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BY THE COMPTROLLER GENERAL
 Report To Congresswoman Geraldine Ferraro
 And Senator David Pryor
 OF THE UNITED STATES

**Controls Over DOD's Management
 Support Service Contracts
 Need Strengthening**



114894

This report deals with:

- DOD's weakening in-house capabilities to perform its mission.
- Contract awards resulting from unsolicited proposals and the extensive involvement of former DOD officials/employees in those awards.
- Continuous contractual relationships.
- Services of questionable necessity/appropriateness.
- Extensive sole-source contract awards and contract modifications which increase costs.

Positive action is needed to address these problems and GAO makes pertinent recommendations to the Congress, OMB, and DOD.



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COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

B-201534

The Honorable Geraldine Ferraro
Chairwoman, Subcommittee on Human
Resources
Committee on Post Office and Civil Service
House of Representatives

The Honorable David Pryor
United States Senate

On May 6, 1980, the former chairman of the Subcommittee on Human Resources and the former chairman of the Subcommittee on Civil Service and General Services requested us to review the use of consulting services at the Department of Defense. As previously agreed, we reviewed a broader spectrum of contract support services than consulting services as defined by the Office of Management and Budget. The review disclosed several problem areas, such as contractors articulating and performing defense management functions, extensive sole-source awards, and contract modifications which have increased costs and extended performance periods. This report contains recommendations to the Congress, the Director, Office of Management and Budget, and the Secretary of Defense to improve controls over management support service contracts.

As arranged with your offices, unless you publicly announce its contents earlier, we plan no further distribution of this report until we are notified by you. At that time we will send copies to interested parties and make copies available to others upon request.

A handwritten signature in cursive script that reads "Milton J. Fowler".

Acting Comptroller General
of the United States

D I G E S T

The Department of Defense (DOD) spent at about \$2.6 billion in fiscal year 1979 on all types of contract management support services. These services range from relatively simple studies to aid in management decisions to contracts involving complex engineering support services for major weapon systems.

Proper use of these services can be a normal, legitimate, and economical way for DOD to satisfy its mission requirements. GAO reviewed 256 contracts for management support services valued at about \$175.4 million. These contracts were randomly selected, and GAO believes its findings are representative of the total universe of management support contracts.

In spite of the continuing attention being focused on the use of contract consultants, serious and pervasive problems continue to exist, and will continue until DOD takes the initiative to address them. Contractors are playing a significant role in identifying needs and thus, in effect, are articulating and performing defense management functions. The result is that DOD is weakening its ability to perform in-house work essential to fulfillment of its defense mission. Much of the work is currently being performed by former DOD employees.

This increasing reliance on contractors has raised the following additional issues:

--Extensive contract awards resulting from unsolicited proposals. (102 contracts reviewed valued at \$25 million. See p. 11.)

- Significant involvement of former DOD officials and employees in contracts. (131 contracts reviewed valued at approximately \$52.6 million. See p. 13.)
- Continuous renewal of contracts. (146 contracts reviewed valued at \$149.2 million. See p. 16.)
- Instances of questionable need for and use made of the contract services. (44 contracts reviewed valued at approximately \$6.8 million. See p. 19.)
- Overuse of sole-source awards. (211 contracts reviewed valued at approximately \$156.7 million. See p. 21.)
- Extensive contract modification. (176 contracts reviewed with modifications valued at approximately \$73.8 million. See p. 29.)

Previously, the focus of attention has been on problems with consulting services as defined by the Office of Management and Budget (OMB). GAO found the above problems in all types of management support services reviewed; therefore, GAO believes that the management controls outlined in OMB Circular A-120 should be applied to professional and management support services and special studies and analyses. Also, there is a need to provide visibility over these services in the budgetary displays.

An assessment of DOD's capability to perform all essential management functions in-house under existing personnel ceiling constraints is needed to achieve effective actions for the problems brought out in this report. GAO is currently reviewing the issue of personnel ceilings Government-wide and will provide further insight on this issue at a later time.

RECOMMENDATIONS

GAO has issued over 30 reports during the past 20 years identifying deficiencies related to the use of consulting services. One of the major issues identified was the

failure to obtain adequate competition in awarding procurement contracts for these services. Additionally, the Congress has repeatedly voiced concern over the lack of competition in awarding these contracts. Normally, GAO is opposed to legislative remedies for problems that should be resolved administratively. However, GAO believes this problem is serious enough in DOD to warrant legislative action.

Accordingly, GAO recommends the Congress, as an interim measure, consider legislation which would minimize the funding of sole-source contracts for management support services and the funding of such contracts resulting from unsolicited proposals. One way to accomplish this might be to establish quotas for a period of 2 to 4 years. For example, the Congress might provide that not more than 50 percent of the total dollars spent by an agency for management support service contracts may be used to fund sole-source contracts. This figure could be adjusted in future years until a more acceptable balance is achieved.

The Director of OMB should:

- Extend the management controls outlined in OMB Circular A-120 to other categories of management support services.
- Assure that agencies identify all requested funds to be used for management support services and provide this information to the Congress. Such identification would provide the basis for the Congress to review agencies' use of such services as well as provide a base from which to control funds available for such services. GAO believes that OMB could satisfy this recommendation by extending the requirements of OMB Bulletin No. 80-13 for the types of management support services identified in this report.

The Secretary of Defense should take the following actions:

- Require DOD activities to establish an independent review board to assure the highest level review of proposed contract awards and

modifications over \$100,000 for management support services. This independent assessment is particularly critical for those contracts to be performed by former DOD employees.

- Identify functions being performed by contractors which are governmental in nature, and determine personnel needs and develop ways to meet those needs.
- Identify management support services which are not governmental in nature and which are required on a continuing basis. For each service, an assessment should be made of current in-house capability, the possibility of acquiring such capability, and the relative costs involved in performing the work in-house versus contractor support.

AGENCY COMMENTS

Although this report was furnished to DOD for comment, it did not provide written comments before the issuance of this report. GAO received DOD's oral comments, but was told that DOD was amending its response and the oral comments could not be relied on.

OMB agreed in comments provided to GAO that the report makes a strong case for more stringent controls to eliminate weaknesses in and curtail abuses of DOD's procurement of management support services. However, OMB does not totally agree with GAO's recommendations. OMB believes that legislation is not necessary to solve the problems with contracting for management support services. It is currently considering issuing an OMB bulletin and a revision to an existing circular which it believes will correct the problems illustrated in this report.

GAO believes OMB's planned actions, if carried out, are commendable, but several of its suggested actions will not result in meaningful improvements in contracting for management support services.

OMB intends to eliminate the majority of improper sole-source awards by removing the incentives to use unsolicited proposals for management support service contracts. In GAO's opinion, this proposed action will result in fewer unsolicited proposals but will not have a major impact on the number of sole-source awards. GAO continues to believe legislation is necessary to correct this longstanding problem.

OMB does not believe that a specific entry (budget line item) for consulting services within the object classification schedules for each agency account in the budget is necessary, appropriate, or practicable. GAO's recommendation for budgetary identification does not require a specific entry for management support services.

GAO's report clearly demonstrates that the problems identified are not restricted to consulting service contracts alone but instead, are prevalent throughout the entire universe of management support service contracts. With the implementation of OMB Bulletin No. 80-13, budgetary identification of consulting services is already required. GAO believes that OMB could satisfy this recommendation by extending the existing requirement to include the types of management support services identified in this report and providing the information to the Congress.

Finally, OMB believes that review and approval of management support service contracts by a level above the sponsoring activity will provide sufficient control. GAO continues to believe that review and approval by an independent board is a more desirable approach. Such a board or boards would have no direct benefit from the outcome of their decision and would bring management support services under a proper degree of independent and objective scrutiny.

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ABBREVIATIONS

BOA	basic ordering agreement
CPFF	cost-plus-fixed-fee
DOD	Department of Defense
GAO	General Accounting Office
OMB	Office of Management and Budget
OSD	Office of the Secretary of Defense

CHAPTER 1

PERSPECTIVE

In fiscal year 1979, the Department of Defense (DOD) spent at about \$2.6 billion for all types of management support service contracts. This report addresses the problems associated with DOD's use of some of the more significant types of management support services--including consulting services. These support services cover a broad spectrum of management services. Such services range from a relatively simple study on factors affecting attrition in the Army to the more sophisticated engineering support services related to major weapon systems.

PAST PROBLEMS

The Federal Governments' use of consulting services is currently a subject of much congressional as well as public interest. The key issues which have been identified include:

- Use of consultants to perform work that should have been done in-house.
- Revolving door abuses whereby former employees may be given preferential treatment in obtaining a contract.
- Excessive use of sole-source contracts which restricts competition.
- Repeated contract extensions which raise questions as to whether the work might be performed under other types of arrangements.
- Disproportionate number of contracts awarded at the end of the fiscal year.
- Failure to maintain adequate information on the number and cost of consulting services.

In recent months we have issued two reports which have highlighted the above issues. In one report 1/, we found serious and pervasive problems relating to Federal civilian agencies' need for and contracting practices related

1/"Controls Over Consulting Service Contracts at Federal Agencies Need Tightening" (PSAD-80-35, Mar. 20, 1980).

to consulting service contracts. (See app. I for digest of this report.) In the other 1/, we reported that the above issues have existed for the past 20 years without being resolved.

In addition, various congressional committees and Federal agencies' internal audit organizations in recent years have identified additional issues related to the use of consulting services. Examples include the lack of information (1) in agencies' budgets on the planned use and expenditures for consulting services and (2) for comparing consultant costs with estimated agency costs of the work performed internally.

CURRENT EFFORT

This review was initiated at the request of the chairman, Subcommittee on Civil Service and General Services, Senate Committee on Governmental Affairs and the chairman, Subcommittee on Human Resources, Committee on Post Office and Civil Service, House of Representatives. We were asked to review the procurement of consultant services at DOD. As agreed with the respective chairmen, we reviewed a broader spectrum of contract support services than consulting services as defined by the Office of Management and Budget (OMB). We did so because we believe consulting type services may be significantly understated in DOD, and past experience in civilian agencies has shown that other types of management support services are subject to similar problems and abuses as are consulting service contracts. See chapter 6 for more details with respect to our rationale for expanding the review to include a broad base of management support contracts.

OBJECTIVE, SCOPE, AND METHODOLOGY

The objective of this review was to assess DOD's use of contract management support services. In particular, we set out to determine

- the need for the management support service,
- whether there was extensive use of unsolicited proposals and sole-source awards,

1/ "Government Earns Low Marks on Proper Use of Consultants" (FPCD-80-48, June 5, 1980).

- whether there was significant involvement of former DOD employees,
- the extent of renewal and modification of contracts,
- whether there was a yearend surge in awarding the contracts, and
- whether there was in-house capability available to perform the tasks contracted for.

As noted previously, the universe from which our selections were made was broader than just consulting service contracts as defined by OMB. Specifically, the following categories of management support services were selected for review.

<u>Category of service</u>	Total dollar value of fiscal year 1979 actions for all of DOD
	(000 omitted)
Consulting Services	\$ 152,686
Management and Professional Services and Special Studies and Analyses	1,517,003
Research, Development, Test, & Evaluation-Management and Support	<u>916,401</u>
Total	<u>\$2,586,090</u>

See appendix II for a description of the types of services in each category.

From computer listings ^{1/} detailing fiscal year 1979 actions in the above categories of services, we selected purchasing offices with large dollar volumes of transactions for each service as well as the Office of the Secretary of Defense (OSD). Fourteen DOD procurement offices were included in the review. The total dollar value of fiscal year 1979 actions for these offices was \$343,863,000, or 13.3 percent of the total fiscal year 1979 actions (\$2,586,090,000) for the categories of management support services included in our review.

^{1/}"DD350 File, Fiscal Year 79."

For each purchasing office, we randomly selected contract actions on fiscal year 1979 contracts. A total of 256 contract awards valued at about \$175.4 million were reviewed. The sample included nine contracts valued at \$2.8 million, which were determined after completion of our review to be outside the categories selected for review. Statistical data relative to each DOD activity selected can be found in appendixes III and IV. Also, pertinent data on the dollar value of contracts reviewed at the DOD procurement office visited can be found in appendix V.

The review was conducted from June through December 1980 and was performed at the DOD site, Pentagon, Washington, D.C., and at each of the DOD procurement offices shown in the appendixes. The review included an examination of contract files, management studies, and other documents as well as discussions with procurement and program officials.

As will be discussed in chapter 6, we could not determine a reliable universe of consulting service contracts. This, coupled with the diverse nature of management support contracts included in our sample, precluded a meaningful projection of the results of our review. We do believe, however, that the results of the review are indicative of problems throughout DOD because (1) similar problems were found in most contracts reviewed for each service and (2) the relative large dollar value of procurements at the DOD activities selected indicates they are representative.

This report contains several examples which we believe illustrate the various problems discussed. Many of the examples used can illustrate more than one problem. We have attempted to use the best examples for each area discussed.

CHAPTER 2

DOD'S RELIANCE ON MANAGEMENT

SUPPORT SERVICES

DOD lacks in-house capability to perform many functions which should be performed in-house. DOD is apparently losing expertise it formerly had as evidenced by the extensive involvement of former DOD employees in the contracted work. Contractor influence over the scope and direction of work is pervasive as indicated by significant numbers of unsolicited proposals. It is also common for contracts to be continually renewed without considering the cost of the work in-house versus contract or whether such capability should be developed because it is closely related to DOD's mission.

LACK OF IN-HOUSE CAPABILITY

"None,"--this is the word which generally describes the extent DOD can obtain civil servants to perform the work contracted out for. Other typical statements are:

"At the present time, there are no civil servants available with the background and expertise required to perform this work."

* * * * *

"Lack of manpower, expertise, and data or the urgency of the work require that the effort be contracted."

We found this or similar justifications for contracting out in most of the contracts reviewed. Program officials in each of the services told us that the expertise simply was not available and many cited personnel ceilings as one of the reasons. Another factor cited was the relatively low pay scales for highly qualified technical talent--especially engineers. The work force to accomplish various mission needs is, for the most part, being acquired indirectly through contracts with private firms. The personnel being procured through these contracts is a significant part of the DOD work force. For the contracts included in our review, a total of 4,320,780 direct labor hours, or about 2,077 staff years were purchased.

Recent ramification

As will be discussed in subsequent sections of this chapter, DOD, at one time, appears to have had the in-house

capability for much of the work currently being contracted out. This is apparent because of the extensive involvement of former DOD officials and employees in contracts included in our review. The loss of in-house capability within DOD has recently been highlighted. An example follows.

In September 1980 the House Armed Services Subcommittee held a hearing at the Naval Air Engineering Center in Lakehurst, New Jersey. Our sample included 14 contracts involving the Naval Center. The focus of the hearing was concern over the Navy's policy of contracting out vital support activities which threatened to undermine the mission at the Naval Center. A Naval Center official testified that personnel ceilings have been reduced each year since 1974, while the workload has escalated. The result, according to the official, was that a great deal of engineering effort that should have been done in-house had to be contracted out, and the magnitude of contracting out had reached the point where it was difficult to maintain management control.

Lack of management

In addition to the apparent loss of in-house expertise, DOD is not adequately considering the in-house capability that it already has. In several instances where in-house capability was available, such capability was not relied on because of the need for (1) a timely study or (2) an "independent" or "objective" study.

In several other instances where in-house capability was acknowledged, the contract was justified on the basis that in-house personnel were required for other work. Discussions with officials, however, disclosed that little or no effort was made to evaluate the relative priorities of the contracted work versus the priority or importance of the in-house work being performed.

In addition, we found few cost studies that justified contracting out as the least costly alternative. In many cases, contracts have been renewed annually resulting in the same contractor being used for extended periods of time--for as long as 28 years. We found little recent evidence, however, indicating that DOD has considered whether the functions performed by the contractor should be performed with in-house personnel. In this respect, we believe that, as a minimum, DOD should evaluate the relative costs of performing work in-house versus by contract. Such an evaluation would permit selection of the least costly method of performing the work. For example, we found one case where the Navy performed such a study with respect to a personnel planning system. The

study showed that the Navy would save \$159,000 over a 5-year period if the functions were performed in-house.

The failure to consider the in-house costs of performing work of a continuous nature may result in DOD paying significantly more for services which are essential to accomplishing DOD's mission. Congressional concern over the cost of such services is demonstrated by an excerpt from legislation enacted in August 1974.

"It is the sense of Congress that the Department of Defense shall use the least costly form of manpower that is consistent with military requirements and other needs of the Department * * *. Therefore, in developing the annual manpower authorization requests to the Congress and in carrying out manpower policies, the Secretary of Defense shall, in particular, consider the advantages of converting from one form of manpower to another (military, civilian, or private contract) for the performance of a specified job * * *." 1/

Consideration of the least costly form of work force is only applicable to those functions which are not governmental in nature. For such nongovernmental functions, the foregoing congressional concern is pertinent. However, for activities which can be considered governmental functions, such as management of programs requiring value judgments in directing national defense, management and direction of the Armed Services--cost should not be a factor to be considered. OMB Circular A-76 2/ specifically provides that a governmental function is a function which must be performed in-house due to the special relationship which exists in executing governmental responsibility. OMB Circular A-120 3/ sets forth a similar policy for use of consultants. See appendixes VI and VII for OMB Circulars A-76 and A-120, respectively.

1/The Department of Defense Appropriation Authorization Act, 1975, Public Law 93-365, title V, sec. 502 (Aug. 5, 1974).

2/OMB Circular A-76, Policies for Acquiring Commercial or Industrial Products and Services Needed by the Government, March 29, 1979.

3/OMB Circular A-120, Guidelines for the Use of Consulting Services, April 14, 1980.

We did not attempt to sort out contracts for governmental functions from those for nongovernmental functions. Nevertheless, a review of the contracts indicated to us that some of the contracts may have required the performance of governmental functions and thus should be performed in-house irrespective of cost. The primary reason given for contracting out these functions is the lack of sufficient qualified personnel in DOD because of personnel ceiling limitations.

What is the impact?

The reliance of DOD on contractor support has a "snowballing" effect. As contractors acquire knowledge of DOD's operations, they literally become assured of continuous sole-source contracts. Many of these contracts resulted from unsolicited proposals and involve former DOD employees. The result is that contractors are exercising substantial influence over the scope and direction of work performed. In this respect, the Naval Audit Service reviewed 32 consultant and engineering service contracts and found 31 to be for normal Government, administrative, or technical management functions which are performed by Government employees. The Navy auditors also found that the services were continuous and involved a significant number of former DOD employees. 1/

ARE CONTRACTS FOR MANAGEMENT SERVICES
PREEMPTING DOD'S RESPONSIBILITIES?

Contractors are performing work which, in our opinion, should be performed by DOD in-house personnel. In 183 of the 256 contracts reviewed, or about 71 percent of contracts valued at about \$108.4 million, we believe that the task contracted out raises the issue of in-house capabilities with DOD. In general, the criteria we used to make this judgment was (1) the nature of the tasks performed under the contract suggested that it may have been governmental in nature, (2) whether, in the past, the work had been performed by DOD's in-house staff, and/or (3) whether the work of a similar nature was currently being done by DOD staff. In fact, several of the contracts have preempted DOD's prerogative in directing national defense and in management and direction of the Armed Services.

1/Audit Report C35315--Naval Audit Service Capital Region,
Falls Church, Virginia, June 7, 1976.

The following are some examples of contracts which, in our opinion, illustrate our above points.

--An \$82,138 sole-source contract was awarded for OSD to review Army support unit requirements for the first 30 days of a North Atlantic Treaty Organization war. We believe that DOD should have performed this task since it deals with critical defense requirements. The contractor received the sole-source contract because of time constraints and his extensive experience. The contractor's experience base consisted of former DOD employees and military officers, including a retired Lt. General and Lt. Colonel. Furthermore, DOD officials told us that a month after the study was completed, in-house personnel were used to prepare another study similar in nature to the one contracted for. (14) 1/

--A sole-source contract totaling \$304,018 was awarded for services to assist in the development of a DOD Mobilization Plan. Some of the specific tasks given the contractor under this contract as modified included: (1) development of improvements in the DOD management of the manpower mobilization system, (2) development of the framework for a * * * Mobilization Plan, and (3) assistance in planning and preparing for a specific mobilization exercise. The justification for the contract was that in-house expertise was not available. In our opinion, DOD should possess the in-house expertise in such basic vital areas. It should be noted that the contractor used former DOD personnel. For example, consultants to the contractor included former high ranking DOD officials, including a Vice Chief of the Army, an Air Force General, and a Deputy Assistant Secretary of the Army. (24)

--An OSD sole-source contract was awarded for \$43,853 to an individual for the purpose of evaluating and placing priorities on issues to be brought to the Secretary of Defense's attention. The justification for this contract stated "* * * existing facilities of the Department of Defense are found to be inadequate * * *." This individual has had a contract each year

1/Our control numbers are shown in parentheses after each example. Details on each contract are listed in app. V.

since 1975. DOD program officials told us that the individual provided the Secretary's input to DOD's Annual Report to the Congress as well as comments on speeches and testimonies. The officials further stated that beginning in fiscal year 1981 this work will be done by in-house personnel. In our opinion, it should have always been done by in-house staff. (21)

- The Army contracted for two engineers to train and monitor military personnel in collecting performance data on selected TSQ-73 Missile Minder systems in Europe. The contract, as modified, cost the Army \$295,959, about \$90,000 more than the estimated cost of using Army personnel. Program officials stated they had no choice but to contract this work. Army representatives said that they did not have and could not hire personnel needed for this effort because of personnel ceiling limitations. (189)

- The Air Force awarded a sole-source contract for \$1,065,000 to provide scientific and technical services to support threat validations of electronic warfare and command and control and communications simulations. Subsequently, the contract amount was increased \$895,700, of which \$560,700 was for the exercise of options and \$335,000 for work modifications. This effort has been ongoing since 1976 and appears to be a continuous requirement. During the 1973-75 time period, the program office tried to obtain sufficient staff to perform this function in-house, but was unsuccessful. It should be noted that 10 of the contractor's employees performing the work are former DOD employees and/or members of the services--of which 2 were formerly assigned to the program office. (219)

- The Navy awarded a contract in the amount of \$462,348 for technical support to the Navy's joint Navy/Air Force project office for the air combat training system program. The award was based on an unsolicited proposal. The contractor has been providing technical support to this program for the last 10 years. One of the tasks under the contract was to prepare the technical support documentation included in the request for proposal for upgraded range equipment, evaluate responding technical proposals, and participate in negotiating the contract. Program officials told us that the contractor oversees the performance of aircraft production contractors. The contract was awarded on the basis that personnel with the required technical expertise and background were not available. It is

our belief that such expertise should be in-house for the Navy to properly administer major system acquisitions. (85)

UNSOLICITED PROPOSALS

Of the 256 contracts reviewed, 102, or approximately 40 percent valued at \$25 million were unsolicited. In several instances, it was difficult to determine whether the proposal was strictly unsolicited or was "informally solicited" by DOD program officials. In many cases, the proposal was the result of the contractors unique knowledge of and/or experience with DOD. In several cases, once a contractor performs work in one area, he continues to receive contracts which "build" upon the experience in the particular area. While unsolicited proposals should not be discouraged, we believe that, all too often, they are being used to (1) subvert the competitive process, (2) encourage work that may not be important relative to DOD's mission needs and priorities, (3) abrogate DOD's responsibilities over the scope and direction of work related to defense management, and (4) are not truly unique or innovative.

The following are some examples of unsolicited proposals.

- The Navy awarded an \$82,244 contract for preparation of a Naval Aviation Energy research, development, test, and evaluation plan. The contractor was performing other work for the Navy at the time of this requirement and was privy to the need for this work. The contractor's unsolicited proposal stated, in part:

"The preparation of the Naval Aviation Energy RDT&E Plan is an additional task beyond the current workload in the [program office]. Therefore, the current staffing within the [program office] is not adequate to prepare the plan. Contractor assistance is needed to meet the commitment required by [the Navy]. The short-term nature of this work will require the contractor to undertake tasks and produce results in a timely fashion. Therefore, the contractor must be acquainted with the current systems and technology work ongoing within activities of the Navy." (82)

- The Air Force issued a task under a basic ordering agreement (BOA) for \$98,000, for a feasibility study on developing a model to be used by program managers to

assess and measure the impact of the Integrated Computer Aided Manufacturing Program on the aircraft industry. This contract resulted from an unsolicited proposal by a firm whose Vice President was a former Deputy Assistant Secretary of Defense. This individual had published several articles and papers relating to the subject matter of the contract. In April 1980, the contractor submitted another unsolicited proposal to perform an additional effort as a continuation of the work. The additional effort proposed included a basic task of developing the model and two options at a total additional cost of \$400,000. An order for the development of the model was awarded to the contractor on a sole-source basis in August 1980. The negotiated price of this order was \$178,655. (253)

- As a result of unsolicited proposals, the Navy awarded two sole-source contracts for \$281,032 to aid in its wartime manpower study. The contractor has assisted the Navy in manpower studies since 1977. The total cost for this "assistance" is \$527,632. It should be noted that the contractor's leading expert was a former high ranking DOD official within the Office of Chief of Naval Operations. (101/102)
- The Army awarded a sole-source contract for \$98,997 to provide engineering support in the wire cable connection and cable accessories area. The contract value was subsequently increased by \$161,906. In this case, the contractor provided the DOD activity the justification for contracting out in its unsolicited proposal. The contractor's proposal stated that as a result of reorganization, the Army lost in-house capability to staff the areas associated with wire and cable applications and that contractor support would be required to assist the Army to carry out its mission. In our opinion, this example clearly illustrates the degree of knowledge contractors have of DOD activities. (205)
- The Navy awarded a sole-source contract for \$824,756 for various technical tasks associated with the F-18 project. The contractor has been assisting the F-18 project on various tasks since February 1975. Under its contracts for fiscal years 1977 and 1978, the contractor helped the project office develop the F-18 Program Master Plan and the Production Readiness Review Plan. Toward the end of fiscal year 1978 the contractor submitted an unsolicited proposal offering

to provide for a 3-year period, technical and management assistance in preparing for production of the F-18. The Navy justified giving the contractor the award because the contracted work was a direct continuation of the work begun under its two prior contracts and, therefore, the contractor was uniquely qualified to deal with the problems associated with implementing the plans developed under those contracts. (71)

--The Army awarded a contract for \$199,505 based on an unsolicited proposal to study the readiness and sustainability of selected combat and artillery units. The contractors' capability to perform as outlined in the proposal was based on using former DOD employees, some of whom retired from the program office making the subject award. (149)

FORMER DOD EMPLOYEES

The involvement of former DOD military and civilian employees in contracts with DOD is extensive. Of the 256 contracts reviewed, 131, or 51 percent, valued at about \$52.6 million involved former employees in capacities of top management as well as various technical levels (e.g., engineers). In most cases, the former employees were working for a prime contractor. We believe that extensive involvement of former employees raise questions as to (1) the extent DOD uses the skills of former employees to perform functions similar to those that the employees performed while employed by DOD, (2) the objectiveness of work performed by former employees in areas where they were formerly involved while at DOD, and (3) the degree of influence used by former top level DOD officials in securing contracts with DOD.

Some examples which, in our opinion, raised the foregoing questions follow.

--A contract was awarded on behalf of OSD for \$294,597 to survey drug and alcohol use and abuse within the military services. Due to misunderstandings between DOD and the contractor, the contract was modified, expanding the scope of work and increasing the cost by \$175,872. DOD officials acknowledged that in-house capability existed to perform the study, but because of past congressional criticisms, the decision was made to obtain an objective assessment from a contractor. The contract was awarded to a firm whose Vice President was a former Director of Research and Evaluation in

the Office of Drug and Alcohol Abuse Prevention within the Office of the Assistant Secretary of Defense. (5)

- The Army awarded a contract for \$29,995 to a retired DOD employee to prepare an annual report on DOD research facilities. This is the fourth in a series of contracts awarded to this individual which aggregate \$120,345. The annual report is the same report that the contractor assisted in or prepared from 1966 to 1973 as a DOD employee. Program officials told us they are aware of the fact that the report should be prepared by in-house staff, but they do not intend to do anything about it. (144)
- The Navy awarded a sole-source contract for \$23,682 to analyze and revise the current Bureau of Naval Personnel Manual. The contract was awarded to a firm whose Project Manager was a former Assistant Deputy Chief within the Bureau of Naval Personnel (Plans and Programs). The contract has been modified two times expanding the scope, extending the period of performance 9 months, and increasing the cost by \$22,584. (104)
- The Navy awarded a \$73,576 contract for engineering analyses in support of the Anti-Submarine Warfare Operations Center Program. The contract evolved from an unsolicited proposal, in which the contractor stated that the Navy no longer had the personnel to carry out its responsibilities; however, the contractor had the expertise. The contractor's expertise was based on using two former program office employees. One was a project engineer for the Anti-Submarine Warfare Operations Center Program and the other was a project engineer/program manager of a related program office. These individuals left the Navy when the company was formed and are principals in the firm. (83)
- The Air Force awarded a \$21,844 contract to develop and validate methods for specifying certain allowable lag times in aircraft simulators. The contractor's manager for this project formerly held a supervisory position at the installation where the program office is located. The manager left the position in December 1977 and went to work for the contractor the following month. Within 4 months the contractor submitted an unsolicited proposal to do the work, naming the former employee the project manager. (243)

--The Navy awarded a contract in the amount of \$45,648 for engineering services and technical support for the Harpoon Foreign Military Sales Program. The contract was awarded on a sole-source basis because of the contractor's expertise. The expertise was provided by a retired Naval officer, who as the Harpoon Weapon System Readiness Officer in the Navy, had worked on the Harpoon Foreign Military Sales Program. The contract was the fourth annual contract awarded to the contractor for these services. The first contract was awarded in the same year the officer joined the contractor. What would have been the fifth annual contract, however, was awarded to another contractor when the retired Naval officer left the original contractor and went to work for the new contractor. (86)

WORK OF CONTINUING NATURE

The inherent governmental nature and continuing need of many of the contracts we reviewed raises questions as to the development of in-house capability within DOD. These contracts are in essence "buying bodies" to augment the DOD work force. The fact that these services are continuing also raises the issue of the adequacy of personnel ceilings as well as DOD's management of current personnel ceiling limitations. These issues will be discussed more fully in chapter 3.

CHAPTER 3

CONTRACTUAL RELATIONSHIPS THAT DO NOT END

As a result of "unique in-depth knowledge," "qualifications," or "unique expertise obtained during performance of previous work," we found contractors essentially being assured of continuous contracts resulting in virtually perpetual sole-source positions.

CONTINUOUS NATURE OF CONTRACTS

We found that 146 contracts, or approximately 57 percent, of the contracts reviewed valued at \$149.2 million were repeatedly renewed--ranging in periods from 2 to 28 years. Most of these contracts were for engineering and technical services. In these contracts, DOD was, in effect, procuring various levels of effort in the form of engineering direct labor hours each year. Because of in-depth knowledge, the contractors were virtually assured of continuous support contracts.

The following are some examples of continuous contractual relationships.

- A sole-source contract for \$248,561 was awarded by the Navy with an option to increase the level of effort by 300 percent. The level of effort was increased by a total of \$745,800. The contractor was to develop reliability and maintainability data for ground support equipment. This effort has been performed by the contractor for the last 8 years. Program officials told us there was no need to develop in-house capability because the need for services, such as those furnished by the contractor, were sporadic. In our opinion, 8 years of similar services is not sporadic. (112)
- The Air Force awarded a sole-source contract for \$1,624,037 to (1) provide support to a program office's data base and (2) provide in-depth studies of Soviet and People's Republic of China research and development facilities and resources. The contractor has had a sole-source contract to perform this type of work since 1951--a period of 28 years. Program officials told us that there have been no studies performed of the relative costs involved in contracting out versus performing the work in-house. All indications are that this work will continue to be contracted out on a sole-source basis in the future. The contract was modified three times expanding work scope, extending period of performance 4 months, and

increasing costs by \$1,298,000 to \$2,922,037.

It should also be noted that three of the contractors' employees involved with the work are former DOD employees/service members, and a consultant to the contractor was formerly assigned to the program office. (238)

- The Army awarded a sole-source contract in the amount of \$16.2 million providing 420,000 direct engineering and support hours for tanks. The contractor has been providing similar service for the past 20 years. The Army depends on the contractor to provide these services because of the long history of continuous service and the knowledge of the contractor. Program officials are doubtful whether any other contractor would have sufficient expertise to perform the services. (159)
- A sole-source contract for approximately \$2.2 million was awarded by the Army to provide technical support for tank engines. Under this contract, the contractor is required to provide 44,500 hours of engineering and related support for the engines. The same contractor has continuously provided this function for 17 years, when this engine was first deployed. The justification for sole source was that the contractor was the sole producer of the engine and had the technical personnel with in-depth knowledge and complete technical data necessary to provide the required services. (160)
- The Army awarded a 12-month \$3,365,250 sole-source contract for engineering services to maintain the operational performance and reliability of the AN-TSQ-73 Missile Minder system. The Army has had similar contracts with the contractor since 1974. Army officials told us that the contractor's engineering support will probably be needed on a continuous basis for several more years. Although the system has been fielded since November 1978, this recurring effort is needed because the Army lacks the technical base to support the system. Through fiscal year 1980 these contracts cost the Army more than \$36 million. (173)
- The Navy awarded a \$190,000 contract to continue for the 7th year studies of economic and cost factors of the strategic weapons system in support of the systems vulnerability and effectiveness effort. The total contract amount was subsequently increased by \$65,000. Program office officials advised us that the Navy's decision to use the contractor to develop the in-house DOD capability to do missile cost analyses was the

basis for the contractors initial effort. The contractor was then able to receive follow-on sole-source contracts on the basis of the initial and ever increasing experience. We were further advised that the Navy planned to extend the contract another year, through fiscal year 1981, at an additional cost of \$50,000.

(31)

--The Navy awarded a \$4,354,000 contract to develop analytical models and conduct studies for prediction and validation of weapon system accuracy. To complete these tasks, the contractor was to provide 111,000 man-hours level-of-effort. The contractor was awarded this effort sole source on the basis of his previous 11 years of similar continuous support to the Navy. Modifications to this contract amounted to \$94,000. Although program officials acknowledged the possibility that the present line of effort, which (formally) began 6 years ago, could have been competitively procured, they, nonetheless, plan to continue similar contractual relationships with the same contractor through fiscal year 1982. In fact, the fiscal year 1980 contract for continued services will cost \$6,558,000. (32)

CHAPTER 4

CONTRACTING PRACTICES

The contracting methods and procedures used by DOD do not assure that (1) the services are needed, (2) adequate competition is obtained, nor (3) that the costs proposed are reasonable. In our opinion, many of the foregoing problems can be traced to the extensive reliance on, and influence of, contractors to perform management support services.

NEED FOR SERVICES

Of the 256 contracts reviewed, we found 44, or about 17 percent, valued at \$6.8 million, to be of questionable value in terms of DOD's priorities and mission. The criteria we used to make this judgment were basically (1) the subject matter of the contract indicated that the information should already be available in the Federal Government, (2) the questions raised which justified the study could or should have been answered by the service itself and/or other DOD activities, or (3) the contract results appeared to be of questionable use to DOD. We believe the following examples illustrate questionable services.

- A sole-source contract was awarded on behalf of OSD for \$89,850 based on an unsolicited proposal to analyze equal opportunity functions, positions, and training within DOD (exclusive of Marine Corps). Phase 2 of the contract increased the total cost to \$137,179. DOD program officials told us that some of the information to be developed by the contractor was already available within DOD and the reason for the contract was because of a lack of confidence in the in-house capacity to conduct the work. (13)
- OSD awarded a sole-source contract totaling \$79,909 as modified for

"studies of nonpecuniary factors in the Federal approach to pay comparability and the feasibility of monetizing these nonpecuniary factors for consideration in the pay comparability process."

When asked if this was an impossible task, an OSD official said "that's what makes it interesting." This same official said the intent of the study was to obtain research support to "derail" the Office of Personnel Management's proposed legislation on pay comparability. In our opinion, the degree of difficulty inherent

in these studies and the existing executive branch legislative proposal made this effort highly questionable. (3)

- The Army awarded a sole-source, \$398,551 contract to fly Army-owned MQM-107 aerial targets. The Army contracted for 67 flights, but only used 28. Even though the Army knew early in the contract period that a substantial number of the flights would not be used, the contract was never modified to reduce the requirements. Army officials told us that the contractor received the full contract amount because the Army had tests scheduled throughout the contract period. Had the flights been rescheduled, the contract period could have been shortened and the contract price could have been reduced. (182)

- The Army awarded a contract for \$131,374 to study and determine the degree of field artillery specialization that would be required for a U.S. Corps in the North Atlantic Treaty Organization during the period 1985-90. This study was performed for the Field Artillery School. Program officials, however, told us that the Field Artillery School was interested in conclusions and recommendations set forth in the final report, but no changes would be made to the traditional approach currently employed at the school. One possible reason cited by program officials for not making changes was that those involved were more comfortable with traditional methods of field artillery functions. Moreover, we believe the subject matter of this contract should have been within the in-house capability of DOD. (148)

- The Navy awarded a \$124,529 contract to provide engineering and management support of a development surface effect ship. Shortly after this contract was awarded, and before the first task was issued, DOD terminated the prime ship development contract. At that time the engineering and management support contract could have been terminated for the convenience of the Government; however, program officials advised us that at the direction of higher officials, they were urged to continue this effort. The Navy, in an effort to obligate, rather than lose any portion of the program's remaining \$4.1 million fiscal year 1980 budget, programmed an additional \$96,000 to continue engineering efforts on a program that was canceled by the Congress. (48)

--A Navy contract was awarded for \$43,000, of which \$23,000 was for data on the technical aspects of a Naval test range. The data was to be used in making a decision on the relocation of the test range. Program officials told us that the technical data was available and could have been obtained directly from the Naval activity operating the range. This activity, however, was not contacted because its objectivity was considered questionable. Instead, a contractor was paid to obtain the data from Navy sources. (73)

SOLE-SOURCE AWARDS

We found sole-source contracting to be the rule rather than the exception at DOD. Of the total 256 contracts reviewed valued at about \$175.4 million, 211 (82 percent) totaling about \$156.7 million were sole source. The following table illustrates the degree of sole-source contracting.

Sole-source Contracting at DOD Purchasing Offices Reviewed

<u>Type of award</u>	<u>No. of contracts</u>	<u>Total value of contracts</u>	<u>Contracts</u> (percent)	<u>Value</u>
Sole source	211	\$156,685,729	82	89
Competitively awarded	<u>45</u>	<u>18,718,930</u>	<u>18</u>	<u>11</u>
Total	<u>256</u>	<u>\$175,404,659</u>	<u>100</u>	<u>100</u>

The justifications for sole-source contract awards were essentially based on the contractor's previous and/or continuous contractual relationship with DOD. The justifications cited either "unique experience" or "in-depth knowledge of operations." The need for timely completion was also cited as a reason for sole-source awards. Contributing factors involved in sole-source awards are unsolicited proposals and the involvement of former DOD employees in contract performance. Some examples of sole-source awards follow.

--A sole-source contract was awarded for \$30,000 on behalf of OSD for a consultant/expert to assist in the development and support for a new North Atlantic Treaty Organization Logistics Directorate. The sole-source award was justified on the basis of immediate

time requirements. As a result of modifications, the due date of the final product was extended by 7 months. The final report was completed and delivered 6 months beyond the extended due date. Program officials stated that two of five options considered at the time, identified the use of in-house personnel to accomplish this task. (25)

- An OSD contract valued at \$192,696 was issued to develop a standard methodology of forecasting personnel requirements for the Foreign Military Sales Program. The contract was the result of an unsolicited proposal by a contractor who had formerly developed a personnel accounting system for the program. The sole-source justification cited urgency because the results were needed for the budget submission. The final product, however, was not due until November 15, 1980--too late for the budget submission. (2)
- A sole-source contract on behalf of OSD was awarded for \$27,500 to develop a training course for DOD executives in personnel management. This award was based on an unsolicited proposal. The program official was not satisfied with the draft product and it has been returned to the contractor for substantial revisions. The final product had not been delivered when we completed our review--this is 11 months after the original contract due date. It should also be noted that a preaward legal review of the contract found the justification for sole source was not acceptable. (26)
- The Navy awarded a contract in the amount of \$84,881 to analyze the Navy Air Systems Command production management activities. The contract was awarded on a sole-source basis because the Navy stated that a 3-month delay required to familiarize a new contractor would significantly impede the performance of its production management function. However, a year after the completion of the contract, the Navy had not yet staffed the office having responsibility for implementing the contractor's recommendations. (67)
- The Navy awarded a sole-source contract for \$49,277 to conduct studies and analyses to define the preliminary integration approach of the MK-23 Target Acquisition System. The Navy awarded this effort to the contractor on the basis that since the firm had manufactured the MK-23, it was the only firm able to accomplish this effort. Program officials acknowledged to us that the contract, which now totals \$362,623, as

a result of four modifications, could probably have been competitively procured. Further, the officials advised us that an additional \$300,000 would be necessary to complete the work. The officials, however, did not believe that the additional work would be competitively procured. (46)

--The Air Force awarded a contract for \$92,252 based on an unsolicited proposal to study flight simulator software techniques. The sole-source justification stated that the study required a computer and personnel with unique qualifications. Further, this contractor was the only company with personnel available with these qualifications. However, \$26,863, or about 65 percent, of the direct labor cost of \$41,188 was subcontracted to consultants. Another \$31,488 was for the contractor's overhead and administrative costs. (248)

--A sole-source award for \$56,269 was made on behalf of the Army to perform research on improving the management of an armor battalion. A program official told us that the final product was of marginal value. This work requirement was based on an unsolicited proposal. (27)

LAST QUARTER SPENDING

Of the 256 contracts reviewed, we found 88, or about 34 percent, valued at about \$21.8 million to be awarded in the last 90 days of the fiscal year. The procurement request in 26, or approximately 30 percent, of these contracts originated in the last quarter. We also found that modifications valued at \$16.7 million were executed in the last quarter of the fiscal year. In most cases where the procurement request originated in the last quarter, they appeared to result because of the availability of funds near yearend.

We believe that such awards cast doubt, at least in some cases, on the legitimacy of DOD's requirements for the contract services. Examples of the last quarter spending where the procurement request and award were made in the last 90 days of the fiscal year follow.

--The Air Force awarded a competitive contract for \$26,102 to calculate infrared signature data on two targets and to perform a model validation study. The award was for about \$44,000 less than the amount programmed, partially because the contractor was going to use the results of a related effort. Since about two-thirds of the money programmed was still available, the

Air Force modified the contract on September 28, 1979, to include infrared signature data for a third target. It should also be noted that the contractor has performed similar contracts since at least 1970.

--On an Air Force BOA for services and supplies in support of interceptor systems, we found that 12 of the 14 tasks issued against it were awarded in the fourth quarter of fiscal 1979 and 8 of the 12 were awarded in the last month of the quarter. The 12 tasks totaled about \$1.8 million, or about 97 percent, of the total dollar value of all tasks issued in that year. The procurement request for 10 of the 12 tasks were also issued in the fourth quarter. (209)

--The Air Force awarded a BOA for engineering studies on the C-130/140/141 aircraft. Twelve delivery orders were issued against the BOA, six of which were issued in fiscal year 1979. All six of the delivery orders were issued in the fourth quarter obligating \$1,026,000. Of that total, \$977,500 was obligated within the last 4 days of the fiscal year. (210)

--On September 4, 1979, the Navy awarded a sole-source \$830,000 contract to provide engineering support for a shipbuilding project. As of September 28, 1980, only two tasks totaling approximately \$300,000 were issued. On September 29, 1980, 1 day before the end of the fiscal year, three new task orders were issued and the scope of a previous task was increased for a total of \$530,000. These tasks used up the original \$830,000 obligated under the contract. (60)

NATURE OF CONTRACTS USED MAY RESULT IN EXCESS COSTS

The nature of contracts used for management support services at DOD are not conducive to minimizing costs, and in some cases, could contribute toward obtaining additional work without properly considering the need for, or usefulness of, such work.

Cost-plus-fixed-fee contracts

In 158 of the 256 contracts reviewed (about 62 percent), a cost-plus-fixed-fee (CPFF) contract was used to procure management support services. A CPFF contract is a cost reimbursement type of contract which provides for the payment of a fixed fee to the contractor regardless of the costs incurred by the contractor. The fixed fee changes only when

the scope of work changes. Because the contractor is reimbursed for costs incurred, the contractor's incentive to control costs is minimal.

There are two basic CPFF contract forms, Completion and Term. The Completion form normally requires the contractor to complete and deliver an end product, such as a study report, to earn the fixed fee. However, to earn the fixed fee under a Term form contract, the contractor need only apply a specified number of labor hours in various skill levels within a stated period of time to the scope of work described in the contract. The Term form, because the contractor assumes less of an obligation, is the least desirable of the two. Many of the contracts we reviewed were of the less desirable Term form of CPFF contracts.

Usually the CPFF contract is used where dollar amounts are large, the work specification cannot be defined exactly, and the uncertainties involved in performance are so great that neither a firm price nor an incentive arrangement can be established during the life of the contract. For the contracts reviewed, we found the justification for using a CPFF contract was "boilerplate" in nature and was generally based on a determination that work could not be estimated with any reasonable degree of certainty that would permit the use of any type of fixed-price contract.

A typical example of a justification for use of a CPFF contract is:

"The exact nature and extent of the work covered by the proposed contract and the precise method of performing that work cannot be established in advance * * *."

The statement of work is a critical factor in achieving competition for management support services. DOD, however, does not appear to have sufficient expertise to articulate a statement of work to provide the basis for competition--hence contractors, through unsolicited and informally solicited proposals are describing the work to be performed. This also is a major factor for the high incidence of sole-source awards. The fact that DOD is not in a position to articulate an adequate statement of work for competitive purposes also raises questions as to its capability to evaluate contractor performance.

Time and material contracts

Our review included 30 time and material contracts valued at about \$12.7 million. A time and materials contract provides for the procurement of supplies and services on the basis of direct labor hours at negotiated labor hourly rates which includes profit, overhead, and general and administrative expenses. It should be used only when it is not possible at the time of awarding the contract to estimate the extent or duration of the work or to anticipate costs with any reasonable degree of confidence.

Because the contractor's profit increases proportionally with the expenditure of labor hours, this type of contract does not encourage effective cost control. It may be used only after a contracting officer's determination that no other type of contract will be suitable. The following is a typical determination.

"Timeliness, flexibility, and continuity of effort is of the essence in this procurement. The scope of work is not in sufficient detail to accurately project the type of effort. Inasmuch as the specific requirements cannot be definitely established, the contractor would be unable to submit a proposal on either a fixed price, CPFF, or CPIF basis * * *."

Since this type of contract does not encourage effective cost control, it requires almost constant Government surveillance, and can be expensive to administer. It establishes a ceiling price which the contractor exceeds, presumably, at his own risk. However, in practice, the contractor assumes virtually no risk because the Government must either pay requested additional costs or not receive a final product. A few examples illustrate the contractor's relative advantage under time and materials contracts.

--An Air Force time and materials contract was awarded with a ceiling price of \$95,000 to define requirements necessary to increase the operational readiness level of certain equipment. The contractor could not meet the contracted due date, and the contract was modified four times, increasing the ceiling price to \$234,000, and extending the period of performance 5 months. The program manager told us that the modifications were necessary to receive a final product. (207)

--An Air Force time and materials contract for \$1.4 million was awarded to a contractor to correct deficiencies

on a previous contract. With 85 percent of the money expended, the contractor notified the Air Force that an additional \$450,000 would be necessary to complete the effort. In this instance the money was not available. The contractor, therefore, ceased work after consuming the \$1.4 million, leaving the Air Force with an uncompleted contractual effort which had to be completed in-house with the help of a second contractor. (208)

--The Air Force awarded a sole-source, \$74,900 time and materials contract to develop a solid state electronic countermeasure component. While the contract resulted from an unsolicited proposal, the Air Force justified the procurement because of the low reliability, excessive size and weight, high cost of the current component, and the increasing demand for a more reliable and effective system. Near completion of the 12-month contract, the contractor told the Air Force that there was not enough money available to finish the job and that "* * * it is now quite obvious that there was never sufficient funding available * * *" to complete the work. Yet the amount awarded was the exact amount requested by the contractor. The Air Force gave the contractor an additional 3 months to complete the work at which time the contractor asked for a second 3-month extension and additional funding. This being a time and materials contract, the Air Force had two options, either provide the requested time and funding or discontinue the effort. The Air Force chose to discontinue the effort after 15 months and \$74,900 in sunk costs. (206)

--At an original cost not to exceed \$88,000, the Army awarded a time and materials engineering and technical services contract. The Army raised the contract ceiling price twice, once to \$99,000, and again to \$236,000. Program officials told us that the increases were to cover an unexpectedly high demand for the services from various project offices. (179)

BOAs

There were 11 BOAs included in our review. A BOA is an agreement specifying the types of supplies and services to be furnished by a contractor upon receipt of a delivery order. BOAs may list one or more activities which are authorized to procure under the agreement. Total funding under a BOA cannot be predicted because there is usually no limit to the number of delivery orders which may be placed against it. BOAs are

convenient because administrative time is shorter than other contractual methods. Abuses can occur, given the wide variety of tasks which are performed under BOAs and the fact that they can be used by all services.

The Air Force's use of BOAs to obtain services in support of various systems at Robins Air Force Base demonstrates how costs can escalate when BOAs are used. Through 1976 these services were procured by contract and cost the Air Force about \$210,000 annually. In 1977, the 1st year a BOA was used, these support services cost the Air Force more than \$8 million.

CHAPTER 5

CONTRACT MODIFICATIONS AND

UNTIMELY DELIVERY OF RESULTS

MODIFICATIONS

Modifications valued at about \$73.8 million were made in 176 of the 256 contracts reviewed. Original costs of the contracts included in our review nearly doubled as a result of modifications. In addition, modifications also increased scope of work and extended the period of contract performance. This section is provided to show the extent of modifications without any evaluation as to their appropriateness or reasonableness of the costs incurred in relation to the services or supplies acquired. The following table shows the results of our review.

<u>Original contract value</u>	<u>Total no. of modifications</u>	<u>Total value of modifications</u>	<u>Total cumulative contract value</u>	<u>Percent of dollar increase in contract value</u>
(millions)		(millions)		
a/ \$ 84.6	735	\$73.8	\$158.5	87%
b/ 101.6	735	73.8	175.4	73%

a/Value of contracts which were modified.

b/Total value of all contracts reviewed.

In addition, the work was frequently not accomplished within original time frames. Of the 256 contracts reviewed, 115, or approximately 45 percent were not completed within the originally specified time period. Extent of late delivery ranged from 1 month to 31 months or more. The following table breaks down the months of delay for contracts reviewed.

<u>Months of delay</u>	<u>Number of contracts</u>
0	a/141
1 to 5	75
6 to 10	24
11 to 15	12
16 to 20	2
21 to 25	1
26 to 30	0
31 and over	<u>1</u>
Total	<u>256</u>

a/Includes 43 contracts for which specified period of performance had not expired at the time of our review. Consequently, we do not know whether delays will be experienced on any of these contracts.

Of the approximately \$73.8 million of modifications to the contracts reviewed, about \$11.7 million were related to DOD's exercise of various options which were included in the original contract. The use of options strengthens the contractor's sole-source position and may have a tendency to encourage work which is not really essential because of the administrative ease by which options can be exercised.

The following are a few examples which illustrate contract modifications.

--A sole-source contract awarded on behalf of OSD for \$49,606 to investigate the system factors that affect Army attrition. The sole-source justification stated that the contractor was uniquely qualified to perform the work in the time required. The contract has been modified three times, expanding work scope, extending period of performance 14 months, and increasing costs by \$34,455. Documents in the contract file indicated that a program official started to have doubts about the modifications and cost, but elected to proceed. The official, however, told us that there is a good possibility of more follow-on work under this contract.
(17)

--The Army awarded a sole-source contract for Hawk missile system engineering services. The Army subsequently modified the contract 60 times. The modifications exercised contract options which increased the scope of work from 159,365 hours to 788,583 hours, increased the contract cost from \$6,278,981 to

\$33,278,640, and extended the contract completion date from September 30, 1979, to September 30, 1981. The Army has had engineering services contracts with the contractor since 1956 at a cumulative cost of more than \$273 million, and program officials expect such services to continue throughout the life of the Hawk system--at least until the early 1990s. (181)

- A sole-source award was made by the Navy for \$74,984 to develop and implement plans and programs to enhance aviation maintenance and material management techniques which will provide visibility and improvements in operational readiness. During performance of the contract, the contractor proposed an expansion of the scope of work to cost an additional \$264,111. The contract was modified for a cumulative value of \$339,096. It should be noted that the work contracted for was not included in the fiscal year 1979 budget. Program officials told us that the requirement was unanticipated. (136)
- An unsolicited proposal resulted in the award of a \$168,528 contract to provide DOD decisionmakers with a rational base for functional redirection and improvement of an intelligence commands' production activity. The contractor was performing other work for the intelligence community. The contract has been modified two times to date, increasing the work scope at an additional cost of \$341,775. It should also be noted that key officials of the contractor are former high ranking DOD employees. (7)
- The Air Force awarded a \$95,000, 3-month contract to develop test equipment specifications and a preproduction statement of work for flight-line test equipment. Although the scope of the work did not change, the contract period was extended by about 5 months and the Air Force increased the contract price by \$139,000. Even with the modifications, the contractor failed to meet expectations. The contractor's final report was incomplete and it could not be used as intended. As a result, the Air Force had to complete the effort. Air Force officials told us that the Air Force and the contractor underestimated the difficulty of the contract tasks. (207)
- The Navy awarded a sole-source contract in the amount of \$268,799 to provide engineering and analytical support for the air-launched cruise missile, complete development and implementation of a deficiency reporting system, and develop a document management system

for the records generated by the Joint Cruise Missile Contract Division. The contract was modified to provide support of the air-launched cruise missile flight-test schedule for an additional \$674,298, of which \$554,867 was for subcontracted services to be provided by a university. (90)

CHAPTER 6

THE UNIVERSE OF CONSULTANT SERVICES

MUST BE UNDERSTOOD BEFORE IT CAN

BE EFFECTIVELY CONTROLLED

Members of the Congress have expressed concern over the narrow definition of consulting services. The current OMB definition for consulting services does not provide sufficient visibility over the universe of contract management support services at DOD. Since many of the problems we found apply to contracts not classified as consulting services, we believe that controls for such services should apply to a broader universe.

CONFUSION OVER WHAT IS A CONSULTING SERVICE

Our review of consulting service contracts at civilian agencies ^{1/} disclosed that the agencies were experiencing problems in reporting accurate data on consulting service contracts. We have also found this to be true for DOD. The fundamental problem with the OMB definition is that it continues to be vague and subject to interpretation and judgment. Consequently, interpretations vary on what a consulting service is. The definition as stated in OMB Circular A-120, "Guidelines for the Use of Consulting Services," dated April 14, 1980, is:

"* * * those services of a purely advisory nature relating to the governmental functions of agency administration and management and agency program management."

Also, the circular provides limited examples of the type of services covered and explains that such services are normally provided by persons and/or organizations who are generally considered to have knowledge and special abilities not available within the agency. (See app. VI for circular.)

OMB officials interpret this definition to include those consulting services which provide agencies input for making policy, management, and program decisions. Thus, contracts where the main intent is to provide recommendations or advice

^{1/}"Controls Over Consulting Service Contracts at Federal Agencies Need Tightening" (PSAD-80-35, Mar. 20, 1980).

would be considered consulting services. Conversely, contracts for management support and studies not providing recommendations or advice would not be included.

DOD'S INTERPRETATION

DOD's interpretation of contract consulting services has been extremely narrow. Consequently, figures reported by DOD are grossly understated. For example, DOD's initial estimate for consulting service contracts in fiscal year 1981 was a mere \$2.8 million. This compares to about \$1.5 billion estimated for special studies and analyses and professional management support contracts. OMB and DOD have worked together to achieve a more reliable estimate, which resulted in a revised DOD estimate for consulting services in fiscal year 1981 of about \$130 million. We believe this revised estimate still falls far short of a reliable estimate because of DOD's narrow interpretation of what a contract consulting service is.

DOD defines a contract consultant as an expert or consultant employed by a personal service contract where it is impractical to obtain the services through excepted appointment procedures. Contracts with individuals or firms for nonpersonal services (e.g., preparation of reports or documentation and other similar tasks related to management and control of programs) are excluded from the contract consulting category. Instead, they are reported as professional management and services by contract.

The above clearly illustrates why the figures for contract consulting services in DOD are unreliable and substantially understated. DOD has recently taken action to expand its interpretation of consulting services. However, the impact could not be determined at the time of our review.

In addition, the Defense Audit Service, in a recent report 1/ noted that DOD was unable to totally identify contracts for consulting services defined by the OMB guidelines. The report further stated that the difficulty was mainly attributable to the lack of uniform interpretation among DOD components regarding the specific identification as to what constituted a contract for consulting services. As a result, data accumulated for this purpose was incomplete and generally unreliable when reported.

1/Report on the Review of the DOD Consulting Services Program, No. 80-128, September 2, 1980.

Our discussions with contracting officers at some of the purchasing offices visited disclosed that very few had an adequate understanding and/or knowledge of OMB Circular A-120. Most of the contracting officers interviewed stated that they were not specifically aware of the circular's provisions. This fact is significant because OMB requires the contracting officers to be responsible for assuring that contracts are properly classified as consulting services.

A BROADER UNIVERSE SHOULD BE CONTROLLED

Consulting services are a small part of the overall universe of management support services at Federal agencies. Recently, Federal agencies submitted fiscal year 1981 budget estimates to OMB for consulting services. About \$400 million was estimated to be spent for such services. In fiscal year 1979, the same Federal agencies reported that about \$3 billion was spent for Management and Professional Services and Special Studies and Analyses. As is evident, the amounts estimated for consulting services are relatively insignificant compared to the universe of management support services.

Our appearances before congressional subcommittees at hearings as well as several meetings with various congressional subcommittee staff have indicated to us that members of the Congress are concerned that a broader universe be controlled. Congressional concern can best be illustrated by proposed legislation 1/ which was introduced in June 1980 by Senator David Pryor and Congressman Herbert Harris II. In the proposed legislation, intended in part to provide statutory guidelines concerning the award of contracts for consultants, the term report was defined as:

"* * * a study, plan, evaluation, analysis, manual, oral, or written presentation or other document, including drafts thereof, which is prepared by a contractor pursuant to a contract with an agency
* * *."

It is clear that the preceding definition contemplates much broader coverage than OMB's definition of consulting services in that it does not necessarily require studies to contain advice and/or a recommendation.

In our opinion, it makes little sense to focus attention and establish special controls over only consulting services as defined by OMB. This is because we have found essentially

1/Senate and House Bills, S-2880 and HR-7674.

the same types of problems in all types of contract management support services--not just consulting services. In our report on civilian agencies 1/ we recommended that the Director of OMB work with the Congress to achieve a better and more uniform understanding of the consultant service definition in terms of coverage, clarity, and congressional needs. We believe this still needs to be done.

WHAT MIGHT BE A BETTER WAY

The universe of contract management support services needs to be clearly defined to provide the basis for accurate reporting and control of these services. One way to provide visibility would be to use the existing procurement coding structure of the Federal Procurement Data System. All Federal agencies are required to report individual contract actions over \$10,000.

These contracts are coded in various procurement categories which include consulting services as defined by OMB as well as other types of contract management support services. Most of the pertinent data is available to provide visibility over a broader universe. The key is in defining what universe should be brought under control and in what format it should be reported to the Congress and OMB.

The universe

The universe should at least encompass the categories of service which have been of recent concern, including those in this report. Therefore, as a minimum, we believe the universe should consist of

- Consulting Service contracts as defined by OMB,
- Management and Professional Services, and
- Special Studies and Analyses.

In addition, codes in Research, Development, Test, and Evaluation should be included, at least to the extent that management and support activities are involved.

1/"Controls Over Consulting Service Contracts at Federal Agencies Need Tightening" (PSAD-80-35, Mar. 20, 1980).

CHAPTER 7

CONCLUSIONS AND RECOMMENDATIONS

CONCLUSIONS

We believe that proper use of management support services can be a normal, legitimate, and economical way for DOD to satisfy its mission requirements. We further believe that DOD should continue to have the option to use management support services where appropriate. Nevertheless, our review has revealed serious problems as well as issues relating to DOD's use of contract management support services. These problems range from the lack of in-house capability, the influence of contractors over DOD's requirements as well as defense management, the continuous nature of the support services, and poor contracting practices highlighted by the almost exclusive use of sole-source contracts.

Our current review, as well as our previous review of consulting services at civilian agencies ^{1/} have clearly shown that the foregoing problems exist for the entire universe of support service contracts--not only in DOD, but the entire Federal Government. These problems are not unique to consulting service contracts as defined by OMB. As a result, we believe the current definition is inadequate in that the management controls outlined in OMB Circular A-120 should apply to a broader universe of contract management support services.

Issues

DOD depends on contractor support in virtually all segments of its operations. While this fact is not bad per se, several issues must be addressed to assure that DOD is in control of determining its requirements and that those requirements are being met in the least costly manner. In this respect, we have the following concerns:

- That DOD has sufficient personnel or uses its personnel to the fullest extent practical to accomplish functions which, by their nature, should be performed in-house. We are concerned over DOD's apparent dependence on, and the influence of, contractors in generating requirements. Our concerns are

^{1/}"Controls Over Consulting Service Contracts at Federal Agencies Need Tightening" (PSAD-80-35, Mar. 20, 1980).

manifested by the large number of unsolicited proposals and sole-source awards, the involvement of former DOD employees, and the continuous nature of some contractual services.

--That moneys are being spent for services which are questionable in nature in terms of meeting DOD's defense mission. We found several instances of what we believe to be services of questionable value. These contracts were usually based on unsolicited proposals and involved services which should have been performed by in-house personnel if they were deemed necessary.

--That contracting practices be improved for those services which legitimately should be contracted out. Our concern here is that DOD be in more control over determining its requirements in order that competition be obtained to the maximum extent practical to assure the lowest possible cost.

The fundamental problem this report deals with is DOD's reliance on contractors to perform defense management functions which should be performed in-house. This has resulted, in part, from current personnel ceiling limitations. Solving the personnel ceiling problem is essential to achieving effective corrective action for the problems brought out in this report. We are currently reviewing the issue of personnel ceilings Government-wide and will provide further insight on the ceiling problem at a later time.

To provide a framework for evaluating and controlling the extent of contracting out for management support services, we believe the broadest possible definition of management services should be used instead of the current OMB definition of consulting services which, in our opinion, is too narrow and subject to wide interpretation. One possible approach to this problem has been discussed in chapter 6.

RECOMMENDATIONS

GAO has issued over 30 reports during the past 20 years identifying deficiencies related to the use of consulting services. One of the major issues identified was the failure to obtain adequate competition in awarding procurement contracts for these services. Additionally, the Congress has repeatedly voiced concern over the lack of competition in awarding these contracts. Normally, GAO is opposed to legislative remedies for problems that should be

resolved administratively. However, GAO believes this problem is serious enough in DOD to warrant legislative action.

Accordingly we recommend the Congress, as an interim measure, consider legislation which would minimize the funding of sole-source contracts for management support services and the funding of such contracts resulting from unsolicited proposals. One way to accomplish this might be to establish quotas for a period of 2 to 4 years. For example, the Congress might provide that not more than 50 percent of the total dollars spent by an agency for management support service contracts may be used to fund sole-source contracts. This figure could be adjusted in future years until a more acceptable balance is achieved.

We also recommend that the Director of OMB:

- Extend the management controls outlined in OMB Circular A-120 to other categories of management support services, such as Management and Professional Services and Special Studies and Analyses.
- Assure that agencies identify all requested funds to be used for management support services and provide this information to the Congress. Such identification would provide the basis for the Congress to review agencies' use of such services as well as provide a base from which to control funds available for such services. We believe that OMB could satisfy this recommendation by extending the requirements of OMB Bulletin No. 80-13 for the types of management support services identified in this report.

We further recommend that the Secretary of Defense take the following actions:

- Require DOD activities to establish an independent review board to assure the highest level review of proposed contract awards and modifications over \$100,000 for management support services. Functions this board should perform are (1) questioning the need for the service, (2) validating the lack of in-house capability, (3) questioning the necessity for sole-source awards, and (4) reviewing contract modifications. This independent assessment is particularly critical for those contracts to be performed by former DOD employees.

- Identify functions being performed by contractors which are governmental in nature, and determine personnel needs and develop ways to meet those needs. DOD should be in a position to bring these functions in-house through better management of their work force and additional personnel should the personnel ceilings be increased.

- Identify management support services which are not governmental in nature and which are required on a continuing basis. For each service, an assessment should be made of current in-house capability, the possibility of acquiring such capability, and the relative costs involved in performing the work in-house versus contractor support. Such an analysis would be beneficial in terms of budgetary support as well as providing the basis to make informed decisions on the least costly alternative to accomplishing DOD's various missions.

CHAPTER 8

AGENCY COMMENTS

Although this report was furnished to the Secretary of Defense for comment, DOD did not provide written comments in time for inclusion in this report. We received DOD's oral comments, but were told that DOD was amending its response and the oral comments could not be relied on.

OMB provided written comments on our report. (See app. VIII.) OMB agreed that the report makes a strong case for more stringent controls to eliminate weaknesses in and curtail abuses of DOD's procurement of management support and consulting services. However, OMB believes that more emphasis should have been given in the report to the requirements of OMB Circular No. A-76, which sets forth the Government's policy for relying on the private sector for the goods and services it needs. ^{1/} Also, OMB does not totally agree with our recommendations. OMB's main points are discussed below.

OMB CIRCULAR NO. A-76

OMB believes that the report should be revised so that various comments and statements relating to DOD's reliance on contractors reflect the requirements of its Circular No. A-76. We believe these requirements are in the proper context in this report. We generally address the requirements of the circular on pages 7 and 8 of this report and have included a partial text of the circular as appendix VI.

The circular directs that all governmental functions (policymaking, management, etc.) be performed by Federal employees. This circular also recognizes that relative cost must be considered in deciding between in-house performance and reliance on the private sector for nongovernmental functions. We support the general policy precepts of the circular. We did not intend to evaluate whether DOD was complying with the requirements of the circular. Although we did not specifically set out to classify the 256 contracts selected for

^{1/}Circular No. A-76 sets forth only the executive branch's policy. We found in our September 1978 report "Development of a National Make-Or-Buy Strategy--Progress and Problems" (PSAD-78-18), that no firm national policy exists. This lack of a firm national policy continues to exist.

review into governmental and nongovernmental functions, we did observe that the work performed under some of the contracts suggested that it may have been governmental in nature. This led us to make the recommendation that DOD needs to better sort out its management support service contracts into those for governmental and nongovernmental functions.

RECOMMENDATIONS ON MINIMIZING FUNDING
OF SOLE-SOURCE AWARDS AND EXTENDING THE
MANAGEMENT CONTROLS OF CIRCULAR NO. A-120

OMB agrees with the objectives of these recommendations, but it does not believe legislation is necessary. OMB is considering issuing a bulletin and revising Circular No. A-120 to:

- Extend the management controls in Circular No. A-120 to management and professional services, special studies and analyses, and comparable management and support services for research and development activities.
- Curtail award of personal services contracts for consulting services and any of the above services.
- Remove incentives to use unsolicited proposals which result in sole-source awards for consulting services, management and professional services, and management support services for research and development activities.

We believe OMB's actions, if carried out, are commendable, but several of its suggested actions will not result in meaningful improvements in contracting for management support services. In our opinion, OMB's proposed action will result in fewer unsolicited proposals, but will not have a major effect on the number of sole-source awards. The justification for the sole-source awards we examined were based on the contractors' previous and/or continuous contractual relationship with DOD. The justification frequently cited either "unique experience" or "in-depth knowledge of operations." The need for timely completion was also cited as a reason for sole-source awards.

We believe stronger action is needed to reduce the overuse of sole-source awards and unsolicited proposals. We acknowledge that legislation minimizing the funding of sole-source awards and the funding of such awards resulting

from unsolicited proposals would be arbitrary. However, DOD's almost exclusive use of sole-source awards resulting from unsolicited proposals is counter to accepted contracting procedures, subverts competition, encourages work that may not be important relative to DOD's mission needs and priorities, and ultimately abrogates DOD's responsibilities. Administrative remedies have failed to correct this problem in the past. Therefore, we continue to believe legislation is necessary to make meaningful reductions in sole-source awards and unsolicited proposals for management support service contracts.

Regarding OMB's intent to extend the controls in Circular No. A-120, we agree that this can be effectively handled by OMB. Therefore, we have redirected this recommendation for OMB's action.

RECOMMENDATION REQUIRING IDENTIFICATION
OF FUNDS FOR MANAGEMENT SUPPORT SERVICES

In our preliminary report we proposed that the Congress consider legislation to require budgetary identification of funds for management support services. OMB stated that it does not believe that a specific entry (budget line item) for consulting services within the object classification schedules for each agency account in the budget is necessary, appropriate, or practicable. OMB responded that such an identification would be meaningless. OMB also stated that in the context of a mission or program, however, an estimate for management support services can be examined in terms of whether it is appropriate and is the most cost efficient and effective means of accomplishing the mission.

Our recommendation for budgetary identification does not require a specific entry (budget line item) for management support services within the object classification schedules for each agency account in the budget. In August 1980 OMB issued Bulletin No. 80-13 which provides instructions to executive agencies for submission of budget estimates for consulting services along with their 1982 budget requests. On January 24, 1981, OMB issued Bulletin No. 81-8 which also provided instructions to executive agencies for the submission of plans to reduce consulting services, management and professional services, and special studies and analysis for fiscal year 1981 by 5 percent.

Our report clearly demonstrates that the problems identified are not restricted to consulting service contracts alone, but instead, are prevalent throughout the entire universe of management support service contracts. With the

implementation of OMB Bulletin No. 80-13, budgetary identification of consulting services is already required. We believe that OMB could satisfy our recommendation by extending the existing requirements to include the types of management support services identified in this report and providing the information to the Congress.

RECOMMENDATION THAT OSD ESTABLISH
AN INDEPENDENT REVIEW BOARD

We recommend that the Secretary of Defense establish an independent review board to assure the highest level review of proposed management support service contract awards and modifications over \$100,000. OMB responded that the current controls in Circular No. A-120 for consulting services and the planned extension of these controls to management support services should satisfy the intent of this recommendation. Circular No. A-120 requires written approval for consulting services at a level above the sponsoring activity and two levels above in the fourth quarter. OMB also mentioned that DOD's recent management plan for consulting services requires all requests for consulting services contracts over \$50,000 be approved by an Assistant Secretary or equivalent.

We did not test the controls in A-120 nor those in DOD's recent management plan. We examined fiscal year 1979 transactions, and the controls above were initiated in 1980. While these controls may reduce the incidence of the poor procurement practices stated in this report, we believe review and approval by an independent board or boards is a more desirable approach. Such a board or boards, if truly independent, would have no direct benefit from the outcome of their decision and would bring management support services under a proper degree of independent and objective scrutiny.

RECOMMENDATION ON IDENTIFYING MANAGEMENT
SUPPORT SERVICES WHICH ARE GOVERNMENTAL

OMB agrees that DOD should identify governmental functions being performed by contractors, determine personnel needs, and develop ways to meet those needs. OMB further believes that aggressive implementation of Circular No. A-76 in the nongovernmental areas will release additional personnel to help staff those activities now under contract.

We agree that aggressively implementing A-76 should release staff for filling governmental activities now under contract. This is a necessary first step. If this step does not solve the problem of contractors performing

governmental functions, the remaining option is to seek additional personnel through an increased personnel ceiling.

RECOMMENDATION ON IDENTIFYING MANAGEMENT
SUPPORT SERVICES WHICH ARE NONGOVERNMENTAL

We recommend that the Secretary of Defense identify contracts for management support services which are not governmental in nature and which are required on a continuing basis. For such contracts, an assessment should be made of current in-house capability, the possibility of acquiring such capability, and the relative costs involved in performing the work in-house versus contract support.

OMB correctly points out that Circular No. A-76 provides a formal means for deciding whether nongovernmental work currently under contract should be brought in-house. Our recommendation is intended to reinforce the concept that management should periodically reassess the work that has been contracted out to assure itself that it is acting in the Government's best interest.

COMPTROLLER GENERAL'S
REPORT TO THE SUBCOMMITTEE
ON HUMAN RESOURCES
COMMITTEE ON POST OFFICE
AND CIVIL SERVICE
HOUSE OF REPRESENTATIVES

CONTROLS OVER CONSULTING
SERVICE CONTRACTS AT
FEDERAL AGENCIES NEED
TIGHTENING

D I G E S T

Federal agencies spend between \$1 billion and \$2 billion annually on consulting service contracts to obtain a variety of goods and services. Proper use of consulting services is a normal, legitimate, and economical way to improve Government services and operations, and agencies must continue to have the option to use consulting services where appropriate.

In spite of the considerable attention focused on misuse of these contracts, GAO found that serious, pervasive problems persist. Until agencies' management takes the initiative to control the need for and the contracting practices related to consulting service contracts, GAO believes there will be little or no improvement.

PAST ATTEMPTS INADEQUATE

Responding to presidential and congressional concern, the Office of Management and Budget, in May 1978, issued a bulletin to all executive agencies to better control and report the use of consulting services. However, in its review of 111 contracts, valued at \$19.9 million, in 6 agencies, GAO found the new guidance led to little substantive improvement. The problems GAO identified include:

- Questionable agency requirements for consulting services. Little or no consideration was given to in-house capability prior to the award of contracts, and several contracts resulted from unsolicited proposals. (See p. 5.)
- Extensive sole-source awards which precluded effective price competition. Several of these awards were made to former agency employees. (See p. 14.)

- A significant number of contract modifications resulting in increased costs and delays in delivery of the end product. (See p. 22.)
- Questionable use made of end products. (See p. 10.)
- Inaccurate reporting of consulting service contracts caused in part by confusion over the Office of Management and Budget definition for such contracts. (See p. 26.)

GAO also found significant spending for consulting services in the final quarter of the fiscal year, adding further doubt as to the need for the services. GAO also found that agencies often attributed their need for the services to various legislative mandates.

RECOMMENDATIONS

GAO recommends that the Director of the Office of Management and Budget should instruct Federal agencies to establish more rigorous procedures for approving consulting service contracts. Such procedures are necessary to assure the proper use of consulting services. One approach might be to establish an independent board within each agency or expand the functions of sole-source boards. The purpose of these boards would be to:

- Assure that in-house capability is adequately considered and assessed prior to award of contracts.
- Assure that the service is needed in terms of agency mission and established priorities.
- Assure that previous similar efforts have been adequately considered prior to award.
- Evaluate the necessity of using previous agency employees in performance of the contract tasks.
- Determine the reasonableness of using cost-plus-fixed-fee contracts in view of the nature of the proposed work.

In addition, GAO recommends that the Director of the Office of Management and Budget:

- Work with the Congress to achieve a better and more uniform understanding of the current definition of consulting services in terms of coverage and clarity as well as congressional needs. Also, a focal point should be established within the agencies to be responsible for determining which contracts meet the definition of consulting services.
- Intensify oversight on agencies' use of consulting services, including assuring that all agencies are moving as rapidly as possible to report those services to the Federal Procurement Data Center.

AGENCY COMMENTS

At the request of the Chairman, Subcommittee on Human Resources, House Committee on Post Office and Civil Service, GAO did not obtain official written agency comments.

DESCRIPTION OF THE MANAGEMENT SUPPORTSERVICES INCLUDED IN OUR REVIEWI. CONSULTING SERVICES AS DEFINED BY OMB
CIRCULAR NO. A-120, DATED APRIL 14, 1980,
GUIDELINES FOR THE USE OF CONSULTING SERVICES

Consulting services means those services of a purely advisory nature relating to the governmental functions of agency administration and management and agency program management. Some examples are

A. Advice on, or evaluation of, agency administration and management, such as

organizational structures;
reorganization plans;
management methods;
zero-base budgeting procedures;
mail handling procedures;
records and file organization;
personnel procedures;
discriminatory labor practices;
agency publications;
internal policies, directives, orders, manuals, and procedures; and
management information systems.

B. Advice on, or evaluation of, agency program management, such as

program plans;
acquisition strategies;
assistance strategies;
regulations;
assistance or procurement, solicited or unsolicited technical and cost proposals;
legal aspects;
economic impacts;
program impact; and
mission and program analysis.

The circular also applies to any contract task assignment for consulting services given to federally funded research and development centers.

See OMB Circular No. A-76 for examples of governmental functions and commercial and industrial products and services. It should also be noted that the conduct of research and

development and technology assessments are not consulting services.

II. MANAGEMENT AND PROFESSIONAL SERVICES
(R400-499 SERIES CODES IN FEDERAL
PROCUREMENT DATA SYSTEM AND DD350 SYSTEM)

This category applies to the acquisition of services of a "white collar" professional nature, for example, preparation of reports or documentation, software development, development of logistics support plans, and other similar tasks related to management and control of programs. Specifically excluded are those services procured under commercial/industrial (A-76) procedures, such as guard or mess attendant services, or services directly related to manufacture, repair, or maintenance of hardware. Applicable DD350 codes are shown after each category. Selected R400-499 series codes are identified below:

- A. Program/project management support--Contractual services, covering a wide variety of technical and managerial services and containing more than one of the subcategories listed below, which directly supports one or more specific program offices. (R408)
- Example(s): Omnibus Service Contracts
- B. Policy review and development--Repetitive services to investigate, evaluate, or assess existing managerial policies/organizations; or to develop independently alternate procedures, organizations, and policies. (R406, R407).
- Example(s): Risk, cost, and schedule development
 Evaluation of program planning and performance
 Project master plan reviews
 Procedural reviews and investigations
 Evaluation of management systems
 Evaluation of integrated logistics support
- C. Specification development--Services to provide hardware or software specifications including efforts supporting configuration management. Specifically excluded are architect engineering services for facilities. (R413)
- Example(s): Drafting contract specification
 Production configuration data analysis
 Development of source selection criteria

- D. Systems engineering--Services to investigate, evaluate or assess, technical, scientific, or engineering problems, concepts, and performance of existing or proposed hardware. (R414)
- Example(s): Systems performance reviews
Engineering change proposal
Systems performance reviews
Safety development
Initial installation, test, and checkout of hardware
Feasibility investigations
Value engineering efforts
Hardware design
- E. Technology sharing and utilization--Services to examine alternative applications and adaptations of existing or developing technologies. (R415)
- Example(s): Evaluation of strategies for production processes
Evaluation of alternative material combinations
Evaluation of alternative applications
- F. Logistics support services--Services with the support of the Integrated Logistics Support Plan. This is presently being reported under DD350 R400 series but more specific coding is being developed. Pending implementation of specific coding a reasonable estimate of these costs will be included.
- Example(s): Maintenance support review
Depot maintenance evaluation and planning
Resources requirement investigation
Provisioning requirements investigation
Field Support requirements investigation
Training in new military systems and equipment
Reliability and maintainability review
Training plans
- G. Technical data collection--Services the primary purpose of which is in the collection or organization of data.

Example(s): Technical evaluation
 Maintenance data collection
 Simulations and modeling of product
 performance

- H. Other professional, management services--Support services which have broad applicability and are not identifiable to any specific program.

Example(s): Financial support and auditing (R403)
 Land surveys (R404)
 Advertising (R401)
 Public relations (R410)

III. SPECIAL STUDIES AND ANALYSES (R500-599 SERIES
 CODES IN THE FEDERAL PROCUREMENT DATA
 SYSTEM AND DD350 SYSTEM)

Studies and analyses refers to those nonrecurring examinations of a subject undertaken to provide greater understanding of relevant issues and alternatives regarding organizations, tactics, doctrine, policies, force plans, strategies, procedures, intelligence, weapons selection, mix, systems, programs, or resources and leading to conclusions and recommendations contributing to planning, programing, budgeting, decisionmaking and policy development including those studies initiated by or for the program management office. It also includes research and development, of related data base structures and models for the support of studies and analyses. (DOD DIR 5010.22.) Contracts in this category are those that appear in the service's study program plan.

- A. Tasks within the following areas are specifically included within the definition of studies and analyses.
1. Cost benefit or effectiveness analyses of concepts, plans, tactics, forces, systems, policies, personnel management methods, and policies or programs.
 2. Technology assessment.
 3. Evaluations or foreign force capabilities.
 4. Geopolitical studies.
 5. Social science research.

6. Evaluations of organizational structure, administrative policies, procedures, methods, systems, and the distribution of functions.
7. Research and development of data bases and methodologies for the accomplishment of studies

B. Tasks in the following areas are excluded from the definition of studies and analyses.

1. Basic research in the physical sciences, (e.g., investigate thermal effects on steel).
2. Automatic data processing services.
3. Value engineering.
4. In-house studies which require less than 1 man-year of effort.
5. Project program planning or monitoring.
6. Engineering design.
7. System fabrication.
8. System test.
9. Operational test and evaluation.
10. Architect and engineering studies conducted by or for construction projects.
11. Technology development.
12. Clinical medicine.
13. Consulting services.

IV. RESEARCH, DEVELOPMENT, TEST, AND
EVALUATION--MANAGEMENT AND SUPPORT

Management and support--includes all effort directed toward support of installations or operations required for general research and development use. Included would be construction of a general nature unrelated to specific programs, maintenance support of laboratories, operation and maintenance of test ranges, and maintenance of test aircraft

equipment or ships. Costs of laboratory personnel, either in-house or contract-operated, would be assigned to appropriate projects or as a line item in the Research, Exploratory Development, or Advanced Development Program areas, as appropriate.

TOTAL VALUE OF FISCAL YEAR 1979 CONTRACT ACTIONSIN OUR UNIVERSE BY TYPE OF MANAGEMENT SUPPORTSERVICE AND DOD ACTIVITY (note a)

<u>DOD activity</u>	<u>Consulting services (note b)</u>	<u>Management and professional services plus special studies and analysis</u>	<u>Research, development, test, and evaluation management support</u>	<u>Total</u>
----- (thousands) -----				
OSD	\$ 73	\$ 56,220	\$ 351	\$ 56,644
Navy	18,414	87,693	56,671	162,778
Army	2,368	69,484	10,163	82,015
Air Force	<u>734</u>	<u>41,092</u>	<u>600</u>	<u>42,426</u>
Total	<u>\$21,589</u>	<u>\$254,489</u>	<u>\$67,785</u>	<u>\$343,863</u>

a/From the DD350 File System.

b/Classification based on DOD's interpretation of OMB Bulletin 78-11.

ORIGINAL AWARD VALUE OF FISCAL YEAR 1979CONTRACTS IN OUR SAMPLE BY TYPE OF MANAGEMENTSUPPORT SERVICES AND DOD ACTIVITY

<u>DOD activity</u>	<u>Consulting services (note a)</u>	<u>Management and professional services plus special studies and analysis</u>	<u>Research, development, test, and evaluation management support</u>	<u>Other (note c)</u>	<u>Total</u>
----- (thousands) -----					
OSD	\$ 73	\$ 4,373	\$ 28	\$ -	\$ 4,474
Navy	2,751	24,187	6,042	222	33,202
Army	896	46,046	218	1,640	48,800
Air Force	b/ -	14,160	b/ -	984	15,144
Total	<u>\$3,720</u>	<u>\$88,766</u>	<u>\$6,288</u>	<u>\$2,846</u>	<u>\$101,620</u>

a/Classification based on DOD's interpretation of OMB Bulletin 78-11

b/Site and contract selection process resulted in no contracts in these areas.

c/Contracts, which upon completion, were determined to be outside the types noted.

PERTINENT DATA ON CONTRACTS INCLUDED IN OUR REVIEW

GAO CONTROL NUMBER	CONTRACT NO.	ORIGINAL CONTRACT AMOUNT	TOTAL MODIFICATIONS	TOTAL CONTRACT AMOUNT	POTENTIAL ISSUES INVOLVED IN CONTRACTS									
					INHOUSE CAPABILITY	UNSOLICITED PROPOSALS	FORMER DOD EMPLOYEES	CONTINUOUS CONTRACTS	NEED FOR SERVICES	SOLE SOURCE	LAST QUARTER SPENDING	MODIFICATIONS PERIOD OF PERFORMANCE EXTENSIONS		
	DEFENSE SUPPLY SERVICE WASHINGTON (OSD)													
1	MDA-903-79-C-0253	\$1,389,945	-	\$1,389,945		x				x			x	
2	MDA-903-79-C-0211	149,500	43,196	192,696	x	x		x		x			x	
3	MDA-903-79-C-0208	45,053	34,856	79,909	x	x	x		x	x			x	x
4	MDA-903-79-C-0482	245,482	-	245,482				x		x		x	x	x
5	MDA-903-79-C-0667	294,597	175,872	470,469			x					x	x	
6	MDA-903-79-C-0701	182,928	-	182,928	x		x					x	x	
7	MDA-903-79-C-0243	168,528	341,775	510,303			x			x			x	
8	MDA-903-79-C-0156	159,137	-	159,137	x	x	x			x			x	x
9	MDA-903-79-C-0216	94,090	33,040	127,130	x	x			x	x			x	x
10	MDA-903-79-C-0401	118,228	-	118,228	x	x				x		x	x	x
11	MDA-903-79-C-0577	98,891	-	98,891	x	x	x	x		x		x	x	
12	MDA-903-79-C-0149	95,000	-	95,000	x		x			x			x	
13	MDA-903-79-C-0264	89,850	47,329	137,179	x	x	x		x	x			x	x
14	MDA-903-79-C-0373	82,138	-	82,138	x	x	x		x	x			x	x
15	MDA-903-79-C-0015	38,253	49,034	87,287	x	x				x			x	x
16	MDA-903-79-C-0323	56,108	-	56,108			x			x			x	
17	MDA-903-79-C-0175	49,606	34,455	84,061	x	x				x			x	x
18	MDA-903-79-C-0589	49,950	-	49,950				x		x		x		
19	MDA-903-79-C-0324	30,579	-	30,579	x	x	x			x		x		
20	MDA-903-79-C-0311	24,737	-	24,737	x	x		x	x	x				
21	MDA-903-79-C-0019	43,406	447	43,853	x			x	x	x			x	
22	MDA-903-79-C-0269	30,000	57,864	87,864						x			x	x
23	MDA-903-79-C-0557	292,580	-	292,580	x	x	x	x		x		x	x	x
24	MDA-903-79-C-0522	155,262	148,756	304,018	x	x	x			x		x	x	x
25	MDA-903-79-C-0210	30,000	23,466	53,466	x		x			x			x	x
26	MDA-903-79-C-0163	27,500	-	27,500	x	x		x		x			x	x
27	MDA-903-79-C-0268	56,269	-	56,269			x		x	x			x	x
28	MDA-903-79-C-0301	156,919	288,614	445,533	x	x	x	x		x			x	
29	MDA-903-79-C-0629	200,000	-	200,000			x			x		x		
30	MDA-903-79-C-0682	20,000	-	20,000	x		x	x		x		x		x

PERTINENT DATA ON CONTRACTS INCLUDED IN OUR REVIEW

GAO CONTROL NUMBER	CONTRACT NO.	ORIGINAL CONTRACT AMOUNT	TOTAL MODIFICATIONS	TOTAL CONTRACT AMOUNT	POTENTIAL ISSUES INVOLVED IN CONTRACTS								
					INHOUSE CAPABILITY	UNSOLICITED PROPOSALS	FORMER DOD EMPLOYEES	CONTINUOUS CONTRACTS	NEED FOR SERVICES	SOLE SOURCE	LAST QUARTER SPENDING	MODIFICATIONS PERIOD OF PERFORMANCE EXTENSIONS	
NAVAL	SEA SYSTEM COMMAND												
31	N00030-79-C-0102	\$ 190,000	\$ 65,000	\$ 255,000	x		x	x		x		x	
32	N00030-79-C-0059	4,354,000	94,000	4,448,000	x		x	x		x		x	
33	N00024-79-C-5335	534,221	(70,000)	464,221	x		x	x		x		x	x
34	N00024-79-C-6454	114,319	178,402	292,721	x	x				x	x	x	
35	N00024-79-C-4109	a/ -	1,136,837	1,136,837	x		x	x	x		x	x	
36	N00024-79-C-4120	a/ -	1,669,469	1,669,469	x		x	x	x		x	x	
37	N00024-79-C-4162	1,572,544	b/(118,274)	1,454,270	x			x		x		x	
38	N00024-79-C-7127	c/1,205,468	343,993	1,549,461	x	x	x	x		x		x	x
39	N00024-79-C 4330	123,932	574,709	698,641	x		x	x		x		x	
40	N00024-79-C-2702	86,571	-	86,571	x				x	x			
41	N00024-79-C-5221	55,000	224,582	279,582	x		x					x	
42	N00024-79-C-6442	49,400	-	49,400	x	x				x	x		x
43	N00024-79-C-5683	48,211	-	48,211	x	x	x	x		x	x	x	x
44	N00024-79-C-4391	25,500	-	25,500	x								
45	N00024-79-C-4536	98,992	-	98,992	x		x	x		x	x		
46	N00024-79-C-5237	49,277	313,346	362,623	x	x		x		x		x	
47	N00024-79-C-7136	1,298,521	1,294,448	2,592,969	x			x		x	x	x	
48	N00024-79-C-5690	124,529	-	124,529	x		x	x			x		
49	N00024-79-C-4155	219,195	-	219,195	x			x					
50	N00024-79-C-6178	349,999	-	349,999	x	x		x		x			
51	N00024-79-C-6306	98,473	56,998	155,471	x	x	x		x			x	
52	N00024-79-C-7038	301,789	-	301,789	x			x		x		x	x
53	N00024-79-C-6014	406,000	406,120	812,120	x		x	x		x		x	x
54	N00024-79-C-7240	40,110	-	40,110	x	x	x	x		x			
55	N00024-79-C-4394	25,500	-	25,500	x								
56	N00024-79-C-6242	23,900	-	23,900	x		x			x	x		
57	N00024-79-C-2767	62,400	29,957	92,357	x		x	x		x		x	
58	N00024-79-C-6032	29,911	44,944	74,855	x			x		x		x	x
59	N00024-79-C-7042	63,750	34,340	98,090	x			x		x		x	x
60	N00024-79-C-2729	830,000	803,313	1,633,313	x			x		x	x	x	
a/		Cost plus fixed fee contracts for support hours. As tasks are assigned authorized man hours and related estimated cost and fixed fee will be added to the contract by modification.											
b/		\$118,274 not expended on contract.											
c/		Figures reflect obligated dollars for a contract awarded with an estimated cost of \$2,758,180.											

PERTINENT DATA ON CONTRACTS INCLUDED IN OUR REVIEW

GAO CONTROL NUMBER	CONTRACT NO.	ORIGINAL CONTRACT AMOUNT	TOTAL MODIFICATIONS	TOTAL CONTRACT AMOUNT	POTENTIAL ISSUES INVOLVED IN CONTRACTS									
					INHOUSE CAPABILITY	UNSOLICITED PROPOSALS	FORMER DOD EMPLOYEES	CONTINUOUS CONTRACTS	NEED FOR SERVICES	SOLE SOURCE	LAST QUARTER SPENDING	MODIFICATIONS	PERIOD OF PERFORMANCE EXTENSIONS	
	NAVAL AIR SYSTEMS COMMAND													
61	N00019-79-C-0309	\$ 272,775	\$ 144,890	\$ 417,665	x	x	x	x		x			x	x
62	N00019-79-C-0188	228,823	-	228,823	x	x	x	x		x				
63	N00019-79-C-0399	157,400	-	157,400	x			x		x				
64	N00019-79-C-0267	503,033	587,524	1,090,557	x			x		x		x		
65	N00019-79-C-0515	44,850	-	44,850		x		x		x	x			
66	N00019-79-C-0546	47,075	-	47,075						x	x			
67	N00019-79-C-0488	84,881	-	84,881	x					x	x			
68	N00019-79-C-0239	74,000	-	74,000			x	x		x				
69	N00019-79-C-0194	85,462	-	85,462		x	x			x				
70	N00019-79-C-0030	248,900	58,550	307,450	x	x	x	x	x	x		x		
71	N00019-79-C-0231	824,756	-	824,756	x	x	x	x		x		x		
72	N00019-79-C-0304	121,669	47,642	169,311	x	x	x	x		x		x	x	
73	N00019-79-C-0590	43,000	-	43,000	x	x			x	x	x			
74	N00019-79-D-0452	50,567	-	a/ 50,567	x		x			x		x		
75	N00019-79-C-0074	45,176	38,834	84,010	x	x		x		x		x	x	
76	N00019-79-C-0437	44,491	-	44,491	x	x	x	x	x	x				
77	N00019-79-C-0334	530,168	67,178	597,346	x	x	x	x		x		x	x	
78	N00019-79-C-0393	546,878	-	546,878	x		x			x	x			
79	N00019-79-C-0602	35,712	-	35,712										
80	N00019-79-D-0448	35,238	-	a/ 35,238	x		x				x			
81	N00019-79-C-0371	38,950	-	38,950		x	x	x		x				
82	N00019-79-C-0412	82,244	-	82,244	x	x	x	x	x	x	x	x	x	x
83	N00019-79-C-0635	73,576	-	73,576	x	x	x			x	x	x	x	x
84	N00019-79-C-0324	99,960	122,447	222,407				x		x	x	x	x	x
85	N00019-79-C-0305	462,348	95,000	557,348	x	x		x		x	x	x	x	x
86	N00019-79-C-0445	45,648	-	45,648	x	x	x	x		x	x			
87	N00019-79-C-3021	63,638	73,733	137,371	x	x	x			x	x	x	x	
88	N00019-79-C-3018	327,312	-	327,312	x	x		x		x	x			
89	N00019-79-C-3014	1,198,716	436,329	1,635,045	x	x	x	x		x		x	x	
90	N00019-79-C-3010	268,799	674,298	943,097	x	x	x	x		x		x	x	

a/ Contracts reviewed are of Task Order type. Dollars refer to those tasks actually reviewed.

PERTINENT DATA ON CONTRACTS INCLUDED IN OUR REVIEW

GAO CONTROL NUMBER	CONTRACT NO.	ORIGINAL CONTRACT AMOUNT	TOTAL MODIFICATIONS	TOTAL CONTRACT AMOUNT	POTENTIAL ISSUES INVOLVED IN CONTRACTS																
					INHOUSE CAPABILITY	UNSOUGHT PROPOSALS	FORMER DOD EMPLOYEES	CONTINUOUS CONTRACTS	NEED FOR SERVICES	SOLE SOURCE	LAST QUARTER SPENDING	MODIFICATIONS	PERIOD OF PERFORMANCE EXTENSIONS								
	OFFICE OF NAVAL RESEARCH																				
91	N00014-79-C-0218	\$ 25,000	\$ 25,000	\$ 50,000	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
92	N00014-79-C-0239	16,103	-	16,103	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
93	N00014-79-C-0453	74,916	-	74,916	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
94	N00014-79-C-0432	96,734	-	96,734	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
95	N00014-79-C-0615	144,495	-	144,495	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
96	N00014-79-C-0288	96,899	154,409	251,308	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
97	N00014-79-C-0557	73,500	-	73,500	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
98	N00014-79-C-0499	36,003	-	36,003	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
99	N00014-79-C-0116	99,728	54,618	154,346	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
100	N00014-79-C-0184	74,990	-	74,990	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
101	N00014-79-C-0479	84,355	165,164	249,519	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
102	N00014-79-C-0052	31,513	-	31,513	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
103	N00014-79-C-0099	59,910	-	59,910	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
104	N00014-79-C-0489	23,682	22,584	46,266	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
105	N00014-79-C-0774	52,881	24,878	77,759	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
106	N00014-79-C-0616	49,800	13,550	63,350	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
107	N00014-79-C-0493	82,000	9,500	91,500	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
108	N00014-79-C-0810	43,340	20,000	63,340	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
109	N00014-79-C-0183	125,000	-	125,000	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
110	N00014-79-C-0117	99,709	29,995	129,704	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
	NAVAL REGIONAL CONTRACTING OFFICE																				
111	N00140-79-C-0168	96,334	222,688	319,022	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
112	N00140-79-C-0199	248,561	745,800	994,361	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
113	N00140-79-C-0218	244,960	734,990	979,950	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
114	N00140-79-C-0363	119,994	253,987	373,981	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
115	N00140-79-C-0454	192,927	-	192,927	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
116	N00140-79-C-0553	2,049,385	717,290	2,766,675	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
117	N00140-79-C-0830	225,000	84,981	309,981	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
118	N00140-79-C-0896	171,257	170,663	341,920	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x

PERTINENT DATA ON CONTRACTS INCLUDED IN OUR REVIEW

GAO CONTROL NUMBER	CONTRACT NO.	ORIGINAL CONTRACT AMOUNT	TOTAL MODIFICATIONS	TOTAL CONTRACT AMOUNT	POTENTIAL ISSUES INVOLVED IN CONTRACTS								
					INHOUSE CAPABILITY	UNSOLICITED PROPOSALS	FORMER DOD EMPLOYEES	CONTINUOUS CONTRACTS	NEED FOR SERVICES	SOLE SOURCE	LAST QUARTER SPENDING	MODIFICATIONS PERIOD OF PERFORMANCE EXTENSIONS	
119	N00140-79-C-0952	\$ 99,949	\$ 169,978	\$ 269,927	x		x	x		x		x	x
120	N00140-79-C-1327	443,432	373,079	816,511	x	x		x		x	x	x	x
121	N00140-79-C-1529	149,998	-	149,998	x			x		x	x		
122	N00140-79-C-1190	164,662	284,363	449,025	x		x	x		x	x	x	x
123	N00140-79-C-1811	380,337	395,544	775,881	x		x	x		x	x	x	
124	N00140-79-D-0245	1,075,314	-	1,075,314	x		x	x					
125	N00140-79-D-0321	244,273	-	244,273	x		x						
126	N00140-79-D-0451	1,591,292	-	1,591,292	x		x	x					
127	N00140-79-D-1091	2,444,850	-	2,444,850	x		x	x			x		
128	N00140-79-C-1706	29,908	19,881	49,789	x		x	x		x	x	x	x
129	N00140-79-D-2321	863,166	-	863,166	x		x						
130	N00140-79-D-2451	400,440	-	400,440	x		x				x		
131	N00140-79-D-3321	143,354	-	143,354	x		x						
132	N00140-79-D-0139	184,156	93,989	278,145	x		x					x	x
133	N00140-79-D-0157	245,214	125,000	370,214	x			x		x		x	
134	N00140-79-D-0395	456,312	48,976	505,288	x		x	x				x	x
135	N00140-79-C-1751	21,800	-	21,800		x		x		x	x	x	x
136	N00140-79-C-0348	74,984	264,112	339,096	x		x	x		x		x	
137	N00140-79-C-1161	55,684	-	55,684				x		x		x	x
138	N00140-79-C-1020	16,656	5,067	21,723	x		x				x	x	x
139	N00140-79-C-1551	60,246	-	60,246	x						x		
140	N00140-79-C-1303	19,065	-	19,065	x		x	x		x			
NAVAL AVIATION SUPPLY OFFICE PHILADELPHIA													
141	N00383-79-C-0009	62,000	58,831	120,831	x	x		x		x		x	
142	N00383-79-C-4414	168,513	-	168,513	x	x		x		x	x		
DEPARTMENT OF THE ARMY HARRY DIAMOND LABORATORIES													
143	DAAK21-79-C-0116	39,952	-	39,952	x		x		x		x	x	x
144	DAAK21-79-C-0019	29,995	-	29,995	x		x	x		x			
145	DAAK21-79-C-0099	78,466	42,480	120,946			x	x		x	x	x	x
146	DAAK21-79-C-0014	149,359	75,000	224,359		x	x	x		x	x	x	x

PERTINENT DATA ON CONTRACTS INCLUDED IN OUR REVIEW

GAO CONTROL NUMBER	CONTRACT NO.	ORIGINAL CONTRACT AMOUNT	TOTAL MODIFICATIONS	TOTAL CONTRACT AMOUNT	POTENTIAL ISSUES INVOLVED IN CONTRACTS								
					INHOUSE CAPABILITY	UNSOLICITED PROPOSALS	FORMER DOD EMPLOYEES	CONTINUOUS CONTRACTS	NEED FOR SERVICES	SOLE SOURCE	LAST QUARTER SPENDING	MODIFICATIONS PERIOD OF PERFORMANCE EXTENSIONS	
147	DAAK21-79-C-0011	\$ 152,923	\$ -	\$ 152,923			x					x	
148	DAAK21-79-C-0003	131,374	-	131,374			x		x			x	
149	DAAK21-79-C-0015	199,505	-	199,505		x	x			x		x	x
150	DAAK21-79-C-0058	98,544	-	98,544					x			x	x
151	DAAK21-79-C-0044	46,809	-	46,809	x	x	x		x			x	x
152	DAAK21-79-C-0059	29,892	-	29,892	x	x			x			x	x
153	DAAK21-79-C-0075	19,100	-	19,100					x			x	x
154	DAAK21-79-C-0138	173,893	-	173,893			x					x	x
155	DAAK21-79-C-0028	136,836	-	136,836			x					x	x
156	DAAK21-79-C-0173	197,682	2,411	200,093			x		x	x		x	x
157	DAAK21-79-C-0106	59,404	-	59,404		x	x	x	x	x	x	x	x
U.S. ARMY TANK-AUTOMOTIVE COMMANDS													
158	DAAE07-79-C-5001	1,389,825	4,063,320	5,453,145				x		x		x	x
159	DAAE07-79-C-0467	16,248,680	-	16,248,680				x		x		x	x
160	DAAE07-79-C-0553	2,169,180	-	2,169,180				x		x		x	x
161	DAAE07-79-C-5323	614,421	1,219,283	1,833,704				x		x		x	x
162	DAAE07-79-C-0536	432,883	460,040	892,923	x		x			x	x	x	x
163	DAAE07-79-C-5953	242,246	242,246	484,492	x	x	x			x	x	x	x
164	DAAK30-79-C-0017	69,600	a/ (58,753)	10,847	x				x	x		x	x
165	DAAK30-79-C-0019	87,435	-	87,435				x		x		x	x
166	DAAK30-79-C-0025	22,457	17,667	40,124	x					x		x	x
167	DAAK30-79-C-0074	65,215	73,617	138,832				x		x		x	x
168	DAAK30-79-C-0049	31,444	10,117	41,561						x		x	x
U.S. ARMY MISSILE COMMAND													
169	DAAH01-79-C-1172	353,547	-	353,547	x					x		x	x
170	DAAH01-79-C-0182	237,000	43,415	280,415	x					x		x	x
171	DAAH01-79-C-1413	99,960	-	99,960	x					x	x	x	x
172	DAAH40-79-C-0030	49,991	-	49,991		x		x	x	x		x	x

a/ Contract closed out early.

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PERTINENT DATA ON CONTRACTS INCLUDED IN OUR REVIEW

GAO CONTROL NUMBER	CONTRACT NO.	ORIGINAL CONTRACT AMOUNT	TOTAL MODIFICATIONS	TOTAL CONTRACT AMOUNT	POTENTIAL ISSUES INVOLVED IN CONTRACTS								
					INHOUSE CAPABILITY	UNSOLICITED PROPOSALS	FORMER DOD EMPLOYEES	CONTINUOUS CONTRACTS	NEED FOR SERVICES	SOLE SOURCE	LAST QUARTER SPENDING	MODIFICATIONS PERIOD OF PERFORMANCE EXTENSIONS	
173	DAAK40-79-C-0043	\$3,098,750	\$ 266,500	\$3,365,250				x		x		x	x
174	DAAK40-79-C-0006	1,645,920	262,286	1,908,206	x		x	x	x	x		x	x
175	DAAH01-79-C-0011	448,442	-	448,442	x	x	x	x	x	x		x	x
176	DAAK40-79-C-0038	142,919	154,297	297,216	x		x	x	x	x		x	x
177	DAAK40-79-C-0009	25,047	(18)	25,029		x	x	x	x	x		x	x
178	DAAK40-79-C-0058	19,128	-	19,128					x				
179	DAAK40-79-C-0035	-	26,669	26,669	x					x		x	x
180	DAAK40-79-C-0074	44,846	9,979	54,825	x		x	x	x	x		x	x
181	DAAH01-79-C-0028	6,278,981	26,999,659	33,278,640	x		x	x	x	x		x	x
182	DAAH01-79-C-0009	115,500	283,051	398,551			x	x	x	x		x	x
183	DAAK40-79-C-0005	850,835	733,760	1,584,595	x		x	x	x	x		x	x
184	DAAK40-79-C-0097	490,800	457,380	948,180	x				x	x		x	x
185	DAAH01-79-C-1419	80,000	(21,112)	58,888	x				x	x		x	x
186	DAAH01-79-C-0376	324,830	-	324,830			x	x	x	x		x	x
187	DAAK40-79-C-0248	49,654	125,186	174,840		x			x	x		x	x
188	DAAH01-79-C-1510	700,000	-	700,000			x		x	x		x	x
189	DAAH01-79-C-0210	70,000	225,959	295,959	x				x	x		x	x
190	DAAK40-79-C-0030	a/ -	86,185	b/ 86,185	x				x	x		x	x
191	DAAK40-79-C-0075	2,890,000	3,224,915	6,114,915			x	x	x	x		x	x
192	DAAH01-79-C-0016	630,841	5,816,115	6,446,956			x	x	x	x		x	x
193	DAAH01-79-C-0980	3,609,082	1,958,265	5,567,347			x	x	x	x		x	x
194	DAAK40-79-C-0196	92,000	-	92,000	x	x		x	x	x			
ARMY CERCOM/CORADCOM CONTRACTS													
195	DAAB07-79-C-0607	1,211,725	1,876,423	3,088,148	x		x					x	x
196	DAAB07-79-C-0717	88,854	98,633	187,487	x		x					x	x
197	DAAB07-79-C-1919	45,164	-	45,164	x	x		x		x			
198	DAAB07-79-C-6230	970,000	-	970,000	x		x		x	x			
199	DAAK80-79-C-0035	759,545	35,927	795,472	x		x			x		x	
200	DAAK80-79-C-0257	75,000	-	75,000	x		x	x		x		x	x
201	DAAK80-79-C-0275	77,729	-	77,729		x		x		x			
202	DAAK80-79-C-0502	49,815	-	49,815		x		x		x			
203	DAAK80-79-C-0506	61,934	-	61,934	x	x		x		x			

a/ Time and Materials contract.

b/ Contracts reviewed are of Task Order type. Dollars refer to those tasks actually reviewed.

PERTINENT DATA ON CONTRACTS INCLUDED IN OUR REVIEW

GAO CONTROL NUMBER	CONTRACT NO.	ORIGINAL CONTRACT AMOUNT	TOTAL MODIFICATIONS	TOTAL CONTRACT AMOUNT	POTENTIAL ISSUES INVOLVED IN CONTRACTS								
					IN-HOUSE CAPABILITY	UNSOLICITED PROPOSALS	FORMER DOD EMPLOYEES	CONTINUOUS CONTRACTS	NEED FOR SERVICES	SOLE SOURCE	LAST QUARTER SPENDING	MODIFICATIONS PERIOD OF PERFORMANCE EXTENSIONS	
204	DAAK80-79-C-0510	\$ 95,717	\$ 92,483	\$ 188,200	x		x	x		x		x	x
205	DAAK80-79-C-0778	98,997	161,906	260,903	x	x	x	x		x		x	x
DEPARTMENT OF THE AIR FORCE (WARNER ROBBINS CONTRACTS)													
206	F09603-79-C-3952	74,900	-	74,900		x		x	x	x		x	x
207	F09603-79-C-3790	95,000	139,000	234,000			x	x		x		x	x
208	F09603-79-C-4266	1,400,000	-	1,400,000			x	x		x	x	x	x
209	F09603-79-G-3894	49,950	-	a/ 49,950	x		x	x	x	x	x	x	x
210	F09603-79-G-0357	220,000	12,000	a/ 232,000	x		x	x		x		x	x
211	F09603-79-G-3128	602,000	500,000	a/ 1,102,000		x		x		x		x	x
212	F09603-79-C-4125	193,000	150,400	343,400	x		x	x		x		x	x
213	F09603-79-G-4360	74,000	-	a/ 74,000						x	x	x	x
214	F09603-79-C-0932	1,588,624	3,317,153	4,905,777				x		x		x	x
215	F09603-79-G-4172	235,000	-	a/ 235,000			x	x		x	x	x	x
216	F09603-79-C-4308	984,000	-	984,000		x	x			x	x	x	x
217	F09603-79-G-3685	75,000	35,000	a/ 110,000		x		x		x	x	x	x
218	F09603-79-G-3262	184,000	99,500	a/ 283,500				x		x		x	x
DEPARTMENT OF THE AIR FORCE (WRIGHT-PATTERSON CONTRACTS)													
219	F33657-79-C-0075	1,065,000	895,700	1,960,700	x	x	x	x		x		x	x
220	F33657-79-C-0945	490,000	140,713	630,713	x			x		x		x	x
221	F33657-79-C-0329	340,000	267,500	607,500	x			x		x		x	x
222	F33657-79-C-0313	278,000	55,000	333,000						x		x	x
223	F33657-79-C-0510	200,000	211,229	411,229	x		x	x		x	x	x	x
224	F33657-79-C-0342	166,871	-	166,871						x	x	x	x
225	F33657-79-C-0395	160,000	85,000	245,000	x			x		x		x	x
226	F33657-79-C-0324	137,296	-	137,296	x			x		x		x	x
227	F33657-79-C-0677	134,000	20,000	154,000	x		x			x	x	x	x
228	F33657-79-C-0861	126,000	54,963	180,963						x	x	x	x
229	F33657-79-C-0060	118,591	-	118,591	x		x	x		x		x	x
230	F33657-79-C-0757	114,489	-	114,489	x		x			x		x	x
231	F33657-79-C-0753	113,980	44,442	158,422	x		x	x		x	x	x	x
232	F33657-79-C-0198	100,000	-	100,000	x			x		x	x	x	x
233	F33657-79-C-0817	97,300	-	97,300						x	x	x	x

a/ Contracts reviewed are of Task Order type. Dollars refer to those tasks actually reviewed.

PERTINENT DATA ON CONTRACTS INCLUDED IN OUR REVIEW

GAO CONTROL NUMBER	CONTRACT NO.	ORIGINAL CONTRACT AMOUNT	TOTAL MODIFICATIONS	TOTAL CONTRACT AMOUNT	POTENTIAL ISSUES INVOLVED IN CONTRACTS								
					INHOUSE CAPABILITY	UNSOLICITED PROPOSALS	FORMER DOD EMPLOYEES	CONTINUOUS CONTRACTS	NEED FOR SERVICES	SOLE SOURCE	LAST QUARTER SPENDING	MODIFICATIONS PERIOD OF PERFORMANCE EXTENSIONS	
234	F33657-79-C-0771	\$ 83,043	-	\$ 83,043	x						x	x	x
235	F33657-79-C-0832	49,100	-	49,100		x				x	x		
236	F33657-79-C-0398	26,102	44,000	70,102	x			x				x	
237	F33657-79-C-0430	35,071	-	35,071		x					x		
238	F33657-79-C-0118	1,624,037	1,298,000	2,922,037	x		x	x		x		x	x
239	F33657-79-C-0824	1,000,000	-	1,000,000						x	x		
240	F33657-79-C-0365	213,297	9,859	223,156	x							x	x
241	F33657-79-C-0505	363,507	-	363,507	x					x	x		
242	F33657-79-C-0531	335,500	123,333	458,833	x	x		x		x		x	x
243	F33657-79-C-0021	21,844	-	21,844	x	x	x			x			x
244	F33600-79-C-0423	61,973	-	61,973	x			x		x			
245	F33600-79-C-0424	51,010	-	51,010	x		x		x				
246	F33600-79-C-0437	18,641	25,037	43,678				x		x	x	x	x
247	F33700-79-C-0009	237,500	-	237,500		x				x	x		
248	F33615-79-C-0009	92,252	-	92,252	x	x				x			x
249	F33615-79-C-0002	123,819	39,498	163,317								x	x
250	F33615-79-C-5102	804,000	705,000	1,509,000	x			x		x	x	x	x
251	F33615-79-C-5064	169,871	253,869	423,740			x				x	x	x
252	F33615-79-C-5125	149,800	196,900	346,700	x			x			x	x	x
253	F33657-79-G-0089	98,000	-	98,000	x	x	x			x	x		
254	F33615-79-C-5067	121,827	-	121,827	x		x		x		x		
255	F33615-79-C-5073	26,500	-	26,500	x	x	x			x			
256	F33615-79-C-5143	20,000	-	20,000	x	x				x	x		
		<u>101,620,042</u>	<u>73,784,617</u>	<u>175,404,659</u>	<u>183</u>	<u>102</u>	<u>131</u>	<u>146</u>	<u>44</u>	<u>211</u>	<u>88</u>	<u>176</u>	<u>126</u>



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

March 29, 1979

CIRCULAR NO. A-76
 Revised

TO THE HEADS OF EXECUTIVE DEPARTMENTS AND ESTABLISHMENTS

SUBJECT: Policies for Acquiring Commercial or Industrial Products and Services Needed by the Government

1. Purpose. This Circular establishes the policies and procedures used to determine whether needed commercial or industrial type work should be done by contract with private sources or in-house using Government facilities and personnel. This Circular replaces OMB Circular No. A-76, dated August 30, 1967, and all subsequent amendments.

2. Background. In a democratic free enterprise economic system, the Government should not compete with its citizens. The private enterprise system, characterized by individual freedom and initiative, is the primary source of national economic strength. In recognition of this principle, it has been and continues to be the general policy of the Government to rely on competitive private enterprise to supply the products and services it needs.

This policy has been expressed in Bureau of the Budget Bulletins issued in 1955, 1957, and 1960. In 1966, Circular No. A-76 was issued and, for the first time, prescribed the policy and implementing guidelines in a permanent directive. The Circular was revised in 1967, by Transmittal Memorandum No. 1, to clarify some provisions and to lessen the burden of work by the agencies in implementation. Transmittal Memorandum No. 2 was issued in 1976, providing additional guidance on cost comparisons and prescribing standard cost factors for Federal employee retirement and insurance benefits.

In 1977, a comprehensive review of the Circular and its implementation was initiated. Transmittal Memorandum No. 3 was issued on June 13, 1977, announcing the review and temporarily reducing the Government retirement cost factor. This revision is the result of that review and careful consideration of comments from all interested parties.

3. Responsibility. Each agency head has the responsibility to ensure that the provisions of this Circular are followed. This Circular provides administrative direction to heads of agencies and does not establish, and shall not be construed to create, any substantive or procedural basis for any person to challenge any agency action or inaction on the basis that such action was not in accordance with this Circular, except as specifically set forth in Section 11 below.

GAO NOTE: Only the first 6 sections of A-76 are enclosed.

4. Policy. This policy builds on three equally valid policy precepts:
 - a. Rely on the Private Sector. The Government's business is not to be in business. Where private sources are available, they should be looked to first to provide the commercial or industrial goods and services needed by the Government to act on the public's behalf.
 - b. Retain Certain Governmental Functions In-House. Certain functions are inherently governmental in nature, being so intimately related to the public interest as to mandate performance by Federal employees.
 - c. Aim for Economy; Cost Comparisons. When private performance is feasible and no overriding factors require in-house performance, the American people deserve and expect the most economical performance and, therefore, rigorous comparison of contract costs versus in-house costs should be used, when appropriate, to decide how the work will be done.
5. Definitions. For the purposes of this Circular:
 - a. A "Government commercial or industrial activity" is one which is operated and managed by a Federal executive agency and which provides a product or service that could be obtained from a private source. A representative, but not comprehensive, listing of such activities is provided in Attachment A. An activity can be identified with an organization or a type of work, but must be (1) separable from other functions so as to be suitable for performance either in-house or by contract; and (2) a regularly needed activity of an operational nature, not a one-time activity of short duration associated with support of a particular project.
 - b. An "expansion" is the modernization, replacement, upgrade, or enlargement of a Government commercial or industrial activity involving additional capital investment of \$100,000 or more, or increasing annual operating costs by \$200,000 or more; provided, the increase exceeds 20% of the total investment or annual operating cost. A consolidation of two or more activities is not an "expansion" unless the proposed total capital investment or operating cost exceeds the total from the individual activities by the amount of the threshold. An expansion which increases either capital investment or annual operating cost by 100% or more is a "new start."
 - c. A "conversion" is the transfer of work from a Government commercial or industrial activity to performance by a private commercial source under contract.

GAO NOTE: Only the first 6 sections of A-76 are enclosed.

d. A "new start" is a newly-established Government commercial or industrial activity, including a transfer of work from contract to in-house performance. Also included is any expansion which would increase capital investment or annual operating cost by 100% or more.

e. A "private commercial source" is a private business, university, or other non-Federal activity, located in the United States, its territories and possessions, the District of Columbia, or the Commonwealth of Puerto Rico, which provides a commercial or industrial product or service required by Government agencies.

f. A "Governmental function" is a function which must be performed in-house due to a special relationship in executing governmental responsibilities. Such governmental functions can fall into several categories:

(1) Discretionary application of Government authority, as in investigations, prosecutions and other judicial functions; in management of Government programs requiring value judgments, as in directing the national defense; management and direction of the Armed Services; conduct of foreign relations; selection of program priorities; direction of Federal employees; regulation of the use of space, oceans, navigable rivers and other natural resources; direction of intelligence and counter-intelligence operations; and regulation of industry and commerce, including food and drugs.

(2) Monetary transactions and entitlements, as in Government benefit programs; tax collection and revenue disbursements by the Government; control of the public treasury, accounts, and money supply; and the administration of public trusts.

(3) In-house core capabilities in the area of research, development, and testing, needed for technical analysis and evaluation and technology base management and maintenance. However, requirements for such services beyond the core capability which has been established and justified by the agency are not considered governmental functions.

6. Scope.

a. No executive agency will engage in or contract for commercial or industrial activities except in accordance with the provisions of this Circular, or as otherwise provided by law, including, for example, Title 44 of the U.S. Code.

GAO NOTE: Only the first 6 sections of A-76 are enclosed.

b. The implementation provisions of this Circular do not apply to governmental functions as defined in paragraph 5(f). These functions must be performed in-house by Government personnel.

c. This Circular applies to the need for Government ownership in any "new start" or "expansion" of a Government-owned, contractor-operated (GOCO) facility.

d. Additional provisions are as follows:

(1) This Circular does not provide authority to enter into contracts. Guidelines governing contracts for goods and services are set forth in applicable acquisition regulations.

(2) This Circular will not be used as authority to enter into contracts which establish a situation tantamount to an employer-employee relationship between the Government and individual contract personnel. Additional guidance on this subject is provided in the Federal Personnel Manual issued by the Office of Personnel Management.

(3) This Circular will not be used to justify a conversion to contract solely to meet personnel ceilings or to avoid salary limitations. When in-house performance of a "new start" is justified under this Circular but cannot be accommodated within agency personnel ceilings, an appeal for necessary adjustment to implement this Circular agency-wide should be made to OMB in connection with the annual budget review process.

(4) Major system acquisitions are governed by the provisions of OMB Circular No. A-109, "Major System Acquisitions." Reliance on the private sector is one of the general policies contained in Circular A-109 to ensure competitive consideration of all alternatives before making a decision as to the best method of satisfying an agency mission need.

(5) This Circular does not apply to consulting services of a purely advisory nature relating to the governmental functions of agency administration and management and program management. Assistance in the management area may be provided either by Government staff organizations or from private sources, as deemed appropriate by executive agencies, in accordance with executive branch guidance on the use of consulting services.

(6) This Circular applies to printing and binding only in those agencies or departments which are exempted by law from the provisions of Title 44 of the U.S. Code.

(7) This Circular should not be applied when it would be contrary to law or inconsistent with the terms of any treaty or international agreement.

GAO NOTE: Only the first 6 sections of A-76 are enclosed.



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

CIRCULAR NO. A-120

April 14, 1980

TO THE HEADS OF EXECUTIVE AGENCIES AND ESTABLISHMENTS

SUBJECT: Guidelines for the Use of Consulting Services

1. Purpose. The Circular establishes policy and guidelines to be followed by executive branch agencies in determining and controlling the appropriate use of consulting services obtained from individuals and organizations. This Circular supersedes OMB Bulletin No. 78-11, dated May 5, 1978, on the same subject.

2. Background. OMB Bulletin No. 78-11 was based largely upon data received from the agencies in response to the President's memorandum of May 12, 1977, which asked the heads of agencies to assure that consulting service arrangements of their organizations were both appropriate and necessary. The Bulletin was issued to meet the identified need for uniformity of definition, criteria, and management controls among the agencies.

This Circular provides permanent guidance in lieu of the interim guidance provided by the Bulletin. To assist agencies in identifying consulting services, as defined in the Bulletin and this Circular, an expanded list of examples is included in the Attachment to this Circular.

An additional policy is provided in this Circular with respect to responsibility for final determination of whether or not a proposed procurement action is for consulting services, as defined in this Circular.

3. Relationship to OMB Circular No. A-76. In summary, OMB Circular No. A-76, "Policies for Acquiring Commercial or Industrial Products and Services Needed by the Government" revised March 29, 1979, directs that:

- Governmental functions must be performed by Government employees (reference 4b and 5f of A-76);
- Commercial or industrial products and services should be provided in the most economical manner through the use of rigorous cost comparisons of private sector and Government performance (reference 4c of A-76); and
- Consulting services are not either of the above categories and should be provided either by Government staff organizations or from private sources, as deemed appropriate by executive agencies in accordance with executive branch guidance on the use of consulting services (reference 6d(5) of A-76).

4. Coverage. The provisions of this Circular apply to consulting services obtained by the following arrangements:

- a. Personnel appointment;
- b. Procurement contract; and
- c. Advisory committee membership.

5. Definition. As used for administrative direction in this Circular, Consulting Services means those services of a purely advisory nature relating to the governmental functions of agency administration and management and agency program management. (See Attachment for examples of the type of services to which this Circular applies.)

These services are normally provided by persons and/or organizations who are generally considered to have knowledge and special abilities that are not generally available within the agency. The form of compensation is irrelevant to the definition.

6. Basic Policy

- a. Consulting services will not be used in performing work of a policy/decision making or managerial nature which is the direct responsibility of agency officials.
- b. Consulting services will normally be obtained only on an intermittent or temporary basis; repeated or extended arrangements are not to be entered into except under extraordinary circumstances.
- c. Consulting services will not be used to bypass or undermine personnel ceilings, pay limitations, or competitive employment procedures.
- d. Former Government employees per se will not be given preference in consulting service arrangements.
- e. Consulting services will not be used under any circumstances to specifically aid in influencing or enacting legislation.
- f. Grants and cooperative agreements will not be used as legal instruments for consulting service arrangements.
- g. The contracting officer shall be responsible for determining whether a requested solicitation or procurement action, regardless of dollar value, is for consulting services. The contracting officer's determination shall be final. Prior to processing any solicitation or procurement action for consulting services, the contracting officer shall insure that the applicable provisions of this Circular have been adhered to and that documentation required by the Circular (see 8.a.

and 8.b.) is complete and included in the official contract file. The contracting officer will also insure that awards over \$10,000 are identified as consulting service contracts on either the agency's data collection form (which conforms to the requirements of the Federal Procurement Data System) or optional Form 279, for input into the Federal Procurement Data System (reference 9.b.).

7. Guidelines for use of Consulting Services. Consulting service arrangements may be used, when essential to the mission of the agency, to:

a. Obtain specialized opinions or professional or technical advice which does not exist or is not available within the agency or another agency.

b. Obtain outside points of view to avoid too limited judgment on critical issues.

c. Obtain advice regarding developments in industry, university, or foundation research.

d. Obtain the opinion of noted experts whose national or international prestige can contribute to the success of important projects.

e. Secure citizen advisory participation in developing or implementing Government programs that, by their nature or by statutory provision, call for such participation.

8. Management Controls

a. Each agency will assure that for all consulting service arrangements:

(1) Every requirement is appropriate and fully justified in writing. Such justification will provide a statement of need and will certify that such services do not unnecessarily duplicate any previously performed work or services;

(2) Work statements are specific, complete and specify a fixed period of performance for the service to be provided;

(3) Contracts for consulting services are competitively awarded to the maximum extent practicable to insure that costs are reasonable;

(4) Appropriate disclosure is required of, and warning provisions are given to, the performer(s) to avoid conflict of interest; and

(5) Consulting service arrangements are properly administered and monitored to insure that performance is satisfactory.

b. Each agency will establish specific levels of delegation of authority to approve the need for the use of consulting services, based on the policy and guidelines contained in this Circular. Written approval of all consulting service arrangements will be required at a level above the organization sponsoring the activity. Additionally, written approval for all consulting service arrangements during the fourth fiscal quarter will be required at the second level above the organization sponsoring the activity.

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c. OMB Circular No. A-63, Advisory Committee Management, governs policy and procedures regarding advisory committees and their membership.

d. The Federal Personnel Manual (FPM), Chapter 304, governs policy and procedures regarding personnel appointments.

e. Until the Federal Acquisition Regulation is published, the Federal Procurement Regulation and the Defense Acquisition Regulation govern policy and procedures regarding contracts.

9. Data Requirements. The following data systems will continue to provide information on consulting service arrangements within the executive branch:

a. Central Personnel Data File (CPDF), operated by the Office of Personnel Management, will have data on personnel appointments, segregating consultants, experts, and advisory committee members (as defined in OMB Circular No. 63).

b. Federal Procurement Data System (FPDS) will have data on contract arrangements.

c. Advisory committee data will continue to be maintained in accordance with OMB Circular No. A-63.

10. Effective date. This Circular is effective immediately.

11. Implementation. All executive branch agencies have previously implemented OMB Bulletin No. 78-11. That implementation is applicable to this Circular and will continue under the guidance of this Circular.

To implement the new policy with respect to responsibility for final determination of whether or not a proposed procurement action is for consulting services, the Secretary of Defense and the Administrator for General Services are directed to incorporate the applicable provisions of this Circular (see 6.g.) into the Defense acquisition Regulation and the Federal Procurement Regulations, respectively, within sixty (60) days of the date of this Circular.

12. Inquiries. All questions or inquiries should be submitted to the Office of Management and Budget. Telephone Number (202) 395-6810.


James T. McIntyre, Jr.
Director

Attachment

ATTACHMENT

This attachment contains examples of the type of services which are consulting services, as defined in this Circular, and to which this Circular applies.

- o Advice on or evaluation of agency administration and management, such as:
 - Organizational structures;
 - Reorganization plans;
 - Management methods;
 - Zero-base budgeting procedures;
 - Mail handling procedures;
 - Records and file organization;
 - Personnel procedures;
 - Discriminatory labor practices;
 - Agency publications;
 - Internal policies, directives, orders, manuals, and procedures; and
 - Management information systems.

- o Advice on or evaluation of agency program management, such as:
 - Program plans;
 - Acquisition strategies;
 - Assistance strategies;
 - Regulations;
 - Assistance or procurement, solicited or unsolicited technical and cost proposals;
 - Legal aspects;
 - Economic impacts;
 - Program impact; and
 - Mission and program analysis.

This Circular also applies to any contract task assignment for consulting services given to Federally Funded Research and Development Centers.

See OMB Circular No. A-76 for examples of Governmental functions and commercial and industrial products and services. It should also be noted that the conduct of research and development and technology assessments are not consulting services.



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WASHINGTON, D.C. 20503

OFFICE OF FEDERAL
PROCUREMENT POLICY

FEB 27 1981

Mr. Morton A. Myers
Director
General Accounting Office
Program Analysis Division
Washington, D.C. 20548

Dear Mr. Myers:

This letter is in response to your January 14, 1981, request for comments on your draft report entitled "The Department of Defense's Use of Management Support Services Needs Attention and Scrutiny."

Overall, the report makes a strong case for more stringent management controls to eliminate weaknesses in and curtail abuses of the procurement of management support and consulting services by the Department of Defense (DOD). The report also indicates that current and former DOD employees may not be fully complying with regulations concerning ethics in government and rules of conduct. However, we do not totally concur with the recommendations to Congress and the Secretary of Defense. Our comments on each recommendation are set forth below. Also, we believe that the report should be revised so that various comments and statements relating to the Department of Defense's reliance on contractors reflect the requirements of Office of Management and Budget (OMB) Circular No. A-76, which sets forth the Government's policy for relying on the private sector for the goods and services it needs.

The first and second recommendations (p. 41) request that Congress consider legislation to (1) increase competition by arbitrarily limiting funding for sole source procurements, and (2) extend management controls in Circular No. A-120 to management and professional services and special studies and analyses. While we agree with the overall objectives of the recommendations, we do not believe legislation is necessary. OMB is currently considering issuing an OMB Bulletin and a revision to Circular No. A-120 which will:

- Extend the management controls in Circular No. A-120 to management and professional services, special studies and analyses, and comparable management and support services for research and development activities;
- Curtail award of personal services contracts for consulting services and any of the above services; and
- Remove incentives to use unsolicited proposals which result in sole source awards for consulting services, management and professional services, and management support services for research and development activities. This requirement alone will, we believe, eliminate the majority of improper sole source awards for these services.

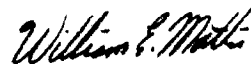
The second recommendation also proposed legislation requiring budgetary identification of consulting services. We do not believe that a specific entry (budget line item) for consulting services within the object classification schedules for each agency account in the budget is necessary, appropriate or practicable. A total agency budget figure for consulting services is meaningless. It will tell you nothing of what the agency proposes to accomplish with those resources. In the context of a mission or program, however, an estimate for consulting services can be examined in terms of whether it is appropriate and the most efficient and effective means of accomplishing that mission.

The third recommendation to the Secretary of Defense (p. 41) to establish an independent review board to review proposed awards for management support services over \$100,000 is essentially already required by Circular No. A-120 and DOD's management plan for consulting services. Circular No. A-120 requires written approval for consulting services at a level above the sponsoring activity, and two levels above in the fourth fiscal quarter. DOD's management plan for consulting services requires all requests for consulting services contracts over \$50,000 be approved by an Assistant Secretary or equivalent. The revision to Circular No. A-120 now under consideration, and the proposed Bulletin, will extend these requirements to management and professional services, special studies and analyses, and comparable management and support services for research and development activities.

With regard to the fourth recommendation (p. 42), OMB Circular A-76 provides a formal means for deciding whether non-governmental work (i.e., commercial-industrial type activities) currently under contract should be brought in-house. An agency may decide that, based on technical and other reasons, it is infeasible to perform the work in-house. Thus, the work will continue under contract. Additionally, work being performed under existing contracts costing less than \$100,000, and awards for authorized set-asides are to continue being performed by contract. After these considerations, if there is an indication that in-house operation vs. contract performance would be cost effective, the contracted activity should be scheduled for cost study and the final mode of performance dictated by cost. Following these guidelines ensures that sound decisions are made.

With respect to the last recommendation (p.42), we agree that DOD should identify governmental functions currently being performed by contractors, determine personnel needs, and develop ways to meet those needs. That governmental functions should be accomplished by Government personnel is one of the principle policies on which Circulars No. A-76 and A-120 are built. However, we believe that aggressive implementation of Circular No. A-76 in the non-governmental areas will release additional personnel to help staff those activities now under contract that should be accomplished by Government personnel. This is essentially the same position Comptroller General Staats takes in his January 8, 1981, letter to OMB Director David Stockman on the same subject.

Sincerely,



William E. Mathis
Acting Administrator

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