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COMPTROLLER GENERAL OF THE UNITED STATES

WASHINGTON D.C. 20548

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DEC 10 1975



B-164912

The Honorable William Proxmire  
Chairman, Subcommittee on Priorities  
and Economy in Government  
Joint Economic Committee  
Congress of the United States

Dear Mr. Chairman:

We are responding to your letter dated September 30, 1975, asking for details on the [implementation of the concept of line-item control of contractors' independent research and development (IR&D) and bid and proposal (B&P) costs]

In March 1971 we reported that we believed a line-item control of payments to major defense contractors could be developed. However, we suggested that such controls not be imposed by legislation at that time pending evaluation of the controls of section 203 of Public Law 91-441, which had become effective January 1, 1971. We felt that the statute's restrictions might achieve results comparable to those sought by a line-item control mechanism.

The Commission on Government Procurement studied the controls developed under section 203 for IR&D and B&P. In its report, issued in December 1972, six Commissioners supported a majority position which was directed toward a reduction in the administrative activities related to IR&D and B&P by relaxing controls over some contractors. I was one of five dissenting Commissioners who felt this recommendation would increase IR&D costs. We supported instead the procedures adopted by DOD pursuant to section 203, with certain modifications.

In our report to you, dated June 5, 1975, we suggested that the issue be resolved by a statement of congressional policy. We recommended that this policy be based on a combination of the principles on which the Procurement Commissioners agreed and those contained in dissenting position 1. This position was the basis for our statement before your Subcommittee on September 17, 1975.

Many of the questions which followed our prepared statement were directed toward the use of a line item for controlling IR&D and B&P costs. If the Congress desires advance cost visibility and more control than is provided under the present method, I said in my testimony that I did not think it impossible for an agency to come before the Congress and

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outline its total requirement, the general areas it wants to emphasize. The Congress would then have the option of putting on a ceiling or giving guidance in a committee report. I saw the question of a line item as being of lesser importance than full disclosure as to what the total amount would be.

I responded favorably that there ought to be full disclosure, an advance agreement by the Congress as it considers the budget, and an opportunity to establish limitations or give directions. I preferred the line item as being perhaps the simplest way to accomplish this objective. I saw no need or the feasibility of requiring the same detailed justification as you now have with respect to project authorizations.

This method would provide greater assurance that IR&D would compete with other research activities for RDT&E funds and would be considered along with R&D in competing with other DOD activities for DOD funding in the budget. In the absence of evidence of waste or lack of benefit under present practice, we assume that the amount of the line item that could be justified would be about the same as the Government now shares through the operation of the IR&D advance agreements.

The Government could also contract directly with contractors for the IR&D it wants. The work statements for these contracts could be based on the IR&D brochures that are currently prepared by companies and are the basis of the IR&D advance agreement negotiations. The method of contracting for this effort should be a level-of effort type contract with flexibility on the part of the contractor to start projects, stop them, revise and reprogram them as necessary, thus giving the contractor the necessary independence required for these activities.

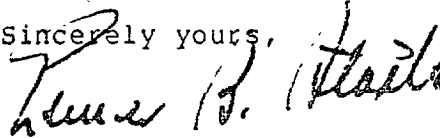
All companies could be covered by the direct contracting for IR&D effort or as an alternative direct contracting could be limited initially to those major contractors presently required to negotiate advance agreements. Smaller contractors not now covered by advance agreements could continue to receive reimbursements under the present method.

Assuming a system of limiting payments by a statutory ceiling and entering into a special contractual arrangement for the contractor's current year's effort, there will be

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a need in the initial year for a special provision to provide for amending long-term contracts awarded in past years which provided for IR&D and B&P payments through overhead. This could be accomplished by contract amendments negotiated with individual contractors as required.

Sincerely yours,



Comptroller General  
of the United States

cc: The Honorable Thomas J. McIntyre

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Senate Armed Services Committee  
United States Senate

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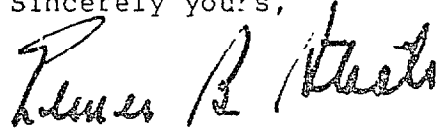
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