who were considered for all promotions and terminations, and not just data on those actually promoted or separated. Contractors also would have to provide their leave policies, medical accommodation records and documents related to pay practices.

**Increased Affirmative Action Obligations for Veterans**

On April 26, 2011, the OFCCP issued a notice of proposed rulemaking to revise the regulations that implement VEVRAA, which prohibits contractors from discriminating against protected veterans and requires them to engage in affirmative action efforts to recruit, employ and advance protected veterans. The proposed rule includes a shift in the overall tone of the regulations from providing suggestions for compliance to issuing mandates for compliance. For example:

- Contractors would be required to invite all applicants to self-identify as a protected veteran at the time they apply for a job.

- Contractors would have to collect a significant amount of data annually and maintain records of that data for five years. This data includes job referrals, applicants and hires who are veterans, as well as ratios of protected veterans to total numbers of referrals, applicants and hires.

- Contractors would have to establish annual hiring benchmarks, which would be based on the percentage of protected veterans in the workforce.

- Contractors would have to evaluate their effectiveness in identifying and recruiting qualified protected veterans and document this self-review.

**Compensation Data Collection Tool**

The OFCCP also is considering use of a compensation data collection tool for federal supply and service contractors. This summer, it published an Advanced Notice of Proposed Rulemaking, seeking input on “how such a tool could be beneficial to both the agency and to employers, and to get feedback on what data [it] should collect, how [it] should design a tool, and the benefits and burdens of different approaches.” The OFCCP requested comments regarding a compensation survey that was first used in 2002 but later rescinded because it had little predictive value for indicating pay discrimination; whether the OFCCP should extend the pay data tool to construction industry contractors; and whether the agency should require companies bidding on future federal contracts to submit pay data as part of the proposal process.

The OFCCP plans to use the data collection tool for “industry-wide compensation trend analyses” as well as to identify “contractors in specific industries for industry focused compensation reviews.” Some argue that such a tool is necessary to combat wage gaps based on race and sex. However, most employers believe that the tool is unnecessary and burdensome. Notably, the OFCCP already collects a significant amount of compensation data from contractors, and findings of pay discrimination are rare.

**What Contractors Should Do**

If the OFCCP follows through on its proposed changes, contractors will see a dramatic increase in their affirmative action obligations. Federal contractors should monitor the OFCCP’s efforts so they can be aware of these changes as they occur. Additionally, contractors should be prepared to make adjustments to their human resources practices and technologies to comply with the OFCCP’s expanded requirements.
Rules

New Developments Related to Rules Affecting Government Contractors

By: Georgianna G. Ramsey

Since our last publication there have been several important updates to a number of rules that we have discussed in earlier editions of this Reporter. In this first anniversary issue, we highlight some of the most important updates.

Federal Intent to Reduce or Deny Award Fees due to Health or Safety Issues

In our January 2011 Reporter, we highlighted a Department of Defense (“DoD”) interim rule that would allow contracting officers to reduce or deny an award fee for any contractor who put the health or safety of government personnel at risk.

As we wrote back in January, DoD issued an interim rule on November 12, 2010, to implement section 823 of the National Defense Authorization Act for Fiscal Year 2010 (“NDAA 2010”). Section 823 mandated that the Secretary of Defense ensure that all covered contracts using award fees “provide for the consideration of any incident … in evaluations of contractor performance for the relevant award fee period ….” The Secretary of Defense was also authorized “to reduce or deny award fees for the relevant award fee period, or to recover all or part of award fees previously paid for such period, on the basis of the negative impact of such incident on contractor performance.” National Defense Authorization Act for Fiscal Year 2010, Pub. L. 111-84, § 823, 123 Stat. 2190 (2010).

NDAA 2010’s definition of the type of incident for which award fees could be withheld was fairly broad. It included certain criminal, civil or administrative proceedings in which it is determined that the contractor caused “serious bodily injury or death to any civilian or military personnel of the Government through gross negligence or with reckless disregard for the safety of such personnel.” Id. at § 823(b). It also included certain civil, criminal or administrative proceedings if it is determined that a contractor is liable for the actions of its subcontractor which caused serious bodily injury or death. See id. at § 823(b)(2) (emphasis added). The November 12 interim rule was brief, but it made clear that if the contracting officer (“CO”) found that gross negligence or reckless disregard caused serious bodily injury or death to a government employee, the CO must consider reducing or denying a fee award for the time period when the offensive conduct occurred. See Award-Fee Reductions for Health and Safety Issues, 75 Fed. Reg. 69,360 (Nov. 12, 2010) (to be codified at 48 C.F.R. pts. 216, 252).

On January 7, 2011, President Obama signed into law the National Defense Authorization Act for Fiscal Year 2011. Pub. L. No. 111-383, 124 Stat. 4137 (2011) (“NDAA 2011”). NDAA 2011 further enhanced the Secretary of Defense’s authority to reduce or deny award fees by allowing the Secretary to have “an expeditious independent investigation” of the causes of the injury or death if the contractor is not subject to the jurisdiction of U.S. courts. NDAA 2011 at § 834(d). NDAA 2011 also instructed that any information on the final determination of contractor fault should be entered into the Federal Awardee Performance and Integrity Information System (FAPIIS).

As a result of all this, DoD released another interim rule that took immediate effect on September 16, 2011. This interim rule describes the Secretary’s enhanced authority and incorporates comments responding to the November 12, 2010, interim rule. It applies to any contract entered into on or after September 16, 2011. It also applies to any task order or delivery order issued on or after September 16, even when the contract under which the task or delivery order was issued was entered into before the effective date.

The interim rule describes a new clause that will be included in solicitation provisions and contract clauses. See 76 Fed. Reg. at 57,677. The clause defines “covered incident” and “serious bodily injury.” Id. In addition to the types of proceedings that are considered covered incidents, the clause now considers “a final determination by the Secretary of Defense of Contractor or subcontractor fault” to be a covered incident, when the contractor or subcontractor is not subject to the jurisdiction of the U.S. court system. Id. The interim rule was published without any prior opportunity for public comment due to “urgent and compelling reasons,” although these reasons are not specified in the rule. 76 Fed. Reg. at 57,676.

The new interim rule also incorporates FAPIIS and reflects the government’s increased interest in using FAPIIS as a means of increased transparency in federal contracting. We have written previously about the increasing importance of FAPIIS. The interim new rule is broader than the November 12, 2010, interim rule because it now allows contracting officers to reduce or deny fee awards based on final determinations from DoD investigations of contractors or subcontractors that are not subject to U.S. jurisdiction. If such an investigation demonstrates that a contractor or subcontractor caused death or serious bodily injury to any government employee through its own gross negligence, that finding...
must be entered into FAPIIS within three days of receiving notice of the determination. See 76 Fed. Reg. at 57,677. The award-fee determination does not go into FAPIIS. Rather, it is just the “final determination of contractor fault.” Id. at 57,676.

DoD will accept comments on the new interim rule until November 15, 2011. All comments should reference DFARS Case 2011-D033.

Repeal of the 3 Percent Withholding Requirement

Last month, the U.S. House of Representatives voted 405 to 16 to repeal the rule that requires the government to withhold 3 percent from certain payments made to government contractors. See H.R. 674, 112th Cong. (2011). The bill strikes the proposed subsection (t) to Section 3402 of the Internal Revenue Code, which contained the withholding requirement. The proposed subsection (t) was intended to apply to payments made after December 31, 2011. On November 7, the U.S. Senate voted 94–1 to take up debate on the rule as well and the bill ultimately passed the senate on a 95–0 vote on November 10.

We wrote about the potential pitfalls of the 3 percent withholding requirement in our July issue. Implementation of the withholding requirement had already been delayed several times and the requirement is not politically popular, so we are not surprised by this bipartisan support in congress.

This is good news for federal contractors, but it is always possible that the withholding requirement could come back to life in a new form as a source of federal revenue once the election year is over.

DoD Wants to Talk to You!

A final rule published in September amends part 215 of Defense Federal Acquisition Regulation Supplement (DFARS) so that it will now include language advising contracting officers to conduct discussions with offerors within the competitive range on acquisitions with an estimated value of at least $100 million prior to submission of final proposals. See Defense Federal Acquisition Regulations Supplement; Discussions Prior to Contract Award, 76 Fed. Reg. 58,150 (Sept. 20, 2011) (to be codified at 48 C.F.R. pt. 215). DoD intends to “expand the situations in which discussions are held” beyond those where they may be already mandated. 76 Fed. Reg. 58,151. The Rule also responds to DoD’s concern regarding the correlation between “high-dollar source selections conducted without discussions and the number of protests sustained.” Id.

DoD previously, on November 24, 2010, published a proposed rule regarding this new discussions requirement. The comments period on that proposed rule closed on January 24, 2011, and only three respondents provided comments on the rule. Although one unidentified commenter called the rule “overkill,” DoD made no changes in the final rule in response to that comment. Id. Instead, DoD asserted that its research shows that early discussions “improve[] both industry’s understanding of solicitation requirements and the Government’s understanding of industry issues.” Id. In its discussion and analysis of the rule, DoD emphasized that the number of protests related to competitive negotiated contracts and orders that are more than $100 million is “substantially higher” than when discussions are not held. Id. DoD believes there “are no practical alternatives that will accomplish the objectives of the proposed rule” and that, ultimately, “[a] preference for holding discussions is recognition of a best practice.” Id. at 58,150-51. This final rule took immediate effect on September 20, 2011.
Current Events

Where Do You File Your Task Order Protest After Med Trends?

By Kevin J. Cosgrove

On October 25, 2011, the Department of Justice (“DoJ”) appealed the ruling of the United States Court of Federal Claims (“COFC”) in Med Trends, Inc. v. United States, --- Fed. Cl. ---, No. 11-420 (Fed. Cl. Sept. 12, 2011). In this opinion, the COFC ruled that it had jurisdiction to hear protests of task or delivery orders awarded by civilian federal agencies. This ruling followed a similar ruling from the Government Accountability Office (“GAO”) in Technatomy Corporation, B-405130, June 14, 2011, that GAO also had jurisdiction to entertain such protests. But both of these opinions are contradicted by an interim Federal Acquisition Regulation (“FAR”) rule issued in July 2011 stating that protests such as these were not permitted. As a result of all this, some issues of government contracts jurisprudence have become quite murky.

How have we come to this? How can basic issues such as the proper forum in which to file a protest and the types of permissible protests that may be filed have become so unclear? To answer these questions, we must revisit 25 years’ worth of legislative history.

In The Beginning …

Prior to 1984, the COFC (which was known then as the Claims Court) had jurisdiction “to render judgment on an action by an interested party.” 28 U.S.C. § 1491(b)(1). “Actions,” as used in this statute, included bid protests. But in 1984 Congress passed the Competition in Contracting Act (“CICA”), 31 U.S.C. § 3551 et seq., which gave the GAO power to decide protests “if filed in accordance with this subchapter.” 31 U.S.C. § 3552. CICA contained procedural requirements for filing protests with the GAO, but was careful to note that the GAO’s jurisdiction to hear protests was not exclusive.

This subchapter does not give the Comptroller General exclusive jurisdiction over protests, and nothing contained in this subchapter shall affect the rights of any interested party to file a protest with the contracting agency or to file an action in the United States Claims Court.


So in 1984 bid protests could be filed in a variety of venues: the COFC; United States District Courts; the GAO; and the agency awarding the contract. That jurisdictional scheme continued until 1994, when Congress enacted the Federal Acquisition Streamlining Act (“FASA”).

The Rise Of The “Task Order”

FASA was intended to be “a comprehensive overhaul of the federal acquisition laws.” S. Rep. No. 103-258, at 3 (1994). Instead of issuing individual contracts for each task — with the corresponding procurement paperwork and processes — agency heads were encouraged to “enter into a task or delivery order contract … for procurement of services or property.” 41 U.S.C. § 253h(a) (2011). These were defined as contracts that did “not procure or specify a firm quantity of [services or property] … and that provides for the issuance of orders for the” performance of tasks or the delivery of property during the term of the contract. 41 U.S.C. § 253k(2) (2011). FASA was intended to increase the use of the indefinite duration/indefinite quantity (‘ID/IQ”) contract by federal agencies. See Digital Techs., Inc. v. United States, 89 Fed. Cl. 711, 719 (Fed. Cl. 2009).

Prior to FASA, there was no distinction between protests of various types of contracts. But FASA reduced permissible protests of ID/IQ task or delivery orders.

A protest is not authorized in connection with the issuance or proposed issuance of a task or delivery order except for a protest on the ground that the order increases the scope, period or maximum value of the contract under which the order is issued.

41 U.S.C. § 253j(d) (2011). So unless a task order somehow increased the underlying ID/IQ contract, it was immune from protest by a disappointed business. Congress made no change to the jurisdiction of either GAO or the COFC to entertain such protests.

In 2008, Congress again changed the jurisdictional rules for protesting awards of task orders when it passed the National Defense Authorization Act (“NDAA”). See Pub. L. No. 110-181, 122 Stat. 3 (2008). NDAA granted GAO exclusive jurisdiction to hear and decide a protest of an ID/IQ task or delivery order award if the order had a value of greater than $10 million. 41 U.S.C. § 253j(e)(1)(B) and (e)(2) (2011). Congress also included a sunset provision in this subsection. It stated in paragraph (e)(3) that “This subsection shall be in
effect for three years ….” The sunset provision took effect on May 27, 2011. As a result, “this subsection” was eliminated. But what exactly did that mean? Shortly thereafter, GAO had occasion to determine the meaning of 41 U.S.C. § 253j(e)(3).

**GAO's Decision In “Technatomy Corporation”**

By decision dated June 14, 2011, GAO ruled that the sunset provision invalidated all of subsection 253j(e). This included not only the 2008 amendments made pursuant to NDAA, but also the amendments made under FASA in 1994.

Here, the plain meaning of the sunset provision unambiguously refers to the whole of subsection 253(j)(e).

* * *

As a result of the sunset of 41 U.S.C. § 253j(e), the jurisdiction of our office over protests of task or delivery orders has, effectively, reverted to the jurisdiction we had under CICA, prior to its amendment by FASA [in 1994].

**Matter of Technatomy Corp., B-405130, June 14, 2011.** In other words, GAO claimed authority to decide protests of all task and delivery orders awarded by federal agencies governed by Title 41 of the United States Code.

It is important to note that the *Technatomy* decision has no effect on federal agencies that are governed by Title 10 of the United States Code, (i.e., DoD, National Aeronautics and Space Administration (“NASA”) and the United States Coast Guard (“Coast Guard”)). In 2008 as part of NDAA these agencies had the identical sunset provision inserted into their statute regarding protest jurisdiction as did the Title 41 agencies. Compare 41 U.S.C. § 253e with 10 U.S.C. § 2304c(e). The difference is that Congress did act to extend the sunset provision in 10 U.S.C. § 2304c(e), while it failed to extend the identical provision in 41 U.S.C. § 253e. Therefore, per *Technatomy*, the jurisdictional bases for GAO’s consideration of protests for task or delivery orders is dependant on whether the federal agency issuing the order is governed by Title 10 or 41 of the U.S. Code.

**New FAR Provision Contradicts Technatomy**

On July 5, 2011, the FAR Council issued an interim rule amending the FAR to implement the extension of the sunset provision in 10 U.S.C. § 2304c. The new sunset date is September 30, 2016. The problem for practitioners, however, is that the interim rule differs from the *Technatomy* decision. Recall that in *Technatomy* the GAO took the position that the sunset provision in 41 U.S.C. § 253j(e)(3) operated to repeal the totality of subsection 253j(e). That approach deleted not only the 2008 amendments under NDAA but also the 1994 amendments under FASA. As a result, GAO claimed jurisdiction to decide protests of orders issued by Title 41 agencies. But the FAR Council believes that the sunset provision in Section 253j(e)(3) deleted only the 2008 amendments, leaving in place the 1994 FASA limitations on task or delivery order protests that were codified in Section 235j(e).

Section 825 [of the National Defense Authorization Act for Fiscal Year 2011] amends 10 U.S.C. § 2304c(e) to extend the sunset date for protests against the award of task and delivery orders from May 27, 2011 to September 30, 2016, but only for Title 10 agencies [i.e., DoD, NASA and the Coast Guard]. There has been no comparable change to Title 41, so the sunset date for protests against the award of task and delivery orders by other agencies remains May 27, 2011. With this change, contractors will no longer be able to protest task or delivery orders awarded by agencies other than DoD, NASA and the Coast Guard.

Federal Acquisition Regulation; Extension of Sunset Date for Protests of Task and Delivery Orders, 76 Fed. Reg. 39,238, 39,239 (July 5, 2011) (to be codified at 48 C.F.R. pt. 16) (emphasis added). The text of the amended FAR clause followed the commentary. FAR § 16.505(a)(9)(ii) now reads as follows.

> The authority to protest the placement of an order under this subpart [Indefinite-Delivery Contracts, Subpart 16.5] expires on September 30, 2016 for DoD, NASA and the Coast Guard and on May 27, 2011 for other agencies.

*Id.* at 76 Fed. Reg. 39,240 (emphasis added).

That, of course, is opposite to the position taken by GAO in *Technatomy*. Government contract lawyers were aware that COFC was considering this very issue in the *Med Trends* case. They hoped the COFC would provide some clarification regarding these contradictory pronouncements. They were disappointed.

**Med Trends Does Not Address the Contradiction**

*Med Trends* followed *Technatomy’s* reasoning in all particulars, but did not discuss the effect of the recent FAR amendment. Like the GAO in *Technatomy*, the COFC in *Med Trends* has claimed jurisdiction to hear and decide orders issued by civilian agencies. FAR § 16.505(a)(9)(ii) says otherwise. As a result, this issue remains undecided. Perhaps the court of appeals will reverse *Med Trends*’s jurisdictional decision. Perhaps the final version of FAR 16.505(a)(9)(ii) will read differently from the interim rule. But those possibilities are for the future. What is a practitioner to do when faced with advising a client now?
Conclusion

It seems clear that the rules for protesting task orders issued by DoD, NASA or the Coast Guard are unchanged. Such task orders can be protested only to GAO, and only if the order either exceeds $10 million or expands the scope of the contract on which the order is based.

Protests of task or delivery orders awarded by civilian agencies, however, are more complicated. Per Technatomy and Med Trends, protests of task or delivery orders issued by civilian agencies can now be filed in either GAO or the COFC. But any Title 41 federal agency wishing to contest jurisdiction in those fora would almost certainly invoke the amended FAR provision, which states that such a protest is not permitted. One of these positions will ultimately be proven correct, but not before much time and money will be wasted fighting these battles.

To date, there has been no congressional action undertaken to resolve this issue. Bills have been introduced, but have not advanced. The FAR Council has received written comments on its interim rule, but has not taken further steps. We will continue to monitor these issues. For now, suffice it to say that this is an enormous mess.

Did You Know

Senate Passes Small Business Contracting Fraud Prevention Act of 2011

By: Georgianna G. Ramsey

The U.S. Senate passed the Small Business Contracting Fraud Prevention Act of 2011 on September 21, 2011. See S. 633, 112th Cong. (2011). This bill’s expressed goal is to deter fraud committed upon the Small Business Administration by increasing the penalties for misrepresentation of small business status. It also reflects the federal government’s continuing interest in the protection and promotion of small businesses in federal contracting.

The meat of the bill is contained in Section 3, which is titled “Fraud Deterrence at the Small Business Administration.” Under the bill, a person will be subject to penalties for misrepresenting the status of any business or person

as a small business concern, a qualified HUBZone small business concern, a small business concern owned and controlled by socially and economically disadvantaged individuals, a small business concern owned and controlled by women, or a small business concern owned and controlled by service-disabled veterans

in order to obtain certain contracts. Id. Importantly, the misrepresentation need not have been made to obtain a prime contract — it also applies to certain subcontracts, grants and cooperative agreements. Id.

If such a misrepresentation is made, Section 3 provides that the misrepresenting person may be subject to civil remedies available under the False Claims Act (31 U.S.C. 3729 et seq.). This is important because the False Claims Act allows the government to collect three times the fraudulently claimed amount as damages. The Small Business Contracting Fraud Prevention Act also provides that “the amount of the loss to the Federal Government or the damages sustained by the Federal Government, as applicable, shall be an amount equal to the amount that the Federal Government paid to the person that received a contract, grant, or cooperative agreement … .” Id. This provision is particularly interesting. It means that if the government hires Contractor X to perform certain work under a federal contract, and Contractor X does in fact perform the work, then the government receives the benefit of the contract being fully performed. However, if it turns out that Contractor X misrepresented its status as a qualifying small business, the government may obtain damages against Contractor X for the full value of the contract even though Contractor X fully performed. Indeed, the bill states that in certain proceedings, “no credit shall be applied against any loss or damages to the Federal Government for the fair market value of the property or services provided to the Federal Government.” Id.

Section 4 of the bill focuses specifically on “veterans integrity in contracting.” This section indicates that if a contractor “knowingly and willfully” misrepresents itself as a small business owned and controlled by service-disabled veterans, the contractor “may” be debarred or suspended from federal contracting. Needless to say, this potential penalty should deter such conduct.

Section 5 of the bill affects the Section 8(a) small business program, a program that we have written about frequently in this Reporter. In this section, the bill requires that the U.S.
Comptroller General evaluate the effectiveness of the section 8(a) program every three years. This mandatory inquiry will require a deeply fact-intensive analysis, and we have no doubt that completion of such a review will consume a fair amount of government resources. The Comptroller General must submit a report on his evaluation to both the Senate Committee on Small Business and Entrepreneurship and the House Committee on Small Business.

The bill also includes other measures, such as provisions aimed at improving the HUBZone program (Section 6), and a section requiring an annual report from the SBA Administrator on the number of suspensions, debarments and prosecutions made each year for violations of the bill. The Administrator must also describe the number of persons that the Administrator declined to debar or suspend after a referral, and the reason behind the decision to decline to debar or suspend each person.

In sum, it is clear that the bill is intended to impose increased requirements on the SBA in monitoring contracts involving small businesses. At the same time, the SBA maintains some discretion in choosing which penalties to inflict on companies that violate the bill’s requirements, but it must also be prepared to justify and explain those decisions to Congress on an annual basis. The bill was referred to the House Committee on Small Business on September 22, 2011. We will continue to track developments of this bill, and if you have any questions regarding this bill or other federal regulations related to government contracting and small businesses, please contact us.