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STATEMENT OF

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DEPUTY COMPTROLLER GENERAL OF THE UNITED STATES

SUBCOMMITTEE ON FEDERAL SPENDING PRACTICES, *SEN 101501*

EFFICIENCY, AND OPEN GOVERNMENT

SENATE COMMITTEE ON GOVERNMENT OPERATIONS

ON

[OVERVIEW OF THE OFFICE OF FEDERAL PROCUREMENT POLICY]

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Mr. Chairman and Members of the Subcommittee, I am pleased to have this opportunity to appear at these second overview hearings on the Office of Federal Procurement Policy. *AGC00929*

You have asked for a general overview of where we have been in procurement reform, how far does the Government have to go, and what benefits have we gained or can look forward to at this stage.

The GAO has been monitoring the many reforms recommended by the Procurement Commission. Six progress reports have been issued so far. The timing of these reports has shifted from quarterly to semi-annually and then to every nine months. We will start to report annually this year. *451 AGC00639*

OFPP's annual report to the Congress, released this spring, describes its current organization and staffing, its activities and accomplishments, *AGC00005*

11 P, 400.8 p, 9000, 300

and its plans and objectives for this year. Our statement today will focus on:

- a new OFPP follow-up system on the Commission's recommendations,
- current status of the recommendations, and
- those receiving priority attention.

We will also summarize some case studies on DOD major systems that you requested at our last hearing.

NEW OFPP FOLLOW-UP REPORTING SYSTEM

As Congress intended, OFPP has assumed responsibility for completing action on the Procurement Commission's 149 recommendations. In May of this year the Administrator put into effect a new follow-up and bi-monthly reporting system.

The new system has four significant features. First, the OFPP will show in each bi-monthly report the target dates to complete policy decisions or implementing actions. Second, a completed implementing action is now defined by OFPP as an one that has been placed "into effect or operation." As you may recall, Mr. Chairman, implementing actions were previously counted at lesser stages of completion. Third, OFPP procedures pinpoint responsibility among the six Assistant Administrators for follow-up on implementing actions under development. Fourth, once in effect, an Assistant Administrator is also responsible for evaluating whether a recommendation's intent is being consistently carried out Government-wide.

STATUS OF EXECUTIVE BRANCH ACTIONS

A table that follows in our statement compares the status of the Commission's recommendations at November 1, 1975, as shown in GAO's last congressional report, and at August 2, 1976, as shown in OFPP's second bi-monthly report.

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STATUS OF COMMISSION RECOMMENDATIONS

	<u>At Nov. 1, 1975</u> As Reported by GAO	<u>At Aug. 2, 1976</u> As Reported by OFPP
<u>Executive Branch</u> <u>policy decisions:</u>		
In process	47	21
Acted upon		
Accepted	85	112
Rejected	<u>17^a</u>	<u>16^a</u>
	102	128
TOTAL	149	149
	<u> </u>	<u> </u>
<u>Implementing actions:</u>		
Not begun or provided for	3	0
Awaiting legislation	14	19
Being developed	55	76
Completed	<u>13</u>	<u>17</u>
	85	112
	<u> </u>	<u> </u>

^aFor explanation of decrease see attachment 3

OFPP's August report shows that executive branch policy decisions have now been made on 128 of the 149 recommendations, an increase of 26 since last fall. OFPP's August report shows further that action on most of the open 21 recommendations is expected by early 1977. The open recommendations and the target dates for making policy decisions are identified in Attachment 1.

Of those recommendations acted upon to date, 112 have been accepted and 16 rejected. As the Subcommittee knows, the big job is putting the recommended changes into operation. According to OFPP's August report, 17 implementing actions are completed, 76 are under development, and 19 are awaiting legislation. Attachment 2 identifies the 112 accepted recommendations and which of these three categories they fall into. The rejected ones are listed in Attachment 3.

OFPP's CURRENT PRIORITIES

OFPP has designated 15 procurement reform areas for priority attention. They are listed in Attachment 4 to our statement. Sixty-nine of the Commission recommendations are included in these 15 priority areas. Some of the more important ones are:

- setting up a unified and simplified Government-wide regulatory system,
- making greater government use of commercially available products and distribution systems,
- strengthening action Government-wide to implement our national policy of relying on private enterprise (OBM Circular A-76),
- overseeing agency action to implement the new Government-wide policy on acquisition of major systems (OBM Circular A-109),
- creating a new Federal Procurement Institute, and

--streamlining application of socio-economic programs in the procurement process.

OVERVIEW OF PROGRESS

We believe that OFPP has selected the key areas for concentrated attention and that these areas have considerable potential for saving money and improving the effectiveness of Federal programs. For example, more responsive programs with net savings in time and cost can be reasonably expected:

- (1) if needs for new major system programs are tied to analysis of agency missions and reviewed early by top management and the Congress, and
- (2) if solutions to these needs are selected on a competitive basis and demonstrated before a huge commitment of our national resources is made to a particular system.

It is also evident that while considerable progress has been made on the recommended procurement reforms, we still have a long way to go-- particularly in the more crucial and difficult stage of putting them into effect on a Government-wide basis. In this regard, the existence of many recommendations accepted by the executive branch does not mean the reforms will soon be operational. Implementing actions often require more than one step and the full cooperation of many agency officials. A Government-wide circular, for example, may only be a preliminary step since further guidance often needs to be developed within the agencies to effect action at the operating level.

Important also is congressional support and assistance--especially where enabling legislation is required--and your Subcommittee certainly has been outstanding in this respect.

The new policies and their actions to implement them also must be fully understood by hundreds of people at the working level before the reforms can become truly operational. These are the people who plan new programs, establish needs, initiate R&D projects, develop specifications, write requests for proposals, and do the contracting work. Even after the changes become operational, only their evaluation on the basis of experience will disclose the extent to which they are effective and beneficial or in need of revision.

The results of a more complete follow-up by GAO will be available in our seventh progress report early next year. The remaining policy decisions on the Commission's recommendations and a number of the implementing actions now under development are expected to be completed by then.

DOD MAJOR SYSTEM CASE STUDIES

The basic intent of the Commission's recommendations in the major systems area and the implementing OMB Circular A-109 is to improve the so-called "front end" of the acquisition process--that is, those decisions that are made before a final system solution is decided upon. In general terms, the recommendations call for:

- the head of an agency to approve the need for a new system based on a shortfall in the agency's mission capabilities,
- the agency to open up the process of solving the mission shortfall by exploring alternatives and

soliciting a wide range of competitive industry proposals.

--the Congress to become more involved in the acquisition process by review of the agency's mission needs in conjunction with the budget process.

During your subcommittee hearings last summer on major systems acquisition reform, you and the Comptroller General discussed some additional work by GAO. This resulted in a comparison of the beginning steps or "front end" of the acquisition process for three DOD programs with the acquisition framework recommended by the Commission. DOD was invited to suggest programs for the review which come closest to reflecting the "front end" procedures recommended by the Commission. The programs DOD selected were the Army's PERSHING II Program, the NAVSTAR Global Positioning System which has a joint service program office with the Air Force as the Executive Service, and the Navy's Shipboard Intermediate Range Combat System (SIRCS).

Our review has led to the following conclusions:

1. The PERSHING II Program is not similar to the Commission's framework, and is characteristic of the acquisition process the Commission was trying to reform.
2. With respect to NAVSTAR, the Office of the Secretary of Defense involvement in the identification and reconciliation of agency-wide navigational needs

accomplished much of the Commission's intent in calling for early agency head involvement. The early selection, however, of a satellite navigational system as the solution for navigational deficiencies and the in-house conceptual design of the solution--with input from industry--precluded other key portions of the Commission's framework.

3. The SIRCS effort to date is similar to the recommended framework and represents a concerted effort to follow the Commission's recommendations. The Navy's plan for exploring alternative system candidates, however, does not provide the extent of competition we believe the Commission desired. I will discuss each of these briefly.

PERSHING II

The PERSHING is a mobile, nuclear, surface-to-surface ballistic missile system. The system was deployed in Europe in the early 1960s to provide a medium range nuclear capability to support the Field Army. PERSHING II is being developed under a sole source contract with the PERSHING contractor as a modular improvement to the PERSHING 1a. The cost estimate for this program is classified.

Army efforts from the beginning have been directed toward a surface-to-surface missile solution to the mission need being addressed. Also, the Army's efforts to define and explore the PERSHING II concept began without Secretary

of Defense involvement as envisioned by the Commission.

Under the Commission's framework, the Secretary of Defense would have the Army's perception of the mission need reconciled against overall Department of Defense resources. The Army's exploration of alternative solutions would have begun after Secretary of Defense approval of a statement of needs and goals stated independently of a specific system solution. Also, different technological approaches would have been solicited from industry and selected alternatives would be explored rather than awarding a contract to the previous missile contractor for a single system solution.

NAVSTAR

The NAVSTAR Global Positioning System is to be a system of satellites, satellite monitor and control stations, and user equipment which will provide precise information on user position and speed. Anticipated users include aircraft, ships, submarines, vehicles and ground troops. The estimated program costs, excluding procurement of user equipment is \$1.2 billion.

The NAVSTAR evolution did not include the following key elements of the Commission's framework:

--the program was not started with a statement of mission capability, cost, and time goals stated independently of a specific system solution.

--the Secretary of Defense did not make a specific assignment of responsibility to a component for responding to a mission deficiency.

--alternative system concepts were not solicited from private industry.

--competition was not maintained by exploration of competing system candidates.

We found, however, that Office of Secretary of Defense involvement in reconciling navigational needs against resources was significantly greater than the level criticized by the Commission for prior programs. Also, the program is maintaining or considering competition for selected subsystems.

SIRCS

SIRCS is a Navy project addressing two missions: antiair and surface warfare. The antiair warfare mission is principally directed toward ship defense against missiles and high-performance aircraft. The surface warfare mission is aimed at the destruction or neutralization of surface craft and land targets. The estimated development cost for the program is about \$500 million. Production costs will be dependent on the kind of system selected.

Management of the SIRCS' program to date is generally consistent with the Commission's intent. Even though there was no formal agency head statement of needs and goals, we believe Navy and Office of Secretary of Defense interaction accomplished the early agency head involvement called for by the Commission before exploration of alternative system concepts. Project documentation stated the needs and goals

relative to the threat independently of any specific system solution such as a missile, an anti-missile-missile, or an electronic countermeasures system. It also provided (1) a statement of the mission deficiency; (2) time, design-to-cost, and capability goals; (3) operating constraints, both environmental and self-imposed; and (4) flexibility so that contractors could propose their own system technical approach, subsystems, and main design features rather than being restricted to a predetermined system design.

However, we believe the Commission's intent was not fully met in that (1) mission cost goals have not been established, (2) restrictions in pertinent documents have precluded or limited the participation of "smaller" companies, and (3) the number of alternative system concepts being defined has been limited to three because of available funding and personnel. Regarding item (3), we believe that under the Commission's framework the number of alternative system concepts being defined would not be limited to such a small number.

Reports on these case studies are in process and should be ready for release in early fall.

* * * * *

Mr. Chairman, this concludes our testimony. We will be glad to answer any questions.

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EXECUTIVE BRANCH POSITIONS IN PROCESS

Attachment 1

PER OFPP REPORT OF AUG. 2, 1976

<u>RECOMMENDATIONS</u>	TARGET DATE FOR EXECUTIVE BRANCH POSITION					
	1976		1977			NONE
	SEPT.	DEC.	FEB.	MAR.	JULY	REPORTED
A-22 through A-26 relying on private enterprise						•
B-1 through B-4 establishing Federal R&D policy				•		
B-8 R&D cost sharing				•		
B-10 treating contractor R&D-R&P costs	•					
D-12 GSA Delegation of preplanning ADPE requirements				•		
E-2, E-3 A-E life cycle cost and proposal reimbursement					•	
G-21 through G-24 extending Public Law 85-304		•				
H-4, H-5 catastrophic accidents		•				
I-13 remedy for Govern- ment misuse of data				•		
TOTALS	1	6	0	7	2	5

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IMPLEMENTATION OF ACCEPTED RECOMMENDATIONS

RECOMMENDATIONS	STATUS OF IMPLEMENTING ACTION PER OFPP REPORT OF AUG.2, 1976		
	COMPLETED	AWAITING LEGISLATION	BEING DEVELOPED
A-1, creating OFPP	•		
A-2 through A-6, A-8, A-9, enacting modern, unified statutory framework		•	
A-7, raising ceiling to use simplified purchase procedures	•		
A-10, A-11, establishing Government-wide regulatory framework			•
A-12 through A-17, A-19, A-20 improving procurement work force			•
A-18, reconciling procurement grade levels			•
A-21, creating Federal Procurement Institute	•		
A-27, financing procurement timely	•		
A-28, establishing Government-wide cost principles			•
A-29, making single overhead settlements			•
A-30, A-31, establishing Government-wide profit guidelines			•
A-33, A-34, establishing Government-wide criteria for contractor data management systems			•
A-35, stimulating contractor acquisition of production facilities			•
A-36, disposing heavy machine tools			•
A-37, relying on contractor procurement system			•
A-38, competing professional services			•
A-39, using interagency contract support services			•
A-40, transferring military plant cognizance to Defense Contract Administration Service	•		
A-46, making debarment treatment uniform and equitable		•	
A-43, A-44, A-45 reassessing socioeconomic programs applied to procurement process		•	
A-48, testing mandatory small business subcontractors on selected basis			•
A-49, enhancing small business participation			•

IMPLEMENTATION OF ACCEPTED RECOMMENDATIONS

RECOMMENDATIONS	STATUS OF IMPLEMENTING ACTION PER OFPP REPORT OF AUG. 2, 1976		
	COMPLETED	AWAITING LEGISLATION	BEING DEVELOPED
B-5, using federally funded R&D centers			•
B-6, monitoring experimental R&D incentives	•		
B-7, eliminating restraints on unsolicited proposals			•
B-11, using basic agreements	•		
B-12, resolving organizational conflicts of interest			•
C-1 through C-12, setting major systems acquisition policy			•
D-1, providing Government-wide procurement data			•
D-2, satisfying user with commercial supply support systems			•
D-3, limiting commercial Federal specifications			•
D-4, assigning OFPP specifications policy responsibility	•		
D-5, training decentralized purchasing activities	•		
D-6, using commercially available products and distribution systems			•
D-7, procuring U.S. commercial products overseas	•		
D-11, reevaluating ADPE acquisition procedures			•
D-13, authorizing multiyear ADPE leasing		•	
D-14, establishing ADPE evaluation benchmarks	•		
D-15, amending ADPE late proposal clause	•		
D-16, D-17, coordinating food acquisition policy, quality assurance	•		
D-18, using commercial forms in utility procurement			•
D-19, using innovative transportation procurement techniques	•		
E-1, E-4 competing A-E services		•	
F-1, clarifying procurement v. assistance relationships		•	
F-2, creating policy guidance system for Federal assistance program			•
G-1, clarifying contracting officer authority			•
G-2, conferring informally on adverse contracting officer decisions ^a			•

IMPLEMENTATION OF ACCEPTED RECOMMENDATIONS

RECOMMENDATIONS	STATUS OF IMPLEMENTING ACTION PER OFPP REPORT OF AUG. 2, 1976		
	COMPLETED	AWAITING LEGISLATION	BEING DEVELOPED
G-3, retaining multi-agency contract appeals boards; adding subpoena and discovery powers			•
G-5, using "All Disputes" clause			•
G-6, allowing contractors direct access to courts ^a			•
G-7, granting Government judicial review of adverse board decisions			•
G-8, establishing uniform, quick judicial review of adverse administrative decisions			•
G-10, increasing jurisdictional limit of district courts from \$10,000 to \$100,000 ^a		•	
G-11, allowing interest on claims	•		
G-13 thru G-16, G-18, G-19, improving bid protest procedures			•
G-17, recommending termination for Government convenience	•		
G-20, review of agency bid protest procedures			•
H-1 thru H-3, making Government self-insurer			•
I-1, I-2, I-3, I-5, I-6, I-7, I-9, through I-12, I-14 through I-16, revising patents, technical data, and copyright policies			•
J-1, consolidating, recodifying procurement statutes		•	
J-2, extending Truth-in-Negotiations Act		•	
J-3, modifying Renegotiation Act		•	
TOTALS	17	19	76
^a Since our last report, OFPP accepted previously rejected recommendations G-2, G-6, and G-10.			

Recommendations Rejected by OFPP
per OFPP Report of August 2, 1976

	<u>Number</u>
<u>A-32</u> Establishing regional contract payment offices	1
<u>A-41</u> Separating defense contract administration and supply activities	1
<u>A-42</u> Combining defense contract administration and audit activities	1
<u>A-47</u> Establishing new standards for measuring small business participation ^a	1
<u>B-9</u> Eliminating recoupment from contractor's other sales of Government R&D investment	1
<u>D-8, 9, 10</u> Authorizing use of Federal Supply Services by grantees	3
<u>G-4</u> Establishing regional small claims boards for contract performance disputes	1
<u>G-9</u> Allowing reviewing court to take additional evidence and make findings of fact	1
<u>G-12</u> Paying court judgments on contract claims from agency appropriations	1
<u>I-4</u> Making patent authorization and consent automatic	1

Attachment 3

	<u>Number</u>
<u>I-8</u> Giving Federal district courts concurrent jurisdiction with Court of Claims for patent suits	1
<u>J-4</u> Extending Renegotiation Act to contracts of all Government agencies	1
<u>J-5</u> Raising Renegotiation Act jurisdictional amount to \$2 million for sales to Government and \$50,000 for brokers' fees ^a	1
<u>J-6</u> Expanding and clarifying profit criteria used by Renegotiation Board	<u>1</u>
Total Rejected Recommendations	16

^aSince our last report, OFPP rejected recommendations A-47 and J-5 and, after reconsideration, accepted previously rejected recommendations G-2, G-6, and G-10 (See Attachment 2), making a net decrease in rejections of one.

OFPP PRIORITY ACTIONS

A-2 thru A-6, A-8, A-9,

E-1, E-4, J-2

Enacting modern, unified procurement statute

A-10, A-11

Establishing a Government-wide regulatory system and criteria for public participation in procurement policy

A-21

Creating a Federal Procurement Institute

A-22 thru A-26

Implementing policy of greater reliance on private enterprise

A-43 thru A-46

Reassessing socioeconomic programs applied through procurement process

B-7

Eliminating restraints on unsolicited private sector R&D proposals to encourage innovative ideas

B-10

Establishing policy for uniform Government-wide treatment of independent research and development (IR&D)

C-1 thru C 12

Implementing new major systems acquisition policy introduced by OMB Circular A-109

D-1

Establishing a Government-wide procurement data system

D-3, D-6

Making greater use of economically available products and distribution systems

D-16, D-17

Coordinating Federal food acquisition policy and quality assurance program responsibilities

G-1 thru G-12

Revising legal remedies for Government contract performance disputes

I-1 thru I-16

Developing legislation for revision of patent, technical data, and copyright policies

Strengthening Industrial Capability

Improving profit policy, contract administration, and public participation in regulatory process.

National Supply System

Creating a single, integrated system for Government-wide procurement and supply of common items used by Federal agencies