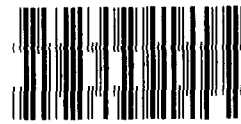


GAO

February 1987

PROCUREMENT

Opportunities to Use More Preferred Practices for Base Support Contracts



132169

038025 -132169

Blank header area with horizontal lines.

Main body of the page, mostly blank with faint vertical lines on the left and right sides.



United States
General Accounting Office
Washington, D.C. 20548

National Security and
International Affairs Division

B-217655

February 13, 1987

The Honorable Caspar W. Weinberger
The Secretary of Defense

Dear Mr. Secretary:

This report summarizes the results of our review of the types of contracts, source selection evaluation criteria, and work statements used by the military services to award large multifunction or "umbrella" contracts for base support services. We decided to review these contracting practices because of the substantial value of the umbrella contracts.

This report contains recommendations to you in chapters 2, 3, and 4. As you know, 31 U.S.C. 720 requires the head of a federal agency to submit a written statement on actions taken on our recommendations to the House Committee on Government Operations and the Senate Committee on Governmental Affairs not later than 60 days after the date of the report and to the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of the report.

We are sending copies of this report to the Secretaries of the Army, Navy, and Air Force; the Chairmen, House Committee on Government Operations, Senate Committee on Governmental Affairs, and House and Senate Committees on Appropriations; and the Director, Office of Management and Budget.

Sincerely yours,

Frank C. Conahan
Assistant Comptroller General

Executive Summary

Purpose

The Department of Defense (DOD) identified 64 "umbrella" contracts, valued at \$3.5 billion, which the military services used to provide support services on military bases during fiscal years 1977 through 1983. Under this approach, one contractor supplies a wide range of services rather than a single service. The use of these contracts grew from \$20 million in fiscal year 1977 to more than \$1 billion in fiscal year 1983. The number of bases using them could nearly triple by fiscal year 1988.

Because of the substantial and growing value of the contracts, GAO decided to determine whether the contracting practices the military services used in awarding umbrella contracts adhered to law, regulations, and sound procurement policies.

Background

Under umbrella contracts, contractors provide such diverse support services as custodial work, road and building maintenance, food services, and security. By using an umbrella contract, a military base can reduce the number of contracts it needs to award and administer and can concentrate the responsibility for the work on a single contractor. (See p. 10.)

GAO refers to certain practices as preferred for procuring routine or predictable services. These include (1) using a firmly priced contract rather than a fixed-price incentive or cost reimbursement contract, (2) giving at least 50 percent of the weight to price, as opposed to nonprice, factors in evaluating contractors' offers, (3) using contract statements of work which contain to a great or very great extent performance-oriented descriptions of the work to be done and standards with acceptable quality levels for measuring performance, and (4) exercising contract options that were priced as part of the initial contract award, rather than unpriced options. GAO refers to contracting practices other than these as less preferred practices. (See p. 18.)

GAO analyzed information on the 64 umbrella contracts DOD identified. GAO also compared the results with information from a random sample of single function base support service contracts. (See pp. 13 and 14.)

Results in Brief

Most of the work done under umbrella contracts was routine or predictable. However, the military services awarded most of the contracts using contracting practices more suited for obtaining technical, nonroutine work. This lessened the likelihood that the government obtained base support services at a fair and reasonable price.

The military services provided little or no support for many of their decisions to use the less preferred contracting practices. They said they used them mainly to have flexibility, to get the best service, and to save time in the contracting process. However, the preferred practices have been used successfully in awarding some umbrella contracts. In addition, single function contracts, covering many similar types of work as the umbrella contracts, have often been based on the preferred practices.

Principal Findings

Work Mostly Routine

The work performed under umbrella contracts consisted mainly of routine, predictable activities. DOD contracting officers provided and GAO analyzed information on the work performed under 56 of the 64 umbrella contracts. The analysis showed that of the 118 different types of work performed under the contracts, 113 (96 percent) were performed under both the umbrella contracts that were firmly priced and those that were not. Firmly priced contracts are best suited for predictable types of work. (See pp. 33 and 34.)

The less preferred practices often used to award umbrella contracts are more suited to unpredictable or nonroutine work, such as developing a weapons system. In such work, costs may be harder to estimate in advance, and a contractor's technical expertise may need to weigh more heavily in making the award. When used to contract for routine work, however, these practices may result in higher prices. For example, GAO found that, because nonprice factors were given more importance in evaluating contractors' offers, the 22 umbrella contract awards made to someone other than the lowest priced offeror totaled \$81 million, or 8 percent, more than the total of the lowest offers. In the source selection evaluation process, all of the lowest offerors were judged to be qualified. (See pp. 20, 49, and 50.)

Support Lacking for Less Preferred Practices

Federal law and regulations require decisions to use cost reimbursement or incentive types of contracts to be justified either as (1) likely to be less costly or (2) the only practicable way to satisfy the need. For the 43 umbrella contracts of such types (costing \$2.3 billion), GAO found that 37 had inadequate documentation to support the contract-type decision. Interviews with contracting officers did not provide GAO with additional information supporting 28 of these 37 decisions. Similarly, GAO

examined eight contract awards for which price was given less than 50 percent of the weight for evaluating offers and found insufficient support for assigning such a low weight in seven of the eight cases. (See pp. 36 to 39 and 49)

Use of Preferred Practices Is Feasible

Some umbrella contracts were awarded using the preferred practices. Of the 64 umbrella contracts, 21 were awarded using firmly priced contracts. Also, 17 of the 64 were awarded with the dominant importance given to price rather than to nonprice source selection evaluation factors and another 14 contracts were awarded with equal importance given to price and nonprice factors. The kinds of work performed under these contracts based on the preferred practices were similar to the work performed under most of the others. (See pp. 33, 47, and 51.)

Better Work Statements Needed

To increase the effective use of firmly priced contracts and the emphasis on price in awarding umbrella contracts, the services need to prepare more precise contract work statements defining both the work to be done and acceptable performance levels. (See ch. 5.)

Recommendations

GAO recommends that the Secretary of Defense require the solicitation to be based on the anticipated use of all of the following contracting practices whenever use of an umbrella contract covering a substantial amount of routine or predictable base support work is proposed, unless justified in writing and approved.

- A firm fixed-price contract or a fixed-price contract with an economic price adjustment clause.
- Source selection evaluation criteria which assign at least half of the weight to price related, rather than nonprice, factors.
- Work statements containing (1) clear, definitive, performance-oriented descriptions of the work needed and (2) standards with acceptable quality levels for measuring performance. (See p. 25.)

GAO also recommends that the secretaries of Defense and the three military departments take other actions to ensure that sound contracting practices are used. (See pp. 25, 43, 54, and 65.)

Agency Comments

In commenting on a draft of this report, the Office of Federal Procurement Policy, Office of Management and Budget (OMB), concurred with all

the recommendations and called GAO's review thorough and timely. The Policy Office said it plans to implement the recommendations by proposing Federal Acquisition Regulation changes and revising OMB Circular A-76, which relates to performance of the type of work reviewed. (See pp. 26, 43, 54, and 65.)

DOD disagreed with GAO's basic recommendation as it relates to using firmly priced contracts and assigning at least half the source selection weight to price factors.

DOD highlighted both its agreement with GAO on the need for definitive performance work statements and four objections it had to the report. That is, DOD said (1) GAO would require contracting officers to prejudice the selection process in favor of firmly priced contracts contrary to established policies, (2) the work performed under the contracts GAO reviewed may have been routine, but it was often not predictable enough to allow use of a firm fixed-price contract, (3) DOD must move away from defining requirements in terms of what is minimally acceptable and move toward best quality at an acceptable price, and (4) flexibility must be maintained to tailor performance work statements for individual procurements. (See pp. 26, 43, 55, and 66.)

In response to these objections, GAO pointed out that (1) procurement law and regulations have established the preference for using firmly priced rather than cost or incentive types of contracts and GAO found many DOD contract type decisions to be unsupported, (2) contrary to DOD's position, DOD contracting officers' responses to GAO's questionnaire indicated that most of the umbrella contract work was predictable, (3) putting more emphasis on best quality, instead of defining needs in minimally acceptable terms, is inappropriate for routine, predictable base support services and is inconsistent with regulatory requirements that the government use specifications and purchase descriptions reflecting its minimum needs, and (4) flexibility to tailor work statements for individual procurements, although unobjectionable in itself when applied in a manner consistent with procurement law and regulations, should not be an excuse for the lack of adequate work statement planning and unsupported contract type decisions. (See pp. 26 to 29, 44, 55, 66, and 67.)

Contents

Letter		1
<hr/>		
Executive Summary		2
<hr/>		
Chapter 1		10
Introduction	Use of Umbrella Contracting Has Increased and Is Expected to Rise Further	10
	Objective, Scope, and Methodology	12
<hr/>		
Chapter 2		18
Decisions to Use Umbrella Contracts Based on Less Preferred Contracting Practices Need to Be Justified	Use of Less Preferred Contracting Practices	18
	Use of Less Preferred Practices Was Often Inappropriate	20
	Comparison of Umbrella and Single Function Contracting Practices	22
	Cost Effectiveness of Umbrella Contract Decisions Not Demonstrated	23
	DOD Guidance on Contracting for Commercial Activities	23
	Conclusions	24
	Recommendations	25
	Agency Comments and Our Evaluation	26
<hr/>		
Chapter 3		30
Opportunities Exist to Use More Firm Fixed-Price and Other Firmly Priced Umbrella Contracts	Most Umbrella Contracts Are Not Firmly Priced Contracts	30
	Use of Firmly Priced Umbrella Contracts Is Often Feasible	33
	Contracts Are Usually Not Being Switched to Firmer Contract Types	35
	Contract Type Decisions Need Better Documentation and Support	36
	Need to Strengthen Reviews by Higher Command Officials of Contract Type Decisions	42
	Conclusions	42
	Recommendations	43
	Agency Comments and Our Evaluation	43

<hr/>		
Chapter 4		46
More Reliance Should Be Placed on Price in Awarding Umbrella Contracts	Price Is Not the Dominant Criterion for Awarding Many Umbrella Contracts	46
	Because Other Criteria Weigh Heavily in Evaluations, Awards Often Do Not Go to the Lowest Priced Offerors	48
	Extensive Reliance on Nonprice Criteria Does Not Appear Justifiable for Most of the Contracts Reviewed	49
	Considerable Dollar Impact of Not Awarding Contracts to Low Offerors	50
	Nonprice Criteria Can Be Considered Without Assigning Dominant Weight to Them	50
	More Specific Guidance Is Needed for Evaluation Criteria	52
	Conclusions	54
	Recommendation	54
	Agency Comments and Our Evaluation	54
<hr/>		
Chapter 5		56
Contract Work Statements Need to Be Improved to Encourage Effective Use of Firmly Priced Contracts and More Price Competition	Work Statements in Umbrella Contracts Are Often Too Broad for Awarding Firmly Priced Contracts	56
	Extent of Compliance With OMB Guidance	57
	Effects of Inadequate Work Statements	58
	Problems in Writing Specific Work Statements Can Be Overcome	61
	Requirements for Umbrella Contract Work Statements Need to Be Strengthened	63
	Conclusions	64
	Recommendations	65
	Agency Comments and Our Evaluation	65
<hr/>		
Appendixes		
	Appendix I: Sampling Plan	68
	Appendix II: List of 64 Umbrella Contracts Reviewed	70
	Appendix III: Work Functions Not Performed in Firmly Priced Umbrella Contracts	72
	Appendix IV: Reasons for Cost Reimbursement and Fixed-Price Incentive Contracts Being Used	73
	Appendix V: Schedule of Command Contract Type Philosophy and Contracts Used	77
	Appendix VI: Examples Where Cost Reimbursement or Fixed-Price Incentive Contracts Were Appropriate	79

Appendix VII: Umbrella Prime Contract Dollars Awarded by Type of Business	80
Appendix VIII: Amount of Subcontracted Work at Umbrella Contract Bases Visited	81
Appendix IX: Contracting Officers' Expectations of Benefits From Not Awarding Umbrella Contracts Based on Lowest Price	82
Appendix X: Comments From the Assistant Secretary of Defense	83
Appendix XI: Comments From the Office of Management and Budget	98

Tables

Table 1.1: Responses to Our Questionnaires	14
Table 2.1: Frequency of Using Less Preferred Contracting Practices	19
Table 2.2: Comparison of Umbrella and Single Function Contracting Practices	22
Table 4.1: Weighting Assigned to Price and Nonprice Criteria	47
Table 5.1: Extent to Which OMB Work Statement Guidance Was Followed	58
Table 5.2: Reasons for Not Following OMB Guidance	61
Table I.1: Single Function Contract Sample	69
Table I.2: Reasons for Return of Questionnaires	69

Figures

Figure 1.1: Use of Umbrella Contracts for Base Support Services Has Increased Greatly	11
Figure 3.1: Most Umbrella Contracts Were Not Firm Fixed-Price or Other Firmly Priced Contracts	32

Abbreviations

DAR	Defense Acquisition Regulation
DOD	Department of Defense
D&F	determinations and findings
FAR	Federal Acquisition Regulation
GAO	General Accounting Office
OMB	Office of Management and Budget

Introduction

The Department of Defense (DOD) budgeted about \$27.7 billion in fiscal year 1985 to operate and maintain (that is, provide “support services” for) its many bases throughout the world. Base support services such as custodial work, lawnmowing, road and building maintenance, pest control, trash collection, food preparation, and security are provided either by an in-house work force—military and civilian—or by contract personnel.

Contractors can be hired to perform a single work function, several functions, or all the contracted support services on a military base. At some bases, large multifunction contracts, called “umbrella” contracts, provide a broad range of support services. These services may be provided at one location or several locations. Some umbrella contracts also provide such services as running a missile test range, a developmental test center, or a troop training facility. The contracts have usually been awarded for about 1 year and have included provisions to extend or renew the initial contract for 2 to 4 years. The initial contract awards and the extension or renewal periods generally cover a total of 3 to 5 years. Through an umbrella contract, a military base can reduce the number of contracts it needs to award and administer, and can concentrate the responsibility for the work on a single contractor.

Use of Umbrella Contracting Has Increased and Is Expected to Rise Further

In fiscal year 1983, the last year covered by the contracts we reviewed, DOD funded¹ about 6,000 contracts totaling \$2.4 billion for base support services. Most of these contracts were relatively small, covering one function. The 45 fiscal year 1983 umbrella contracts² were funded at about \$1 billion. For fiscal years 1977 through 1983, about \$3.5 billion was funded for 64 umbrella base support contracts.³ (See app. VII for the dollar amount of contracts awarded to large and small businesses and app. VIII for the amount of subcontracting.)

Figure 1.1 shows that the funded value of annual umbrella contract awards grew from \$20 million in fiscal year 1977 to over \$1 billion in

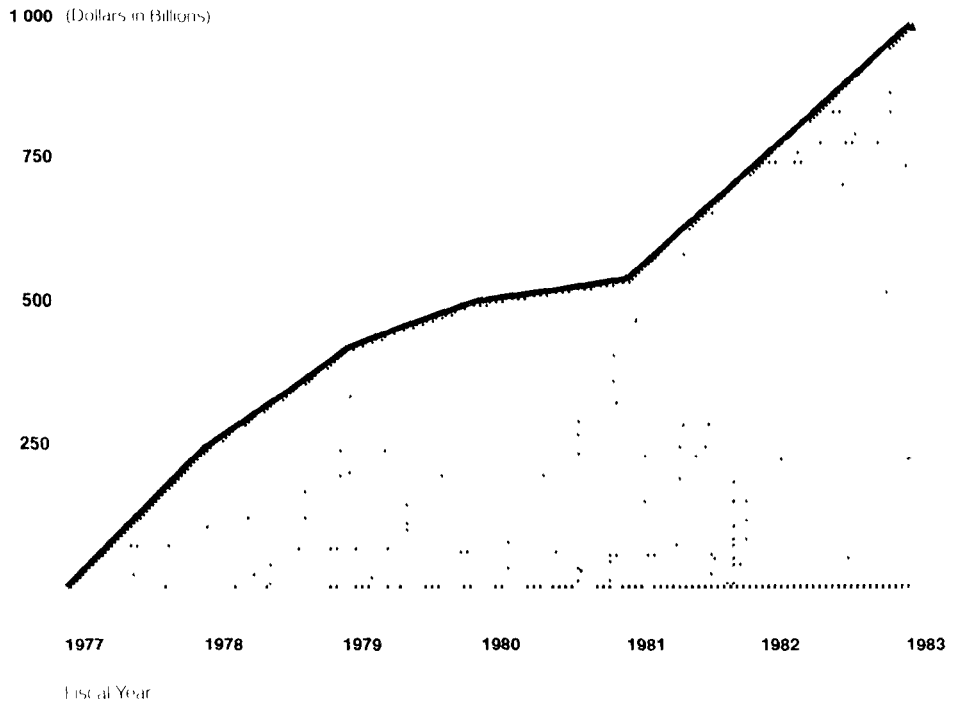
¹“Funded” refers to money obligated, as reported on DD Form 350, a reporting instrument used to collect data on contract placement within DOD for the Federal Procurement Data System. Obligations are transactions that require payment during the same or a future period.

²In 1983, 45 ongoing umbrella contracts covered 42 military bases. One base had its work divided up and performed under two umbrella contracts and another base had its work divided up and performed under three umbrella contracts.

³Of the 64 umbrella contracts, the Air Force awarded 41, the Navy 12, and the Army 11.

fiscal year 1983. The individual umbrella contracts ranged from under \$1 million to over \$100 million in a year.

Figure 1.1: Use of Umbrella Contracts for Base Support Services Has Increased Greatly



In fiscal year 1977 umbrella contracts for support services at military bases were funded for about \$20 million. By fiscal year 1983 that amount had risen to more than \$1 billion. GAO estimates that the number of umbrella contracts could nearly triple by fiscal year 1988.

Office of Management and Budget (OMB) Circular A-76 provides policy guidance to federal agencies for determining whether commercial and industrial type work should be done by contracting with private sources or by using government personnel. Although the Office of the Secretary of Defense directs DOD's A-76 program, the individual military services determine which specific activities being performed by government personnel should be reviewed for possible contracting to commercial services.

It appears that the increased use of umbrella contracting for base support services over the past 7 years will continue. We estimate that more than 80 additional umbrella contracts could be awarded through fiscal

year 1988. This estimate is based on the information the three military services provided to the Congress concerning the A-76 cost studies they propose to perform. If all of these studies result in decisions to contract out, the number of umbrella contracts could increase from 45 to more than 125. The dollar amounts involved could be sizable because some very large bases are being considered for contracting out.

Objective, Scope, and Methodology

Our overall objective was to evaluate whether the contracting practices the military services used in awarding umbrella contracts for base support services adhered to sound contracting policies and procurement regulations. These policies and regulations cover important steps in the process: (1) planning and defining the work required, (2) developing the solicitation, which includes choosing the source selection evaluation criteria to be used in awarding the contract, (3) obtaining competition for the contract award, (4) selecting the proper contract type, (5) evaluating proposals and making the contract award, and (6) ensuring that the selected contractor performs and delivers the work as stated in the contract. These procurement functions are often interrelated—the manner in which earlier functions are performed and how well they are performed may have an effect on later ones. For example, defining the work very broadly may preclude negotiating a contract type other than cost reimbursement, and giving a high weight to nonprice factors in the source selection evaluation criteria may result in higher priced contracts.

To satisfy our overall objective, we sought to determine

- whether decisions to use umbrella contracts involving less preferred contracting practices were justified (see ch. 2);
- what types of contracts were used and whether, considering the nature of the work performed, contract type decisions were consistent with law, regulations, and sound contracting policies and practices (see ch. 3);
- what type of competition was obtained (price or nonprice) and whether the source selection evaluation criteria used were consistent with sound contracting policies, considering the nature of the work performed (see ch. 4); and
- whether the statements of work were adequate and complete (see ch. 5).

The Defense Acquisition Regulation (DAR), which applied to defense contract solicitations issued before March 31, 1984, spelled out the rules covering procurement by DOD. It provided the basic criteria we used in this review because it was in effect at the time all the contract awards

we reviewed were solicited and awarded. The regulation included requirements regarding matters such as obtaining competition, the preferred types of contracts, and the need for contract specifications. Regarding contract type requirements, we used procurement law as well as the implementing regulations in conducting our work. (See ch. 3.)

The Federal Acquisition Regulation (FAR), which became effective April 1, 1984, was developed to provide a uniform government-wide procurement regulation superceding DAR, the National Aeronautics and Space Administration Procurement Regulation, and the Federal Procurement Regulations, which governed procurement in other federal agencies. For DOD, FAR and the DOD FAR Supplement, which both took effect for new solicitations issued after March 31, 1984, have superceded DAR. The transition from DAR to FAR did not result in any policy changes in the areas we reviewed.

As noted above, OMB Circular A-76 provides guidance to federal agencies regarding commercial and industrial type work. The guidance, which covers contract statements of work, provided additional criteria we used in this review. Supplement Number 2 to OMB Circular A-76, January 1982, entitled A Guide for Writing and Administering Performance Statements of Work for Service Contracts, provides government guidance and criteria for writing performance-oriented work statements. This supplement was first issued in October 1980 as Office of Federal Procurement Policy Pamphlet Number 4.

We performed our work at the Office of the Secretary of Defense, the headquarters of the military services, and nine United States military contract locations that awarded umbrella contracts. The nine consisted of three Army, two Navy, and two Air Force bases in the United States and two Air Force locations overseas. Our field work was performed during the period of November 1983 through November 1984. In visiting field locations, we reviewed contract files and discussed our objective and related questions with contracting officers and other appropriate agency officials.

We judgmentally selected 17 umbrella contracts for detailed review at the 9 military locations. We selected contracts that provided a mix of military services, contractors, contract types, and geographical locations, as well as a variety of supplies and services. To supplement this work, we sent a questionnaire to the contracting officers on 64 umbrella

contracts⁴ for base support services awarded between fiscal years 1977 and 1983. We did so to obtain information on specific audit objectives listed above. For comparative purposes, we also sent a second, similar questionnaire to contracting officers for a random sample of single function and other nonumbrella base support service contracts. The questionnaires were pretested with contracting officers at three military bases. Appendix I shows our sampling plan and appendix II lists the 64 umbrella contracts.

We edited the responses to the two questionnaires and developed two computerized data bases. We reviewed the questionnaires for obvious errors and any incompatibility with the specific documents provided by contracting officers in response to our requests. We contacted contracting officers to resolve any differences. We took a random sample of all data elements in our data bases and verified our sample as well as 100 percent of the key data elements back to the original questionnaires to assure the accuracy of the data bases. All errors were corrected before we analyzed the data.

As of October 1, 1984, our final cut-off date for questionnaire responses, we had received responses as shown in table 1.1.

Table 1.1: Responses to Our Questionnaires

Contracts	Number of sample contracts	Number of questionnaire responses	Percent
Umbrella	64	64	100
Single function or other nonumbrella	374 ^a	336 ^b	90

^aWe mailed out questionnaires for an original sample of 400 contracts. However, we found that 26 of the contracts did not belong in our universe, which resulted in an adjusted sample of 374. (See app. I.)

^bOf the 174 contracts in stratum I, we received 159 questionnaire responses (91 percent). Of the 200 contracts in stratum II, we received 177 questionnaire responses (88.5 percent). The strata are described in app. I.

In this report, we refer to responses to various questions. On some questions the responses do not total 64 or 336, depending on the question cited, because some contracting officers did not respond to all questions.

Since we collected information on the 64 umbrella contracts by questionnaire, we did not visit all locations of these contracts nor review all contract files. We also did not assess the accuracy or reliability of the DD

⁴DOD officials provided us with a listing of all umbrella contracts they could identify for fiscal years 1977 through 1983. We obtained questionnaire data on each of these 64 umbrella contracts, including the 17 contracts reviewed at the locations visited.

Form 350 contract data system. The data was used for background information and for identifying the dollar values of various contract types.

Concerning the use of specific contract types for umbrella base support services, we obtained questionnaire information on all 64 contracts and talked with contracting officers, base commanders, and higher command officials. For the 9 locations visited, we examined contract files; for the 33 locations not visited, we relied on contracting officers to provide the requested information from contract files, including some supporting studies or cost analyses. We analyzed the supporting documentation for contract type decisions and held extensive follow-up discussions with contracting officers at the locations visited as well as those not visited about justifications for all the cost reimbursement and incentive-type contracts.

To determine the types of services and supplies obtained under the 64 umbrella contracts and to compare whether they were the same as services and supplies obtained under single function contracts, we made detailed comparisons of work performed under both kinds of contracts. We also asked all 64 umbrella contracting officers whether the work was routine⁶ or technical and whether the work was routine enough so that a firm fixed-price work statement could be prepared and a firm fixed-price contract could be used.

For our analysis of price competition, we (1) reviewed federal laws, regulations, and Comptroller General decisions, (2) reviewed DOD policies and procedures for determining what source selection evaluation criteria should be used and what their relative importance or weighting should be, and (3) obtained information on all 64 umbrella contracts and discussed price competition and weights with contracting officers and headquarters officials. We considered the type of work being performed in the umbrella base support service contracts in evaluating the source selection criteria used.

To determine the adequacy and completeness of umbrella contract work statements, we analyzed the work statements and discussed them with contracting officers and contractor officials at the nine bases we visited. In addition, we asked contracting officers for all 64 umbrella contracts

⁶Work was defined as routine when it was predictable enough so that a reasonably definitive statement of work either was available or could be developed that would provide a reasonable basis for firm pricing

and for our sample of single function and other nonumbrella contracts to rate their work statements based on OMB Circular A-76 work statement criteria.

We also reviewed the use of contract options and noncompetitive follow-on contracts for umbrella base support services. Our work covered a number of different aspects of these contracting procedures, which are discussed in a separate report: The Use of Unpriced Options and Other Practices Needs Revision (GAO/NSIAD-86-59, April 23, 1986).

To assess whether decisions to use umbrella contracts involving less preferred contracting practices were justified, we (1) reviewed federal laws and regulations, (2) reviewed DOD and service policy and procedures, (3) obtained questionnaire information, and (4) discussed contracting practices with contracting officers and higher command officials. We also analyzed the contracting practices used on umbrella and single function base support service contracts and determined whether significant differences existed between the two.

Our review was performed in accordance with generally accepted government auditing standards.

Decisions to Use Umbrella Contracts Based on Less Preferred Contracting Practices Need to Be Justified

The military services have awarded umbrella contracts for billions of dollars worth of routine or predictable base support services using less preferred contracting practices. Such practices are generally better suited for other kinds of purchases. The use of the less preferred practices was often not appropriate for the contracts we reviewed.

Contracting officers are not clearly required to, and often did not (1) follow most of the preferred contracting practices discussed in this report in awarding umbrella contracts nor (2) justify as more advantageous to the government using umbrella contracts based on the less preferred contracting practices, rather than two or more smaller contracts. As a result, there was unnecessary use of the less preferred practices on umbrella contracts.

Use of Less Preferred Contracting Practices

In this report, we refer to certain practices as preferred for procuring routine or predictable work. The preferred practices are (1) using firm fixed-price contracts or fixed-price contracts with economic price adjustment clauses instead of cost reimbursement or incentive types of contracts (as discussed in ch. 3), (2) placing heavy reliance—which we define as at least 50 percent of the weighting—on price as a source selection evaluation factor (see ch. 4), (3) using work statements which generally contain performance-oriented descriptions of the work that needs to be done and standards with acceptable quality levels for measuring performance (see ch. 5), and (4) exercising contract options that were priced as part of the initial or underlying contract award, rather than unpriced options. (See our report¹ on the requirement to price options. The report explains the problems we identified relating to this matter and contains recommendations to correct them.)

These preferred practices are generally cited in legislation or procurement regulations. Federal law and procurement regulations express a preference for the use of firm fixed-price and other firmly priced contracts rather than cost reimbursement or incentive types of contracts whenever appropriate.² The Congress and procurement regulations have historically required competition and preferred price competition as the

¹The Use of Unpriced Options and Other Practices Needs Revision (GAO/NSIAD-86-59, April 23, 1986)

²See 10 U.S.C. 2306 (c) and 2310 (b) and DAR 3-401. Also, DAR 3-404.2 states that a firm fixed-price contract is suitable for use in procurements when reasonably definite specifications are available and fair and reasonable prices can be established at the outset. Essentially the same requirements are set forth in FAR part 16. Fixed price with economic price adjustment contracts are similar to firm fixed-price contracts, except for the economic price adjustment provisions.

Chapter 2
Decisions to Use Umbrella Contracts Based
on Less Preferred Contracting Practices Need
to Be Justified

basis for contract award whenever practicable. In addition, FAR and DAR indicate that definitive work statements and specifications (1) are needed as a basis for firm fixed-price contracting and (2) should be based on the government's minimum requirements. Work statement guidance applicable to base support service contracts is further outlined in OMB Circular A-76. Options exercised are required to have been priced as part of the initial or underlying contract award because, based on procurement regulations, Comptroller General decisions state that an unpriced option is not a valid option.

Overall, we found that for the 64 umbrella base support service contracts which DOD identified as having been awarded between fiscal years 1977 and 1983, the less preferred practices were often used. That is

- 43 (67 percent) were either cost reimbursement contracts or fixed-price incentive contracts;
- 33 (52 percent) were either evaluated predominantly on the basis of nonprice source selection criteria or were awarded noncompetitively;
- 30 (47 percent) were awarded based on work statements not meeting the OMB guidance to a great or very great extent, according to the contracting officers responding to our questionnaire; and
- 11 (17 percent) had unpriced options that had been exercised.

Table 2.1 summarizes the frequency that the less preferred contracting practices were used in the 64 umbrella contracts.

Table 2.1: Frequency of Using Less Preferred Contracting Practices

Number of less preferred practices used in the contract	Contracts	Percent	Cumulative percent
4	3	4.7	4.7
3	17	26.6	31.3
2	20	31.2	62.5
1	14	21.9	84.4
0	10	15.6	100.0
Total	64	100.0	

Ten umbrella contracts used only the preferred practices. The other 54 used from 1 to 4 of the less preferred contracting practices.

Use of Less Preferred Practices Was Often Inappropriate

Using the less preferred contracting practices in awarding umbrella contracts was often not appropriate because (1) the work was generally routine or predictable and (2) the reasons for using the practices were frequently not reasonably supported or otherwise not consistent with good management. Contract costs can be higher than necessary when using the less preferred practices inappropriately.

Routine or Predictable Work

Work performed under umbrella contracts can be divided into two types—(1) work that is predictable enough so that a statement of work can be developed for a firm fixed-price contract and (2) work that is not. Predictable work tends to be routine, standard, or simple, or to require no unique or novel approaches. Work not predictable enough to be clearly defined is often highly technical, such as designing weapon systems.

The types of work performed under umbrella contracts for base support services were often routine or predictable. They consisted primarily of such work functions as food service, laundry, refuse collection, vehicle maintenance, building maintenance, security and fire protection, and groundskeeping.

To determine how much of the work performed under umbrella contracts was routine or predictable and how much was not, we asked DOD contracting officers to identify each work function included in the 64 umbrella contracts awarded in fiscal years 1977 through 1983 and to categorize each function as routine or nonroutine. According to the contracting officers for 56 umbrella contracts that responded to our questionnaire on this matter

- 76 percent of the 1,245 individual contract work functions, covering 118 functional areas, performed on their contracts were either classified as routine or already performed under firmly priced contracts³ and
- 96 percent (or 113) of the 118 functional areas that were performed under the 56 umbrella contracts were performed under both (1) the 20 umbrella contracts that were firmly priced and (2) the 36 umbrella contracts that were not.

The information provided by the contracting officers is discussed in more detail on pp. 33 and 34.

³As noted in ch. 3, the term firmly priced contracts refers to firm fixed-price contracts, fixed-price contracts with economic price adjustment clauses, and firm fixed priced with award fee contracts.

**Unsupported or
Unacceptable Reasons for
Using Less Preferred
Practices**

Use of the less preferred contracting practices was often not reasonably supported or was inconsistent with good management. To determine whether there was a reasonable basis for decisions to (1) use cost reimbursement or fixed-price incentive contracts and (2) give dominant importance to nonprice criteria in selecting the winning contractor, we analyzed documentation and the results of our interviews with contracting officers on these matters. We found that 28 (67 percent) of the 43 cost reimbursement or fixed-price incentive contract type decisions were unsupported. (See pp. 38 and 39.) At the bases visited, we also found insufficient support for 7 (88 percent) of the 8 decisions to give nonprice criteria dominant importance, that is, more than 50 percent of the weight. (See p. 49.)

In addition, we found the lack of adequate planning to be a possible cause of the use of the less preferred contract type for all 28 of the unsupported cost reimbursement and fixed-price incentive contract type decisions. (See ch. 5.) We considered planning to be inadequate when

- we found no other reason, aside from the lack of work statements adequate for a firmly priced contract, which justified the contract type decision and
- no attempt had been made to develop contract work statements that would provide a sufficient basis for a firmly priced contract.

Contracting officers for all 28 of the contracts said no attempt had been made to write work statements for a firm fixed-price contract.

We also found that higher-level reviews of the umbrella contract type decisions need to be strengthened. (See ch. 3.)

**Contract Costs Can Be
Higher Than Necessary
When Routine Work Is
Treated as Nonroutine**

Contracting practices for nonroutine work emphasize flexibility in adjusting to new conditions and unexpected circumstances. For example, they make it easier to adjust the amount of work to be performed—and the price to be paid to the contractor—if the conditions change. This flexibility may be important in certain situations, such as making necessary design changes on a new weapon. However, if used inappropriately, this flexibility may lead to unnecessary costs. If routine work is not clearly defined in contracts, the government may pay additional amounts for work that is needed but was not reflected in the contractors' cost proposals or for work that meets higher performance standards than the government needs. This latter situation is referred to

as “goldplating.” Similarly, the government may pay more than necessary when price should be the primary basis for the award but is not considered as much as nonprice criteria.

Comparison of Umbrella and Single Function Contracting Practices

In addition to the differences in the contracting practices used on different umbrella contracts covering largely the same types of work, as discussed throughout this report, we found substantial differences between the contracting practices used to award umbrella contracts and single function contracts covering many similar types of work. Table 2.2 illustrates these differences, based mostly on contracting officers’ responses to our questionnaires. The information in the table also shows that when base support service work was consolidated and awarded using umbrella contracts, instead of single function contracts, less preferred contracting practices were often used instead of the preferred practices.

Table 2.2: Comparison of Umbrella and Single Function Contracting Practices

Type of practice	Umbrella contracts		Single function contracts	
	Number	Percent	Number	Percent
Use of firmly priced contract	21	33	5,631 ^a	98 ^a
Work statements meeting OMB guidelines to a very great or great extent ^b	21	33	1,074 ^c	19
Weighting of price was 50 percent or more	31	48	5,479 ^{c,d}	95 ^c
Options priced at the time of initial contract award ^e	39	70	746 ^c	94

^aAs discussed in app 1, our original universe of single function contracts was 5,925. About 98 percent (5,779) of these contracts were firmly priced, based on DOD officials’ DD Form 350 reports. (See footnote 1, ch 1.) Therefore, the 98 percent is an actual rather than an estimated amount. We derived the 5,631 by applying this percent to the adjusted universe (5,773). (See table 1.1, app 1.)

^bUnlike the other three contracting practices for which the information reported can be more easily verified, this information is based on contracting officers’ self-assessments of how well they are complying with the OMB criteria. Contracting officers’ assessments were based on a five point scale, as shown in table 5.1, ch 5. Even though a higher percentage of contracting officers on umbrella contracts than single function contracts reported they were following the OMB guidance to a very great or great extent, two-thirds of the umbrella contracts were not meeting the criteria.

^cIn estimating this number, we assumed that the 10 percent who did not respond to our single function contract questionnaire would have answered the same way as the respondents. (See table 1.1, ch 1.)

^dOf the estimated 5,479 single function contracts for which price was weighted 50 percent or more, price was weighted 100 percent for almost all, an estimated 5,461 contracts representing 94.6 percent of the adjusted universe, and price was weighted 90 percent for most of the remaining 18 contracts.

^eBased on contracting officers’ questionnaire responses, an estimated 14 percent (797 of 5,773) of the single function contracts had options compared to 88 percent (56 of 64) for the umbrella contracts. Of the contracts with options, we found that (1) an estimated 94 percent of the single function contracts had options that were priced at the time of the initial contract award and (2) 70 percent of the umbrella contracts had priced options.

Cost Effectiveness of Umbrella Contract Decisions Not Demonstrated

In our umbrella contract questionnaire we asked each contracting officer whether any study had been performed that demonstrated the use of an umbrella contract at that location to be more cost effective than several smaller or single function contracts. Fifty-three (88 percent) of the 60 umbrella contracting officers who responded to the question said a study had not been done.

We contacted each of the seven others and asked about the study that had been done. Five told us that they did not have any formal studies comparing costs of the umbrella contract versus single function contracts and the other two told us they had A-76 studies.

- The five contracting officers said that they had informal studies but could not provide copies. However, most of these contracting officers said that they believed the umbrella contracts were more cost effective than smaller contracts because of administrative and overhead savings.
- Although the A-76 studies are important in deciding whether to perform work in-house through government employees or to “contract out” to private businesses, they were not intended to show, and contracting officers told us they did not show, whether a decision to use an umbrella contract was more cost effective than using several smaller contracts.

Contracting officers are required, as noted in chapter 3, to justify any use of a contract type other than firm fixed price. However, there is no requirement to justify decisions to use umbrella base support contracts based on less preferred contracting practices rather than two or more smaller contracts based on the preferred practices.

DOD Guidance on Contracting for Commercial Activities

DOD issued a policy statement on consolidations and small business contracts on June 29, 1983. The term “consolidated contract” includes umbrella contracts. This policy requires a cost analysis to justify using consolidated contracts. In response to an earlier report,⁴ this policy was revised on October 19, 1984, to ensure that base commanders obtain services needed at the lowest cost to the government. The revised policy requires base commanders to

- determine which functions should be in a single solicitation;
- analyze the advantages and disadvantages to the government that might result from making more than one award;

⁴How Selected DOD Consolidation Efforts Affected Small Business Opportunities (GAO/NSIAD-83-30, Aug 12, 1983)

- consider stating requirements in a manner that provides for maximum competition to determine the lowest aggregate cost to the government;
- allow bidders to submit bids on one, all, or any combination of the functions being solicited; and
- perform a cost analysis if agency officials believe that all of the functions are to be solicited together, showing whether the “all or none”⁵ solicitation is less costly to the government or is otherwise in the best interest of the government.

DOD’s June 1983 policy expressed the view that competition is enhanced in consolidated contracts. However, we found indications that umbrella contract solicitations resulted in less competition than single function contracts. Specifically, umbrella contracts were awarded based on a range of 1 to 15 offers with a mean of 4.3, whereas single function contracts had a range of 1 to 45 offers with a mean of 6.8. About 53 percent of the 64 umbrella contracts were awarded based on more than 2 offers compared with 89 percent of the single function contracts.

Nevertheless, we believe the revised policy is a step in the right direction because it requires analysis before deciding to consolidate. However, we believe the DOD policy should go further to include justification when less preferred practices are to be used. Base commanders should be required to include in any cost analysis consideration of whether the preferred contracting practices discussed in this report are expected to be used and, if not, what the effects would likely be, especially on cost to the government and competition. We believe that umbrella base support contracts based on the less preferred contracting practices should not be permitted unless their use is justified as more advantageous to the government.

Conclusions

The military services have procured billions of dollars worth of base support services and supplies through umbrella contract awards based on less preferred contracting practices. Although most of the work was of predictable nature, contracting officers often decided to use umbrella contracts based on such practices without justifying that they were the most advantageous method of meeting the government’s needs. Neither procurement regulations nor agencies’ procedures require the decisions to use umbrella contracts based on less preferred contracting practices,

⁵The “all or none” concept means an offeror cannot bid on each of the functions but must either bid on the entire package of functions or not bid at all

rather than two or more smaller contracts based on the preferred practices, to be justified. Revised DOD policy requires a cost analysis if all or many of the functions for a base are solicited together. However, the policy does not address consideration of, or justification for, not using preferred contracting practices.

Decisions to use umbrella contracts based on less preferred contracting practices for routine base support services need more careful justification and review.

Recommendations

We recommend that the Secretary of Defense require both initial solicitations and resolicitations to be based on the anticipated use of the three contracting practices listed below whenever use of an umbrella contract covering a substantial amount of routine or predictable base support work is proposed, except when (1) the contracting officer certifies, justifies, and reasonably supports the use of any other contracting practice(s) in writing as more advantageous to the government and (2) the justification is approved at a level higher than the contracting officer.⁶ The three contracting practices are.

- A firm fixed-price contract or a fixed-price contract with an economic price adjustment clause.
- Source selection evaluation criteria which assign at least half of the weight to price related, rather than nonprice, factors.
- A solicitation containing work statements with (1) clear, definitive, performance-oriented descriptions of the work that needs to be done and (2) standards with acceptable quality levels for measuring performance.

Further, we recommend that the Secretary of Defense require the development of umbrella contract work statements to be (1) planned and initiated early enough and (2) effectively carried out, so as to encourage firmly priced contracts to be proposed in response to the solicitation and considered during negotiations, unless the use of another contract type has been properly justified and approved.

⁶That is, this requirement should apply (1) at the time the "packaging decision" is made determining whether and to what extent work functions are to be consolidated into an umbrella contract and (2) before the solicitation is prepared, so that proper planning can be done to allow use of the preferred practices whenever use of the less preferred practice(s) has not been justified and approved

Agency Comments and Our Evaluation

The Office of Federal Procurement Policy concurred with all the recommendations in our draft report. It added that (1) the recommendations will be adopted when OMB Circular A-76 is revised and (2) it plans to submit proposed FAR changes for using performance work statements⁷ in service contracts and clarifying that price is the paramount criteria for deciding between a contractor and a government activity in an A-76 acquisition. The Policy Office also stated that the standard set by the government in the performance work statement will be required if a government activity wins the competition; therefore, more service at a higher price will not be expected from a contractor. (See app. XI.)

DOD did not concur with either of our recommendations. DOD stated that our first recommendation, as it relates to both firmly priced contracts and the weighting of source selection criteria, would have an adverse impact on the responsibility of the contracting officer to select the most appropriate contracting method. DOD also stated that (1) requiring certification of the contracting officer's contract type justification would be redundant since this is already required by FAR and (2) requiring a higher level approval of the contract type justification would not ensure the selection of an appropriate contract type.

DOD stated that our recommendation for clear, definitive, performance-oriented work statements and standards with acceptable quality levels for measuring performance is in the best interest of the government. However, DOD did not agree that any further requirements are necessary in this regard.

Regarding our second recommendation, DOD agreed that the development of umbrella contract work statements needs to be well planned, initiated early, and effectively carried out. However, DOD stated that it did "not agree that the purpose of this planning is to encourage fixed price contracting." (DOD's comments are in app. X.)

Although we do not agree with DOD's statement that requiring certification of the contracting officer's contract type justification would be redundant, we have revised our first recommendation to distinguish it more clearly from existing requirements, which are discussed in chapter 3. (See p. 36.) That is, we have added (1) wording that the solicitation be based on the anticipated use of the preferred practices and (2) footnote

⁷See ch 5 for more information on work statements and footnote 1, ch 5, for a definition of performance work statements

6 on page 25. These revisions clarify that we are calling for written justification at a point in time that would still permit proper planning for and use of the preferred practices, if use of the less preferred practice(s) is not justified.

DOD's objections appear to be based primarily on its beliefs that (1) the work performed under umbrella contracts "may be routine but is often not predictable to the degree necessary to allow for use of a firm fixed-price contract," (2) requiring the use of a firmly priced contract, except where justified and approved in accordance with our recommendation, would prejudice the selection process in favor of a firmly priced contract "contrary to established contracting policies and procedures," and (3) it must move away from defining contractual requirements in minimally acceptable terms and move toward a system whereby the best quality at an acceptable price is its recognized objective

Predictable Work

Contracting officers responsible for umbrella contracts believe that most of the work performed under these contracts was predictable enough to provide a reasonable basis for firmly priced contracts. As discussed on page 20, DOD contracting officers classified the work functions performed under umbrella contracts as routine or nonroutine in response to our questionnaire. In requesting the contracting officers to classify each work function, our questionnaire defined work as routine

"when it is predictable enough so that a reasonably definitive statement of work either is available or could be developed that would provide a reasonable basis for firm pricing."⁸

Contracting officers' responses contrasted sharply with DOD's position concerning the predictability of work performed under umbrella contracts. (See p. 20 and the additional information on pp. 33 and 34 showing that most of the work was predictable.) DOD's position does not appear to recognize these findings. Furthermore, DOD's position does not recognize that all of the contracting officers we interviewed who were responsible for 19 of the 21 firmly priced umbrella contracts were satisfied with the services received and the contract type used. (See p. 34.)

⁸We used this definition because DOD procurement regulations provide that the firm fixed-price contract is suitable for use in procurements when reasonably definite specifications are available and fair and reasonable prices can be established at the outset, such as where "the uncertainties involved in contract performance can be identified and reasonable estimates of their possible impact on costs made, and the contractor is willing to accept a firm fixed price at a level which represents assumption of the risks involved" (Also see FAR 16 202-2.) As noted on pages 34 and 56, this regulatory requirement relating to specifications also applies to statements of work

Preferred Contract Type

We disagree that requiring a firmly priced contract, except where justified and approved, would prejudice the selection process in favor of a firmly priced contract, contrary to established contracting policies and procedures.⁹ Written justification for any decision to use a cost reimbursement or incentive rather than a firmly priced contract is required by 10 U.S.C. 2310(b).¹⁰

DOD's position is that all methods of contracting should be considered before selecting the best overall method to achieve continuous quality improvement at a reasonable price for the product or service required.

We believe that both the law and regulations are clear that firmly priced contracts are preferred when their use is appropriate.¹¹ Cost reimbursement and incentive types of contracts may be used only when there is an affirmative written determination, reasonably supported, that (1) their use is likely to be less costly or (2) it is impracticable to obtain supplies or services of the kind or quality required except under such contract types. In those cases where the use of a firmly priced contract is appropriate but DOD officials believe use of another contract type would be better for reasons other than those recognized in law and regulations, such as achieving quality improvement beyond the minimum requirements, we believe DOD's position is not consistent with legal requirements. (See the discussion on pp 36 through 41 concerning the frequently unsupported decisions to use other than firmly priced contracts.)

Quality Beyond the
Government's Minimum
Requirement

We believe that DOD's stated position of moving away from defining requirements in minimally acceptable terms and moving toward a system of acquiring the best quality at an acceptable price is (1) inappropriate for routine, predictable base support services, (2) questionable in view of the fact that higher quality, beyond what is needed, costs

⁹ Also, see the discussion on p 75 regarding contract type decisions that were made before the solicitations were written

¹⁰ Also see DAR 3-404 4(c) and 3-405 1(c) and FAR part 16

¹¹ In addition, the U S Army Corps of Engineers' Guide for the Preparation of the Directorate, Engineering and Housing, Acquisition Package Including Performance Work Statements, as revised July 1985, addresses choosing the contract type. The guide states that (1) for umbrella contracts, the type of contract could range from firm fixed price with certain reimbursable items to cost plus with award or incentive fees, (2) if the installation has sufficient historical information or accurate projected work load the bidder can use to make a reasonable offer, the firm fixed-price contracts should be used, and (3) cost-plus-type contracts should be used only when requirements cannot be defined

more, and (3) inconsistent with FAR. FAR requires agencies to use specifications and purchase descriptions which reflect the minimum needs of the agency and the market available to satisfy such needs.

We recognize that DOD has been emphasizing the need to improve the quality of the products it receives, such as major weapon systems and other defense material. Such emphasis appears to be justified, especially where DOD has been receiving defective material. However, the solution is to insist on contractors' meeting performance standards and not on paying more to obtain routine, predictable base support services at levels above the government's minimum requirements.

Other Matters

DOD noted that (1) its policy statement on consolidation and small business contracts was directed specifically toward the areas of small and small disadvantaged businesses, (2) the policy's intent was to give a high degree of consideration to adverse impacts that consolidations may have on such businesses, and (3) actions must be taken to ensure that such contractors are not displaced merely to accomplish consolidations. In contrast to the assertion in its June 1983 policy statement that competition is enhanced in consolidated contracts, DOD agreed with our finding concerning fewer contractors competing in response to umbrella than single function contract solicitations. (See p. 24.) DOD stated that (1) this "is to be expected since the requirements are not segmented" and (2) the lesser degree of competition received does not in itself mean that the prices received are not fair and reasonable.

We believe that adopting our recommendations in this chapter would help DOD ensure that (1) the inappropriate use of umbrella contracts is limited and (2) small and small disadvantaged businesses' opportunities to compete for federal contract awards are restricted only when this has been demonstrated to be in the government's best interests.

Opportunities Exist to Use More Firm Fixed-Price and Other Firmly Priced Umbrella Contracts

Because of the routine or predictable work involved in many umbrella base support service contracts, opportunities exist to use more firm fixed-price contracts and other increasingly firmer types of umbrella contracts than those used. DOD contracting officers have the alternative of splitting into separate contracts those functions that can be effectively performed on a firmly priced basis and those that would be better performed under another type of contract.

Law and regulations permit use of a cost reimbursement or incentive type of contract only when (1) the proposed contract is likely to be less costly or (2) it is impracticable to obtain property or services of the kind or quality required without using such a contract. However, agency officials frequently used these less firm contract types when such use was not supported and did not appropriately consider the nature of the work involved. Two-thirds of the 43 cost reimbursement and fixed-price incentive contract type decisions we reviewed were unsupported. Replacing less firm contract types with firmer contract types could often increase the government's assurance that prices are fair and reasonable and that costs are controlled.

Most Umbrella Contracts Are Not Firmly Priced Contracts

There are two main contract types—fixed-price and cost reimbursement—and many variations of each. Considering the requirements of specific procurements, these variations provide the flexibility needed in purchasing the large variety and volume of supplies and services DOD needs.

The contract types vary as to (1) the responsibility assumed by the contractor for the costs of performance and (2) the profit incentive offered the contractor to achieve or exceed specified standards or goals.¹ At one end of the spectrum is the firm fixed-price contract, under which the parties agree that the contractor assumes full responsibility for performance in exchange for the agreed upon dollar amount. At the other end is the cost-plus-fixed-fee contract where profit, rather than price, is fixed and the contractor's cost responsibility is, therefore, minimal. In between are the various incentive contracts that may provide for varying degrees of contractor cost responsibility, depending on the degree of uncertainty involved in contract performance.

¹DAR 3-803(a) states that the procurement objective is to negotiate a contract type and price that includes reasonable contractor risk and provides the contractor with the greatest incentive for efficient and economical performance (Also see FAR 16 103(a) which is essentially the same)

The specific type of contract used should be determined by the degree of risk in contract performance. When a contractor's risk is minimal or the work to be performed can be predicted with an acceptable degree of certainty, a firm fixed-price contract is preferred. However, as the uncertainties become more significant, other types of fixed-price contracts or cost-type contracts should be employed to avoid placing too great a cost risk on the contractor.

Contract types vary in the degree to which they help control costs. Firm fixed-price contracts provide the most control because the contract price is already set. A fixed-price contract with economic price adjustment is a contract with a fixed price that can be changed, for example, when economic fluctuations in labor or material costs occur. Fixed-price incentive contracts provide some incentive for contractors to control costs because responsibility for cost overruns is shared between the government and the contractor. However, under such a shared responsibility, the contractor has less incentive to control costs than if the responsibility rested solely with the contractor, as under a firm fixed-price contract.

At the opposite end of the spectrum are cost reimbursement contracts. These contracts have three significant drawbacks with regard to cost: (1) they place maximum risk on the government and minimum risk on the contractor, (2) they give the contractor little incentive to control costs, and (3) they place a large administrative burden on both the government and the contractor to oversee, control, and identify reasonable and necessary contract costs.²

In this report, we refer to firm fixed-price, fixed-price with economic price adjustment, and firm fixed-price with award fee contracts as "firmly priced" contracts. We also refer to contract types as increasingly "firmer" the closer they are to firm fixed-price contracts and the farther they are from cost reimbursement contracts.

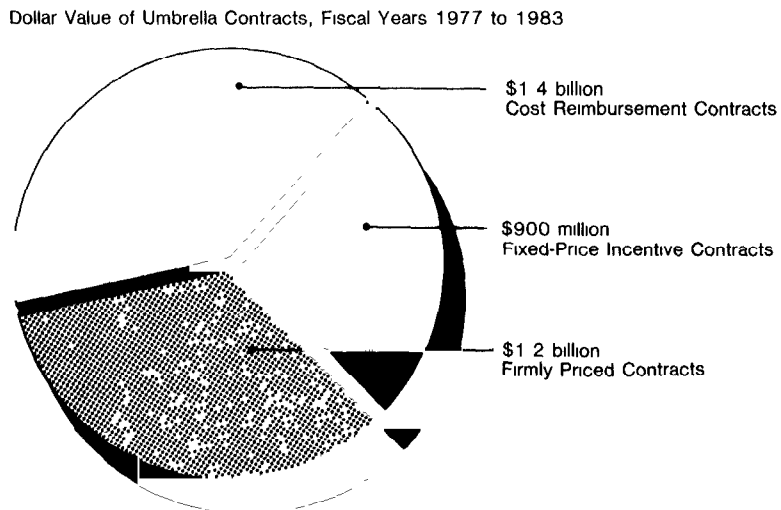
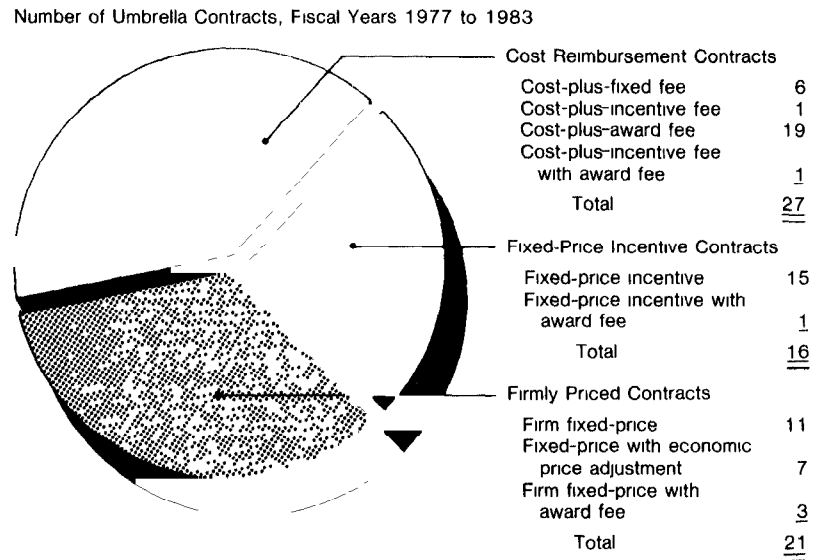
Figure 3.1 shows the use of various types of contracts for umbrella contracts from fiscal years 1977 to 1983. As the figure shows, 43, or about two-thirds of the umbrella contracts, were cost reimbursement or fixed-

²DAR 3-405 1 states that cost reimbursement contracts are suitable only when the uncertainties involved in contract performance are of such magnitude that the cost of performance cannot be estimated with sufficient reasonableness to permit use of any type of fixed-price contracts. The regulations also state that appropriate surveillance by government personnel during performance under such contracts is essential to give reasonable assurance that inefficient or wasteful methods are not being used (FAR 16 301 contains essentially the same provisions.)

Chapter 3
Opportunities Exist to Use More Firm Fixed-Price and Other Firmly Priced Umbrella Contracts

price incentive contracts. These contracts had a total dollar value of about \$2.3 billion.

Figure 3.1: Most Umbrella Contracts Were Not Firm Fixed-Price or Other Firmly Priced Contracts



The 21 firmly priced contracts had a total dollar value of about \$1.2 billion.³

³Dollar values were obtained from the Federal Procurement Data System

Use of Firmly Priced Umbrella Contracts Is Often Feasible

The increased use of firmly priced umbrella contracts is feasible for base support service work because (1) such contracts have been used successfully and (2) the type of work performed under umbrella contracts was often the same, regardless of the contract type that was used. When base support services and supplies were procured based on single function contracts, firmly priced contracts were used in 98 percent of the cases. (See table 2.2.) As shown in figure 3.1, 21 (33 percent) of the 64 umbrella contracts awarded in fiscal years 1977 to 1983 were awarded on a firmly priced basis. These contracts were valued at about \$1.2 billion, or 33 percent of the total for all the umbrella contracts. The types of work performed under these firmly priced umbrella contracts was almost identical to the types of work performed under other types of umbrella contracts. All of the contracting officers we interviewed who were responsible for 19 of these 21 umbrella contracts stated that they were satisfied with the services and the contract type.

Routine Nature of Work Indicates That Greater Use of Firmly Priced Contracts Is Feasible

To gain an understanding of whether the type of work varied with the type of contract and whether a reasonable basis generally existed for establishing firm contract prices, we asked contracting officers for the 64 umbrella contracts to identify and categorize⁴ the types of work included in each contract. We received answers to this question for 56 of the 64 contracts. These 56 represented a cross section of the basic contract types; 20 were firmly priced, 15 were fixed-price incentive, and 21 were cost reimbursement contracts.

The results showed that the types of work performed under firmly priced contracts were usually the same as the types of work performed under either cost reimbursement or fixed-price incentive contracts. The contracting officers identified a total of 118 functional areas, such as food service, custodial, guard, and fire protection. Of these 118 functions, 113 (96 percent) were performed in both contract type categories: (1) firmly priced and (2) cost reimbursement or fixed-price incentive umbrella contracts. Of the 5 remaining work functions, contracting officers cited 3 as routine enough to be in a firm fixed-price contract and the other 2 were not performed in any of the 28 umbrella contracts for which we questioned the contract type decision. (See app. III for a list of the five functions.)

We also asked contracting officers the following questions.

⁴The work was categorized according to DOD's commercial/ industrial-type activities described in DOD Instruction 4100 33 (enc 4) dated February 25, 1980

- Are the work functions performed considered routine or nonroutine? (Routine functions were defined as work that is predictable enough so that a reasonably definitive statement of work either is available or could be developed that would provide a reasonable basis for firm pricing.)⁶
- Could a firm fixed-price contract be used for the function?
- Could a statement of work for a firm fixed-price contract be written for the function?

Contracting officers identified 1,245 individual contract work functions in 118 functional areas as being performed under the 56 umbrella contracts. For example, 31 contracts listed the functional area of custodial services. According to contracting officers, for the 1,245 functions listed:

- Nine hundred and forty eight (76 percent) were performed in firmly priced contracts or were classified as routine. This percentage is understated because some contracting officers classified such routine work as janitorial, security, and vehicle maintenance as nonroutine if it was performed at a technical location.
- Nine hundred and seventy (78 percent) could have been contracted on a firm fixed-price basis.
- Nine hundred and eighty nine (79 percent) could have had a written statement of work for a firm fixed-price contract.

All of the contracting officers we interviewed who were responsible for firmly priced umbrella contracts stated that they were satisfied with the services received and the contract type used. These contracting officers were responsible for 19 of the 21 firmly priced umbrella contracts.

Officials of the Office of Federal Procurement Policy, which has developed and issued government-wide guidance on service contracts used in connection with OMB Circular A-76, told us that most umbrella contracts should be firm fixed price. They said firm fixed-price contracts should be used because the types of work most often performed in umbrella contracts are routine. Many of these work activities are cited in OMB Circular A-76.

⁶DAR 3-404 2(b) states that the firm fixed-price contract is suitable for use in procurements when reasonably definite specifications are available and fair and reasonable prices can be established at the outset (Also see FAR 16.202-2) As explained in footnote 1, ch 5, this regulatory requirement relating to specifications also applies to statements of work

Alternative Approaches
Using Firmer Contract
Types Need to Be
Considered

Contracting officials have the discretion to split contracts into (1) those functions that can be effectively performed using a firmly priced contract and (2) those that should be performed using a less preferred contract type. Several umbrella contracting officers have split or told us they were considering splitting their base support work functions into different contracts using different contract types. For example, Sunnyvale Air Force Station has split its base support work into three contracts, one of which is a combination firm fixed-price/fixed-price incentive. During fiscal years 1982-85, this combination contract accounted for \$272 million (41 percent) of the \$656 million obligated under all three contracts, with the firm fixed-price portion of the combination contract accounting for the majority of the \$272 million. The other two contracts were a cost-plus-incentive fee/award fee and a fixed-price incentive fee/award fee.

Contracting officers at the nine locations visited generally told us that they oppose splitting their umbrella contracts into more than one contract. Some contracting officers said that having more than one contractor can result in disputes about which contractor is responsible for various work segments. In addition, they said administrative costs were higher with more than one contractor.

We asked contracting officers at the nine bases for evidence that use of two contractors at a location has caused significant increases in costs or disputes, but none was provided. In fact, two of the contracting officers told us that they had split some functions such as guard service, photography, and tug operations into smaller firm fixed-price contracts to obtain lower costs. If, instead of using an umbrella contract, all or most functions at a location were awarded separately, the concerns expressed might be more likely to occur and be significant problems. In our opinion, splitting an umbrella contract into two or more separate contracts, one of which is firmly priced, is an alternative to awarding a single cost reimbursement or fixed-price incentive contract that should be considered when the majority of the work is predictable.

Contracts Are Usually
Not Being Switched to
Firmer Contract Types

DAR 3-803(b) states that the circumstances which lead to the selection of a given type of contract will frequently change so as to make a different type more appropriate later. The regulation states that the repetitive or unduly protracted use of a cost reimbursement contract is to be avoided where experience has provided a basis for firmer pricing which will promote efficient performance and will place a more reasonable degree of risk on a contractor. Thus, according to the regulation, continuing

consideration should be given to converting to a firmer type of contract as early as practicable. (Also see FAR 16.103(c).) For routine work, we believe it is generally reasonable to expect movement over a number of years toward increasingly firmer contract types.

Cost reimbursement and fixed-price incentive contracts have been used repeatedly at some military bases and the military services have usually not changed to firm fixed-price or other fixed-price contract types. We examined the procurement history relating to contract type for the 45 most recent umbrella contracts at the 42 locations covered in this review. Twenty-one contracts were in their first term of award. Another eight contracts were initially awarded and remained on a firmly priced basis. For the remaining 16, we found that 6 (3 cost-plus-award fee and 3 fixed-price incentive fee) had remained in the same contract type as initially awarded, 4 had been changed to a less firm contract type, and 6 had been changed to a firmer contract type.⁶ Five of the six that stayed the same had used the same cost reimbursement or fixed-price incentive contract types for over 20 years.

Under cost reimbursement and fixed-price incentive contracts, contractors are required to keep administrative and performance data. Our review of reports generated under umbrella contracts showed that this information can be used to develop the greater specificity needed for firmly priced solicitations and contracts. However, this information was generally not being used to switch to firmly priced contracts.

Contract Type Decisions Need Better Documentation and Support

Federal law and DOD regulations require that any decision to use a cost reimbursement or incentive contract rather than a firmly priced contract be documented to show the contract conditions and the reasons the contract type was selected. They permit use of other than a firmly priced contract only when the proposed contract is likely to be less costly or it is impractical to obtain property or services of the kind or quality required without using such a contract. Law and regulations also require that enough facts and circumstances be set forth to support the contract type decision.

⁶The four contracts that were switched to a less firm contract type were all changed from fixed price with economic price adjustment contracts to cost-plus-award fee. Of the six contracts that were switched to a firmer contract type, two were changed from cost-plus-fixed fee to cost-plus-award fee, three were changed from cost reimbursement to fixed-price incentive, and one was changed from cost reimbursement to firm fixed price.

We found that the documentation for most of the decisions to use other than firmly priced umbrella contracts was inadequate and that the decisions themselves were often unsupported. However, under certain special conditions the use of firmly priced contracts for base support services was not appropriate. Even where firmly priced contracts were feasible, they often could not be used for umbrella contract work because contract solicitations did not contain statements of work that provided a sufficient basis for contractors to propose and government officials to consider firmly priced contracts during negotiations. (The need for better contract statements of work is discussed further in ch. 5.) Although we are not questioning the legality of these decisions about contract type, we are questioning DOD's contracting practices that frequently led to the need to forego the use of firmly priced contracts.

**Documentation Was Often
Inadequate for Decisions on
Contract Type**

DOD regulations⁷ require determinations and findings (D&F) for cost reimbursement and incentive contracts in accordance with federal law (10 U.S.C. 2310(b)). To permit use of such a contract, a D&F is required to conclude that the proposed contract is likely to be less costly or it is impracticable to obtain property or services of the kind or quality required without using such a contract. The legislation pertaining to D&Fs and the implementing regulations indicate clearly that documented findings must support this determination.

We examined the D&Fs for all 43 cost reimbursement and fixed-price incentive contracts. The most frequently used reasons for selecting other than firmly priced contracts given on the 43 D&Fs were

- less costly (mentioned in 29 D&Fs) and
- the only practicable way to obtain the services and supplies needed (34 D&Fs).

We analyzed the adequacy of documentation for the decisions on all 43 cost reimbursement and incentive contracts by visiting 9 contract locations with 12 of these umbrella contracts and obtaining documentation for the remaining 31 contracts. We considered the documentation inadequate when we could not find a written explanation, such as in a D&F or other documentation provided to us, showing why the contract type was

⁷DAR 3-301 states that a D&F must provide a conclusion (or "determination") and findings, which are statements of fact or reasoning essential to support the conclusion. D&Fs are required with respect to the use of a cost reimbursement or incentive type contract. DAR 3-308 requires supporting documentation for a D&F. The D&F format is provided in DAR J-601. FAR contains similar provisions.

needed. On this basis, we found that 37 (86 percent) of the 43 contract decisions were inadequately documented.

Contracting officers for 28 contracts were not able to provide us with documentation beyond their D&F certification. Eight contracting officers for 12 contracts told us that the “boiler plate” determinations cited in DAR J-601, stating one or both of the conclusions required by law, were enough documentation. We disagree because title 10 of the United States Code, section 2310(b), requires a clear demonstration of the facts and circumstances.

**Additional Review Showed
Contract Type Decisions
Were Often Not Supported**

Federal law (10 U.S.C. 2310(b)) and DOD regulations⁸ require that support for the type of contract include facts and circumstances about why the type of contract was selected. In addition to reviewing the contract type documentation, we interviewed contracting officers for all 43 cost reimbursement and incentive contracts to obtain their reasons for selecting those contract types. Through these interviews and our questionnaire results, we identified the following reasons for contracting officials' limited use of firmly priced contracts:

- The perceived need to have flexibility in meeting the base mission.
- The belief that cost reimbursement and incentive contracts are less costly.
- The fact that contract types were usually not a matter for negotiation because the statements of work included in solicitations often did not permit firmly priced proposals to be offered and firmly priced contract types to be considered during negotiations.
- The influence of contract type philosophy expressed by some higher service commands. That is, officials of commands which expressed philosophical preferences other than for firmly priced contracts tended not to use them.

Appendix IV provides the detailed results of our evaluation of each of these reasons. Appendix V provides additional information on contract type philosophies by command.

We considered the contract type decision not to be supported when either (1) the reasons given did not clearly demonstrate that the contract was less costly or the only practicable way to obtain the services or

⁸DAR 3-305 requires each D&F to set out enough facts and circumstances to justify clearly the specific determination made. (Also see FAR 1.704.)

(2) the only reason the decision was appropriate (that is, in these cases “the only practicable way to obtain the services”) was the lack of a sufficient statement of work which could have been provided through better agency planning or management.

Our interviews with contracting officers did not produce information to support 28 of the 43 contract type decisions. These included cases in which contracting officers determined the contract type to be (1) less costly, but did not have any supporting analysis or factual data or (2) the only practical way to obtain the property or services of the kind or quality required. In these latter cases we found that no attempt had been made to develop a statement of work that would have provided a sufficient basis for a firm fixed-price contract and, aside from the lack of adequate work statements, the determination was not otherwise supported.

Twelve of the 43 contracts covered locations we visited. We found that 10 (83 percent) of the 12 contract decisions did not have support. For example, in 6 of the 10 cases, D&Fs stating that the contracts were less costly were not supported by any analysis or factual data. Contracting officers said that 208 (78 percent) of the 266 individual work functions performed in the 10 contracts were for routine supplies and services. All of the remaining 58 work functions, which fell into 30 functional areas, were performed under other umbrella contracts that were firmly priced.

For 18 (58 percent) of the remaining 31 cost reimbursement and incentive type contracts at bases we did not visit, we did not find support for the contract type decisions in the explanations and documentation provided to us. For example, in 11 of the 18 cases, D&Fs stating that the contracts were less costly were not supported by any analysis or factual data.

Contracting officers, in response to our questionnaire, classified the work for 12 of the 18 contracts.⁹ They classified 79 (45 percent) of the 175 work functions performed in these umbrella contracts as routine work for which firmly priced contracts could have been written. Two of the contracting officers stated that 100 percent of the work performed was routine, while five categorized the work as being mostly technical. However, we question the type of work listed as technical. For example, providing office equipment and furniture, bus service, vehicle maintenance, and storage and warehousing and disposing of excess property

⁹Six of the 18 contracting officers did not complete the questionnaire for the type of work

were listed as technical work for one contract. Moreover, for the other 55 percent of the work functions not classified as "routine work for which firmly priced contracts could have been written," we determined that 94 of the 96 functions, which fell into 45 functional areas, were also performed in firmly priced umbrella contracts at other locations.

The following are two examples of decisions which, in our opinion, were not supported. With better planning and management, we believe firm fixed-price contracts could have been used in both cases.

- The Bangor Submarine Base. The support service contract for this base was awarded in 1982 for 5 years at a cost of \$42 million annually. The D&F stated that the fixed-price incentive contract type was selected because it was likely to be less costly than other contract types. The D&F justifying negotiation of the contract further stated that the scope of work could not be defined in detail. However, the contracting officer stated in response to our questionnaire that 42 of the 43 work functions in the contract, representing 85 percent of the contract's value, were of a routine nature.

The contract type decision was not supported. The contracting officer could not provide any analysis to show why the incentive contract was less costly. The contracting officials made the contract type decision without clearly documenting the basis for the decision, as required by regulations. The contractor provided the Navy with about 250 detailed reports, some monthly, others quarterly or annually, on operations from 1977 to 1982. We examined the reports and concluded that the information needed to write firm fixed-price work statements was available, although the Navy did not use it. The contracting officer further stated that the statements of work for 42 of the 43 work functions could have been written into a firm fixed-price contract.

- The St. Louis Army Support Center. The contracting officer awarded about a \$5 million cost-plus-award fee contract for base support services in July 1982. The D&F said that (1) the scope of work could not be quantified, (2) it was impractical to secure services without the use of a cost reimbursable contract, and (3) this contract type should be less costly. The contracting officer, in response to our questionnaire, stated that 90 percent of the work and 24 of the 26 work functions were routine and that statements of work for the 26 work functions could have been written into a firm fixed-price contract. The contract was the second umbrella contract, both cost-plus-award fee, awarded for base support services at that location. Although the contractor had been providing

services for 2 years, the contracting officer did not use contractor data to prepare firm fixed-price work statements.

The contract type decision was not supported because no indication was provided as to why the work could not be described, how a cost reimbursement contract would result in reduced costs, and why it was impractical to secure the desired quality of services without using a cost reimbursement contract. The D&F statement that the work could not be described is in conflict with the questionnaire response that all functions could have been written into a firm fixed-price contract. The contracting officer said there was no analysis or data to support the statement that the contract was less costly. The contracting officer also said that (1) the D&F “stands alone” and was the only support for the decision because the D&F is all that is required and (2) the commanding officer wanted the flexibility of a cost reimbursement contract to perform the base mission

Contract Type Decisions
Were Sometimes
Appropriate

Special conditions sometimes exist where the use of firmly priced contracts for base support services may not be appropriate. For example, this may be the case when (1) new bases are started, (2) bases are expanding rapidly, or (3) most of the work at a base is so technical that it is not predictable enough to develop a definitive statement of work that would provide a reasonable basis for firm pricing.

Of the 15 (out of 43) cost reimbursement or fixed-price incentive umbrella contracts that we found to be sufficiently supported, 2 were for new bases; 2 were for expanding bases, 1 of which was for a base that expanded from about \$12 million to \$40 million in annual services; and 11 were for work that was mostly technical. All of the contracts either (1) did not have data available to write work statements for a firm fixed-price contract or (2) did not consist primarily of work that was sufficiently predictable. Appendix VI describes the rationale for not using a firmly priced contract under these circumstances at three locations.

Need to Strengthen Reviews by Higher Command Officials of Contract Type Decisions

Because of the dollar amount and/or the contracting out decision on umbrella base support service contracts, some service regulations require higher command officials to review these contract type decisions. The inadequate documentation and the questionable basis for many contract type decisions suggest, however, that high-level reviews need to be strengthened. Based on our analysis of D&F justifications and interviews with command officials, the reviews often appeared perfunctory. In fact, some reviews were explicitly intended to be limited. For example, Army Forces Command letter, dated January 23, 1984, on selection of procurement method and contract type states that "an installation's judgment on contract type will be challenged by us only if it is patently incompatible with procurement regulations."

Although contracting officers are required to justify and support the contract type decision, for many of these decisions the reviewing officials accepted justifications that we found to be unsupported. For example, as previously noted, contracting officers said that use of cost reimbursement or fixed-price incentive contracts was less costly for 17 of the 28 contracts we questioned, but none had any analysis or data for support. In one higher level review, command officials stated that more definitive work statements should have been prepared to allow a firm fixed-price contract to be solicited. The contract, however, was awarded as a cost reimbursement contract.

Many of the reviews may have been inadequate at least partly because contracting officers did not specifically describe (1) how the work was so unpredictable that a reasonably definitive statement of work could not be developed, (2) why the use of the contract type was the only practicable way to do the work, and (3) how they knew that the use of the contract type was less costly. Without such information, reviewing officials often may not have enough information to determine if the justification has a reasonable basis.

Conclusions

Significant portions of the routine base support work being performed under umbrella cost reimbursement and fixed-price incentive contracts appear to be suitable for either firm fixed-price contracts or increasingly firmer types of contracts than those used. Firmly priced umbrella contracts have been used successfully at many bases. Contracting officers have the alternative of splitting umbrella contracts into (1) those functions that can be effectively performed on a firmly priced basis and (2) those that should be performed using less preferred contract types. Better assurance is needed that the contract type decisions are properly

documented and justified and that the repeated use of less preferred contract types is avoided, whenever possible.

Recommendations

In addition to our recommendations in chapter 2 addressing problems discussed in this chapter, we recommend that the Secretary of Defense require, for base support service umbrella contracts, that:

- Contract type decisions be documented and justified (1) in accordance with current requirements, giving proper consideration to the nature of the work involved and (2) in a manner that describes how the work is so unpredictable that a reasonably definitive statement of work could not be developed, why it is impracticable to satisfy the agency's need without using a cost reimbursement or incentive contract, and/or how contracting officers know that the use of the contract type is less costly.
- Alternatives to using cost reimbursement and incentive contracts are fully considered, such as switching to firmly priced contracts and splitting contracts into those functions that can be effectively performed on a firmly priced basis and those that should be performed using a less preferred contract type.

Agency Comments and Our Evaluation

The Office of Federal Procurement Policy concurred with this and all the other recommendations in our draft report and described the actions it plans to take to implement them.

DOD said it partially concurred with our draft report recommendation. More specifically, DOD said it agreed with the thrust of the recommendation and added that (1) using a combination of contract types (hybrid) provides the flexibility to perform various services under one umbrella contract while maintaining a quality performance standard at a reasonable cost and (2) during contract performance all contract types should be analyzed and changing to a more appropriate contracting method should be considered when circumstances dictate.¹⁰ However, DOD said the decision to consolidate functions is based on an evaluation of "the overall impact" on the acquisition, not merely contract type; and, therefore, contract type in itself is not sufficient rationale for splitting up an umbrella contract and "thereby invalidating the original management decision."

¹⁰In response to our findings, DOD stated that after several periods of performance it may be appropriate, as predictable elements are identified, to redefine the statement of work, which would allow for a firmer type of contracting

We have not taken the position, as DOD implies, that contract type in itself is an overriding consideration for splitting up an umbrella contract. In fact, our findings in this chapter (see p. 41) and our first recommendation in chapter 2 clearly recognize that in some cases it may be more advantageous to the government to base the use of an umbrella contract on the less preferred practices than on the preferred practices. However, when most of the work is predictable, we believe that splitting an umbrella contract into two or more separate contracts, one of which is firmly priced, is an alternative to awarding a single cost reimbursement or fixed-price incentive contract that should be fully considered

Regarding our findings that contract type decisions need better documentation and support, DOD said it agreed with the importance of proper documentation of these decisions. DOD added that it (1) has continually stressed the importance of proper supporting documentation in directives, instructions, and specific guidance and (2) will emphasize proper documentation and justification in an interdepartmental staff meeting with the procurement principals.

We believe the actions DOD says it has taken and will take have not been effective and are unlikely to be effective in the future in correcting these problems.

DOD also commented that determinations of contract type should not be based on "the idea of preferred/less preferred rather than the individual procurement situation." However, our review shows that in awarding umbrella contracts, DOD contracting officials often did not adequately consider either (1) the work involved in the individual procurement situation or (2) requirements concerning the preferred types of contracts

DOD concurred with our findings relating to review of contract type decisions by higher command officials. DOD believes that in cases where contracting officers state that the selection of a particular type of contract is likely to be less costly, impractical, or unpredictable, an analysis supporting that determination should be included. DOD also stated that contracting personnel should make the procurement situation clear and definitive enough for higher command officials to fairly evaluate

DOD did not indicate how it plans to implement these improvements and we have revised our recommendation to make it more specific regarding the documentation of contract type decisions for umbrella contracts. That is, the documentation should be required to describe how the work is so unpredictable that a reasonably definitive statement of work could

Chapter 3
Opportunities Exist to Use More Firm Fixed-
Price and Other Firmly Priced
Umbrella Contracts

not be developed, why it is impracticable to satisfy the agency's need without using a cost reimbursement or incentive contract, and/or how contracting officers know that the use of the contract type is less costly.

More Reliance Should Be Placed on Price in Awarding Umbrella Contracts

The Congress and procurement regulations have historically required competition and preferred price competition as the basis for contract awards whenever practicable. For the majority of base support service umbrella contracts awarded between fiscal years 1977 and 1983, the services did not give dominant consideration to price in making the awards. Instead, the services usually selected umbrella contractors based on technical competition, which gives substantial weight to non-price factors, such as the quality of the technical proposal, management capabilities, or past experience.

Procurement regulations do not require contracting officers to justify either the source selection evaluation criteria to be used or the relative importance to be assigned to the various criteria. Because the degree of reliance on price and nonprice factors is inherently judgmental, we do not question agency officials' decisions unless their actions in establishing the criteria and the importance given to them are not reasonably supported by the facts. For the umbrella contracts we reviewed, the low weighting assigned to price often did not appear to be justified for the routine or predictable work involved. The effect often was the award of contracts to offerors other than those offering the lowest price.

Price Is Not the Dominant Criterion for Awarding Many Umbrella Contracts

One of the main aspects of the contracting process is determining the successful offeror. For 59 of the 64 umbrella contracts, competitive offers—that is, offers from more than one offeror—were solicited. For the remaining five contracts, noncompetitive solicitations were issued. One of the five was an 8(a) award.¹

Competitive offers can be evaluated on the basis of a number of criteria such as price, quality of the technical proposals, the offerors' demonstrated management capabilities, and the offerors' past performances. Under contracting regulations, DOD officials have wide discretion in choosing the criteria to be used and determining the relative importance to be given to each. The regulations do not require these decisions to be justified. However, the regulations do require contract solicitations to indicate the relative importance of the various criteria used. The precise weight assigned to each criterion does not have to be disclosed.

¹The Administrator of the Small Business Administration is authorized under section 8(a) of the Small Business Act (15 U.S.C. 631), as amended, to help small businesses that are owned and controlled by socially and economically disadvantaged persons. The agency enters into procurement contracts with other federal agencies and subcontracts the work to disadvantaged small businesses.

Chapter 4
More Reliance Should Be Placed on Price in
Awarding Umbrella Contracts

For the 59 umbrella contracts on which competitive offers were solicited, nonprice criteria were given more weight than price criteria on 28, price and nonprice criteria were given equal weight on 14, and price was given more weight than nonprice criteria on 17. Table 4.1 shows the breakdown.

Table 4.1: Weighting Assigned to Price and Nonprice Criteria

Percentage of evaluation criteria		Number of contracts	Percent	Cumulative percent
Nonprice	Price			
Nonprice dominant				
100	0	11 ^a	18.6	18.6
75-99	1-25	9	15.3	33.9
51-74	26-49	8	13.6	47.5
Equal weight				
50	50	14	23.7	71.2
Price dominant				
25-49	51-75	0	0.0	71.2
1-24	76-99	0	0.0	71.2
0	100	17	28.8	100.0
Total		59	100.0	

^aIn each of the 11 contracts, cost was listed as a source selection evaluation factor. However, contracting officers told us that the cost factor received no weight. Since April 1984, FAR 15.605(b) has required price or cost to the government to be included as an evaluation factor in every source selection.

Because Other Criteria Weigh Heavily in Evaluations, Awards Often Do Not Go to the Lowest Priced Offerors

Another way to describe the lack of price dominance in umbrella contracts is to use the definition of price competition in DOD regulations,² which considers the number of offers received and the type of contract used. We obtained data on all 64 umbrella contracts to determine how many were awarded (1) to a contractor other than the lowest priced offeror and (2) price competitively. For the 64 contracts,

- 8 (13 percent) were awarded based on the evaluation of only one offer and did not qualify as price competitive;³
- 4 (6 percent) were categorized as price competitive even though they were awarded based on the evaluation of only one offer, that is, more than one firm was solicited and the contracting officer concluded that the criteria for price competition were met;
- 18 (28 percent) went to the low responsible⁴ offeror based on price competition;
- 12 (19 percent) went to the low responsible offeror but were not based on price competition;⁵ and
- 22 (34 percent) went to other than the low offeror even though the low offeror was judged to be qualified.

Overall, 42 of the 64 umbrella contracts (66 percent) were not awarded on the basis of price competition.

In contrast to umbrella contracts, single function contracts for support services placed a much greater emphasis on price. Our questionnaire results for the single function base support service contracts show that of the 5,773 contracts in our adjusted universe, an estimated 5,461 (95

²According to DAR 21-126, price competition exists (1) when offers are solicited and received from at least two responsible offerors capable of satisfying the government's needs and the award is made to the offeror submitting the lowest evaluated price or (2) when offers are solicited from at least two responsible offerors who normally contend for contracts for the same or similar items even though only one offer is received. However, cost reimbursement type contracts cannot be classified as price competition. In addition, when two or more qualified sources are invited to submit technical proposals and the contract award is based primarily on this factor, rather than on a price basis, the award shall be considered technical (nonprice) competition. The DOD FAR Supplement contains essentially the same provisions.

³Only one firm was solicited for five of the eight awards, two others were cost reimbursement type contracts, and the contracting officer concluded that the remaining contract, which was fixed-price incentive, was not price competitive.

⁴A responsible source is one that is capable of satisfying the government's requirement. This includes such elements as having adequate financial resources, being able to comply with the required performance schedules, and having a satisfactory record of performance.

⁵Although the source selection process was not designed to award the contracts primarily on the basis of price or cost offers, the process did not preclude awarding to offerors who happened to submit the lowest cost offers, if their proposals were determined to be the best.

percent) were awarded based on a 100-percent weighting to price criteria. (See table 2.2, including footnote d, on page 22)

Extensive Reliance on Nonprice Criteria Does Not Appear Justifiable for Most of the Contracts Reviewed

Contracting officers are not required to make price the dominant source selection evaluation criteria for any negotiated contract award.⁶ Non-price criteria are normally important for evaluating contract offers in which the work is technical and unpredictable. For example, in contracting for the design of weapon systems, it may be difficult to establish the costs up front and a contractor's technical expertise may need to count more heavily in making the award. However, much of the work performed under umbrella contracts was routine or predictable.

As to whether price should be given a high or low weighting, we have always held that the choice of evaluation criteria to be used and the relative weight assigned to them are primarily for consideration by the contracting agency, and we will not substitute our judgment for that of the agency unless the agency's actions in establishing such criteria and weights are not reasonably supported by the facts.

In determining whether the predominant reliance on nonprice criteria was justifiable from a policy standpoint in awarding umbrella contracts, we defined "not justifiable" as occurring when

- the majority of the work performed under the contract was routine and
- available documentation and discussions with contracting officials did not show that the weighting used was reasonably supported.

We applied these criteria at the nine locations we visited. Of the 17 umbrella contracts at these locations, 8 had nonprice source selection evaluation criteria that were weighted more than 50 percent. Of these eight, seven were not sufficiently supported. We do not question the legality of the weights used. However, we do question from a policy standpoint whether DOD should permit nonprice criteria to be assigned dominant weight (more than 50 percent) when the work is mostly routine or predictable. Following is an example of a source selection weighting for price which, we believe, was not sufficiently supported by facts of the procurement.

⁶FAR 15 605, effective April 1, 1984, states that price or cost must be included as a factor in every source selection and the solicitation must reflect their relative importance

-
- Fort Gordon, Georgia. The Army awarded a \$21.5 million cost-plus-award fee contract at Fort Gordon in 1980. Neither cost nor price was given any weight as a source selection evaluation factor. The contracting officer stated, in response to our questionnaire, that 23 of the 27 functions in the contract were routine. The 23 functions represented 67 percent of the value of work done under the contract. The contracting officer stated that it was not feasible to use a weight for cost because contractors cannot be required to complete all the work for that cost under a cost-type contract. We not only question the type of contract used but also believe price should have been given a substantial weight because most of the work done under the contract was routine.

Considerable Dollar Impact of Not Awarding Contracts to Low Offerors

Because of the large dollar amount of the awards, accepting an offer other than the low offer can have considerable dollar impact. As previously noted, for 22 of the umbrella contracts, awards went to offerors other than the low offerors, even though in the source selection evaluation process the low offerors were judged to be qualified. The 22 contract awards totaled \$1,120 million. If the low offers had been accepted instead, the awards would have totaled \$1,039 million, a difference of more than \$81 million.⁷ The actual amount was 8 percent more than the total of the low offers.⁸

Nonprice Criteria Can Be Considered Without Assigning Dominant Weight to Them

For the seven contracts that had predominant weights for nonprice factors and were insufficiently supported at the nine locations we visited, we reviewed source selection documents and interviewed contracting officers to determine their reasons for placing more than 50 percent of the weight on nonprice criteria. The main reasons they cited were:

- Service regulations do not require price competition.
- Use of cost reimbursement contracts makes it impractical to put high weight on cost factors.

⁷Of the \$81 million, \$3.1 million was on 3 firm fixed-price contracts, \$7.1 million was on a firm fixed-price award fee contract, \$19.3 million was on 7 fixed-price incentive contracts, and \$51.4 million was on 11 cost-plus-award fee contracts.

⁸It should be recognized that if the relative importance given to price and technical factors had been different (for example, more weight assigned to price), contractors' offers, which include proposed costs (for cost reimbursement contracts) or prices (for fixed-price contracts), also probably would have been different and could have been significantly lower. However, we have no basis to predict the extent to which proposed prices would differ under such conditions.

- Assurance is needed that the award is not based on an unrealistically low price (or a “buy-in”).⁹
- Umbrella base support service contracts require the technical expertise and capability of contractors because of the large variety of work covered.

(App. IX provides, based on our questionnaire, information on the benefits expected from not awarding based on lowest price for the 22 umbrella contracts awarded to other than the low offerors.)

The experience of other bases suggests, however, that such emphasis on nonprice criteria for base support work is not necessary. As noted in table 4.1, price criteria were weighted 100 percent for 17 of the 64 umbrella contracts and 50 percent for another 14 contracts. In addition, we found that 111 (94 percent) of the 118 types of work being done under umbrella contracts were performed under contracts for which price had been weighted 50 percent or more in making the awards. Moreover, 79 (92 percent) of the 86 types of work being done under umbrella contracts for which price had been weighted less than 50 percent were also being done on other umbrella contracts for which price had been weighted 50 percent or more.

A high number of different types of work being performed under a single umbrella contract does not appear to be a justification for weighting nonprice factors heavily. More types of work were being done under the contracts for which price had been weighted over 50 percent than under contracts for which price had been weighted less than 50 percent. For example, more types of health services, repair, maintenance, modification, alteration, and/or rebuilding of equipment, and manufacturing/fabricating of products were done under contracts where price had been a major consideration than where price had not been important. Hence, the type of work or the variety of work did not prevent the use of price as a major or dominant factor in source selection.

There are also ways to protect against a “buy-in” besides predominant reliance on nonprice criteria. For example, as discussed in our earlier

⁹“Buy in” refers to the practice of attempting to obtain a contract award by knowingly offering a price or cost estimate less than anticipated costs with the expectation of either (1) increasing the contract price or estimated cost during the period of performance or (2) receiving future follow-on contracts at prices high enough to recover from any losses on the original “buy-in” contract

report,¹⁰ evaluating an offeror's priced options can help protect the government from unrealistically low initial offers.

Another method is to conduct a technical evaluation but weight price 50 percent (or more). We found that procedures were often used that did not make technical or other nonprice criteria dominant. For example, some umbrella contracts are awarded in a two-step evaluation method that eliminates firms with inadequate technical proposals on the first step and awards the contract to the low responsible offeror on the second. The Air Force Space Command, which has many technically oriented base support service contracts, uses this method.

More Specific Guidance Is Needed for Evaluation Criteria

In the early stages of our review we briefed DOD officials on some of our initial findings, including the practice of giving dominant weight to non-price factors in awarding umbrella contracts. After the briefing, the Assistant Secretary of Defense, Manpower, Reserve Affairs, and Logistics, wrote to us concerning this practice and stated:

“There may be some merit in getting a lot better service for just a little extra money, but I’m inclined to agree that the practice is incompatible with (OMB Circular) A-76, at least for the initial conversions (from government to contract performance) or unless it is limited to establishing some minimum standard to qualify responsible offerors ”

In addition, the Assistant Secretary’s Office requested the military services to say if there were compelling reasons to continue using technical proposals for contracts awarded under OMB Circular A-76. All three services responded that technical evaluations are necessary for multifunction contracts. The Air Force stated that:

“Once contractors’ proposals have been determined to be technically capable of meeting contract requirements, then cost becomes the primary consideration in determining if the activity is or is not to be converted (from government to contractor performance) ”

The Navy responded:

“Because no Performance Work Statement can totally address all requirements for large solicitations, the best interest of the Government may not always be served by award at the lowest price. In such cases, an award to the contractor determined to provide the optimum in capability, understanding of requirements, and economy is in the best interest of the Government. The fact that the Government may arrive at

¹⁰See footnote 1, ch 2

Chapter 4
More Reliance Should Be Placed on Price in
Awarding Umbrella Contracts

a potential contractor awardee other than the lowest offeror is not contrary to the spirit and intent of A-76 in light of the fact the result of the process is that the most efficient and effective contractor's price is compared to the Government's price for its most efficient and effective operation "

The Army response was provided by separate commands with an overall statement that technical proposals are very necessary, especially for umbrella contracts, because they include many different work functions. One command stated that it requires a technical proposal in negotiated cost-type contracts and "once all offerors have been determined to be technically acceptable, the award decision is based solely on the lowest price offered." Another command said it was planning to develop more standardized evaluation factors and procedures. A third command said a technical proposal is needed because of the 5-year contract term.

We do not take issue with the use of technical evaluations for umbrella contract awards. However, we believe that reliance on nonprice source selection criteria should not normally be greater than on price-related criteria unless necessary to reasonably ensure that the offerors understand what is required and are capable of performing it. Moreover, overreliance on nonprice criteria and technical evaluations should not substitute for careful definition of the work and reasonable consideration of the price offered the government.

DOD does not have guidance on the weights to be given price and non-price source selection factors. The services' own guidances and regulations on source selection deal with the organization of source selection boards and the processes to be followed, but not with the weighting of the factors. In a May 27, 1982, report on the Commercial Activity Program, the Army Inspector General recommended that definitive source selection criteria be developed. An Army management review team agreed with the Inspector General and concluded:

" Source selection criteria for major weapons systems is adequately addressed by Army regulation, however, we are not aware of any Army regulatory guidance which adequately addresses the source selection criteria to be used when awarding a major CA [commercial activity or service] contract "

We did not find Navy or Air Force guidance to be any more adequate. For example, Air Force pamphlet AFP-400-29, which states that non-price factors may be appropriate for some service contracts, is too general. It gives insufficient direction for knowing when such appropriate situations exist

Conclusions

Most base support service umbrella contracts have not been awarded on the basis of price competition and predominant reliance on price in making the award usually was not intended. DOD and military service regulations do not require the source selection criteria used or their relative importance to be justified. The wide latitude given to agency officials on these matters for the routine or predictable types of work in umbrella contracts results in heavy and questionable reliance on non-price criteria and in awards to other than low offerors. For base support contracts with work that is largely routine or predictable, (1) the importance given to nonprice criteria should not normally be greater than to price-related criteria unless necessary to reasonably ensure that the potential contractor understands and is capable of meeting the contract requirements and (2) greater reliance should often be placed on price. Additional DOD guidance is needed on the appropriate weights for price and nonprice factors in the selection of umbrella base support service contractors.

Recommendation

We recommend that the Secretary of Defense provide guidance to contracting officers concerning the relative importance to be given to price and nonprice source selection evaluation criteria in awarding umbrella base support service contracts. In addition to recognizing the interrelated need for proper planning for firmly priced contracts, the guidance should emphasize the need to normally give at least equal or greater importance to price as opposed to nonprice criteria in solicitations for work that is mostly routine or predictable. Consistent with this concept, the guidance should also describe acceptable ways to structure source selection evaluations for umbrella contracts under various circumstances, considering the nature of the work involved. This should include describing the two-step evaluation method that (1) eliminates offerors with inadequate technical proposals on the first step and (2) awards the contract to the low responsible offeror on the second.

Agency Comments and Our Evaluation

The Office of Federal Procurement Policy concurred with this and all the other recommendations in our draft report. It described the actions it plans to take to implement them, including adopting them in the revision to OMB Circular A-76 and submitting a proposed FAR change to clarify that price is the paramount criterion for deciding between a contractor and a government activity in an A-76 competition.

DOD said it partially concurred with our recommendation and described why greater emphasis should not be given to price when cost-type contracts are necessary. In addition, in response to our findings, DOD said it did not agree (1) that normally at least half of the weight should be given to price factors nor (2) that additional guidance is needed on this subject.

We are not recommending greater emphasis on price when cost-type contracts are necessary and we have revised the wording of our recommendation to reflect the interrelationship between the source selection criteria used in the solicitation and the type of contract anticipated. Our basic disagreement with DOD regarding this issue appears to be based on the appropriateness of using more firmly priced umbrella contracts (See chs. 2 and 3.) We believe that overreliance on nonprice source selection factors may contribute to inappropriate use of cost-and incentive-type umbrella contracts (See pp. 20 to 22 and 49 to 52.)

DOD also stated that guidance it has recently issued should improve the source selection process and it referred to DOD Directive 4105.62 Selection of Contractual Sources for Major Weapon Systems, dated September 9, 1985. The recommended source selection policy in the Directive, according to DOD, is to consider the specific requirements to be performed and the relative importance to the government of essential contractor capabilities, and to base evaluations on an "integrated assessment (combined evaluation of all factors) as to the most advantageous position for the government."

We believe that this DOD guidance will not improve the source selection process for umbrella contracts. Considering the nature of the work performed under umbrella contracts, we also question DOD's reference to source selection guidance written primarily for major weapon systems for which the work is often highly technical. We do not believe that the same guidance is appropriate regarding "essential contractor capabilities" for both major weapon systems and base support services. Based on the value of umbrella contracts and the expected increase in their use, as discussed on pages 10 through 12, we believe the subject of umbrella contracting deserves and can benefit from source selection guidance tailored specifically to it.

Contract Work Statements Need to Be Improved to Encourage Effective Use of Firmly Priced Contracts and More Price Competition

Statements of work are important and are closely interrelated to other issues discussed in this report: the selection of the contract type, the type and amount of competition, and the cost of the work. Work statements explain the nature and extent of work to be performed and, thus, are the essence of the agreement between the government and a contractor.

Although most of the work performed under umbrella contracts is routine and predictable enough so that work statements could have been developed which meet work statement concepts cited in OMB guidance, we found that adequate time and effort had often not been given to developing work statements. Vague and incomplete work statements have resulted in the questionable use of cost reimbursement and fixed-price incentive contracts, reduced amount of competition, and cost overruns. OMB officials stated that “increased emphasis must be placed on developing performance work statements.”

Work Statements in Umbrella Contracts Are Often Too Broad for Awarding Firmly Priced Contracts

DAR 3-404.2(b) states that reasonably definite design or performance specifications are needed as a basis for firm fixed-price contracts. (Also see FAR 16.202-2.) This requirement also applies to statements of work,¹ which are the center of the agreement between the government and a contractor. Precise work statements define (1) the work to be done and (2) performance standards, including the acceptable quality levels.² Clear and precise statements of work make it easier for potential contractors to bid for contracts. After the contract is awarded, they also make it easier for the contracting officer to manage the contract and to see whether the contractor is performing at the appropriate level.

DAR 3-402(a) states that the selection of contract type should generally be a matter for negotiation because the type of contract and price are interrelated. (Also see FAR 16.103 (a).) However, contractors were often precluded from making firmly priced proposals for umbrella contracts because solicitations did not contain statements of work that provided a reasonable basis for preparing such proposals. This was the case even though most of the work involved was predictable enough to allow clear and precise work statements to be prepared.

¹We regard contract work statements as encompassed in this regulatory requirement relating to specifications (See Comptroller General decisions B-198679, August 11, 1981, and B-198679 2, October 7, 1981) In 1982, OMB's Circular A-76 defined work statements as performance work statements when performance standards and quality levels are used

²Acceptable quality levels express the error rate allowed before deductions are made for unsatisfactory work

At the seven locations we visited that had awarded other than firmly priced umbrella contracts, we asked contracting officers whether their work statements were adequate for firm fixed-price contracting. Six of the seven said that their contract solicitations did not include work statements adequate enough in terms of results oriented performance standards to permit firm fixed-price proposals to be offered. However, six of the seven said they could have prepared firm fixed-price contract work statements. Also, as stated on pp. 33 and 34, contracting officers for 56 umbrella contracts responded to our questionnaire that 79 percent of their individual contract work functions could have had a written statement of work for a firm fixed-price contract.

Extent of Compliance With OMB Guidance

OMB Circular A-76 establishes policy guidance for federal agencies in deciding whether to perform commercial activities (1) with government personnel or (2) under contracts with commercial sources. According to part II of the supplement³ to Circular A-76, which provides governmentwide guidance and criteria for writing work statements, work statements should clearly state what is to be done without prescribing how it is to be done. Part II of the supplement also (1) gives detailed instructions on how to describe minimum work requirements and performance levels in work statements and (2) discusses surveillance or quality control plans for assessing actual contractor performance against performance standards and acceptable quality levels.⁴

To determine the extent to which contracting officers for the 64 umbrella contracts followed the OMB governmentwide guidance on work statements, in our questionnaire we asked contracting officers:

- To what extent does this umbrella contract contain measurable work statements, surveillance or quality control plans, and acceptable quality levels, such as those cited in the Office of Federal Procurement Policy Pamphlet number 4 A Guide for Writing and Administering Performance Statements of Work for Service Contracts (Supplement #2 to OMB Circular A-76)?

The contracting officers' responses are presented in table 5.1.

³Part II of the supplement was formerly the Office of Federal Procurement Policy's Pamphlet number 4, dated October 1980, A Guide for Writing and Administering Performance Statements of Work for Service Contracts. It was incorporated as a supplement to the A-76 Circular in January 1982.

⁴Using a service contract for vehicle maintenance and operations as an example, it also describes how to develop a reliable inspection system based on random sampling to ensure that a contractor actually provides the quality and quantity of services required.

**Chapter 5
Contract Work Statements Need to Be
Improved to Encourage Effective Use of
Firmly Priced Contracts and More
Price Competition**

Table 5.1: Extent to Which OMB Work Statement Guidance Was Followed

	Number of responses	Percent
To a very great extent (fully)	13	20
To a great extent	8	13
To a moderate extent	9	14
To some extent	6	9
To little or no extent	15	24
No response ^a	13	20
Total	64	100

^aOf these 13 contracts, 3 were firmly priced, 2 were fixed-price incentive, and 8 were cost reimbursement. Twelve were Air Force and one was an Army contract.

As the listing shows, the respondents rated 21 of the contracts (41 percent of the 51 responses) as meeting the concepts cited to a very great or great extent.⁵ Thirty contracts (59 percent of the 51 responses) were rated as meeting the concepts to a moderate extent, to some extent, or to little or no extent.⁶

Questionnaire responses also indicated that only 19 percent of the contracts in our sample of single function base support contracts had work statements that followed the A-76 guidance to either a very great or great extent. Therefore, the majority of both umbrella and single function base support contracts had statements of work that did not closely follow the OMB guidance.

Effects of Inadequate Work Statements

During our visits to the nine bases, we examined some work statements that did not follow the OMB guidance to determine what problems they caused. Following are some examples of the work statement problems we found.

Naval Submarine Base, Bangor, Washington. The Bangor fixed-price incentive contract, which was valued at \$42 million in fiscal year 1983, had a \$1,061,587 overrun. Navy officials were unable to tell us why the overrun had occurred and told us to ask the contractor. The contractor told us that the reasons for the overrun included:

⁵Of these 21 contracts, 11 were firmly priced, 6 were fixed-price incentive, and 4 were cost reimbursement. Fifteen were Air Force, three were Navy, and three were Army contracts.

⁶Of these 30 contracts, 7 were firmly priced, 8 were fixed-price incentive, and 15 were cost reimbursement. Fourteen were Air Force, nine were Navy, and seven were Army contracts.

- The contractor's proposal was consistent with the solicitation but the solicitation's work statement inadequately described some of the work. This resulted in about \$248,000 of the overrun. One example was that no mention was made of any requirement to keep contractor-furnished material, both physically and in records and controls, separate from government-supplied material. The Navy also refused to provide data on the probable amounts of contractor-furnished material required. In addition, there was no mention of laundry service in the custodial services section of the work statement. The Navy clarified its requirement for both laundry services and separation of materials after the contract was awarded.
- There were no acceptable quality levels in the contract and the Navy's standard of acceptable quality was unexpectedly stringent. This caused about \$300,000 of the overrun.

Government contract administrators told us that because required quality levels could have been reduced, if they have a lower level of funding in the future, they know where they could reduce their performance to achieve the lower funding level. Therefore, a better statement of work could be expected to provide acceptable quality at a lower cost.

Greenland. The Air Force's Greenland base support services contract, a fixed price with economic price adjustment contract valued at \$31 million in fiscal year 1983, had work statements that were too vague, according to the incumbent contractor. The incumbent contractor stated that the vagueness of some portions of the contract's work statements made it difficult for companies other than the incumbent to compete for the contract. For example, statements of work relating to transportation, communications, and base services like food preparation and custodial services were vague. They included statements such as "on an as required basis," "support other agencies," and "support other Air Force contracts and agreements." Both Air Force and contractor officials stated that the work in Greenland was fairly predictable. However, the Air Force has been able to obtain no more than two bidders, the incumbent and a former incumbent, for the contract.

The Air Force Audit Agency also found that the work statement for the Greenland base services contract did not contain definitive standards of performance or acceptable levels of quality. Although most sections of the work statement clearly identified the jobs to be performed, the sections did not indicate at what level (how many, how often, and how well) the contractor was required to perform. For example:

- In the transportation section of the contract work statement, general purpose vehicle maintenance personnel were responsible for “overall repair of general purpose vehicles . . . (which) consists of repair or replacement of major assemblies, subassemblies, and minor components of all vehicles identified as general purpose in AFM (Air Force Manual) 77-310” These statements indicate the basic job the contractor was required to perform. However, the work statement did not indicate how quickly vehicles had to be repaired, what quality level the contractor was required to maintain, or what percentage of vehicles could be down at any one time.
- In the civil engineering section, the refrigeration shop was directed to “. . . furnish the services to maintain and repair all refrigeration, air-conditioning, mechanical ventilation, and air compressor systems and appurtenances . . . reliable and continuous operation of all equipment is required.” Again, no precise level of performance was indicated, such as the degree of reliability, point of unsatisfactory work, acceptable quality levels or quality standards.

We interviewed officials of four companies we were able to contact that were awarded umbrella contracts at other locations and these officials stated a number of concerns about inadequate work statements, including the following:

- Officials of one contractor performing at three base support service locations said that problems due to inadequate work statements were widespread. They also said that (1) too often government employees writing work statements lack experience in developing work statements and (2) it takes years of effort for a good work statement to evolve.
- Officials of three other contractors said that new offerors would find it very difficult to prepare an offer because the work statements did not disclose enough about the daily operations.
- One contractor official stated that the extremely limited knowledge of umbrella contract operations by potential sources other than the incumbent limits competition.

As the examples illustrate, vague or incomplete work statements can occur in different contract types. The result can be questionable use of cost reimbursement and fixed-price incentive contracts as well as cost overruns. They can also result in limited competition for contract awards and may discourage heavier reliance on price as a source selection criterion. The lack of an adequate description of the work or acceptable quality levels in umbrella contracts of any contract type makes it more difficult for a contractor to prepare an accurate offer and to

manage and control contract costs if it wins the competition. Improved contract work statements are consistent with and could lead to more effective use of firmly priced contracts, more price competition, and better cost control

**Problems in Writing
Specific Work
Statements Can Be
Overcome**

As shown in table 5.1, contracting officers for 30 (59 percent) of 51 contracts who responded to our question indicated that their contracts did not meet OMB work statement guidance to a very great or great extent. We asked these 30 contracting officers to explain their reasons for not following the guidance. The 25 contracting officers that responded to this question cited the reasons (some cited more than one reason) shown in table 5.2.

Table 5.2: Reasons for Not Following OMB Guidance

Reason	Number	Percent of responses
No requirement to use OMB's guidance	8	28.6
OMB's guidance not available at the time of contracting	5	17.9
OMB's guidance not suited for cost-type contracts	3	10.7
Other reasons, such as insufficient time to develop a quality assessment plan, Navy regulations prohibit putting quality assessment plan or acceptable quality levels in the contract, and historical data not available	12	42.8
Total	28	100.0

In addition, we identified the lack of adequate planning as a possible cause on all 28 of the cost reimbursement and fixed-price incentive contract type decisions that were not supported, as discussed in chapter 3. We classified the planning as not adequate when (1) no attempt was made to develop a statement of work that would provide a sufficient basis for a firm fixed-price contract (for example, available data relating to cost, work load and quality levels of performance were not used) and (2) we found no other reason, aside from the lack of adequate work statements, which justified the contract type decision. Contracting officers for all 28 of the contracts said no attempt was made to write work statements for a firm fixed-price contract.

In addition to DAR 1-2100 which provides procurement planning principles and states that these principles may be adapted to the procurement

Chapter 5
Contract Work Statements Need to Be
Improved to Encourage Effective Use of
Firmly Priced Contracts and More
Price Competition

of all supplies and equipment,⁷ the military services have regulations that require extensive planning for base support procurements. This planning includes performing manning studies, assuring equipment availability, and writing specifications.

Effective planning ensures that contracting officers take the proper steps to permit firmly priced contracts to be used whenever appropriate. Such steps could include ensuring that (1) any available "model" work statements are considered,⁸ (2) specialists rather than generalists write specifications, (3) cost and other data is obtained from contractors and analyzed when contracts have been used for years, and (4) data and other information relating to civil service workers is used when the base support services operations have been performed in-house

Statements by contracting officers indicate that such work statement planning problems can be overcome. As pointed out earlier in this chapter, contracting officers reported that 21 umbrella contracts had work statements that followed the OMB guidance to a very great or great extent. The work performed in these 21 contracts did not differ in any great degree from the work performed in the contracts that did not follow the OMB guidance to a very great or great extent.

Writing performance oriented work statements with acceptable quality levels takes considerable time. However, the experience of those contracting officers whose bases had work statements meeting the OMB guidance indicates that it can be done. The intended benefits of good work statements, such as the increased and more effective use of firmly priced contracts and competition and improved cost control, can make the effort worthwhile.

⁷FAR, which took effect on April 1, 1984, requires federal agencies to perform acquisition planning to ensure that the government meets its needs in the most effective, economical, and timely manner. Acquisition planning is required to begin as soon as the agency need is identified, preferably well in advance of the fiscal year in which contract award is necessary. Acquisition planning principles apply to acquisitions that do not require a written acquisition plan as well as those that do. When a written plan is required, FAR specifically states that it should address the statement of work as well as other key steps in the acquisition cycle.

⁸Model work statements for individual base support work functions are available through the Defense Logistics Studies Information Exchange, Fort Lee, Virginia.

Requirements for Umbrella Contract Work Statements Need to Be Strengthened

As previously noted, DAR states that the selection of contract type should generally be a matter for negotiation. However, neither DAR, which was in effect at the time the umbrella contracts we reviewed were awarded, nor FAR and the DOD FAR Supplement, which superceded DAR, specifically require or encourage solicitations, including those for mostly routine or predictable base support services, to include statements of work or specifications that permit firmly priced contracts to be proposed and considered during negotiations.⁹

On January 26, 1982, OMB published a memorandum revising Circular A-76 and requiring work statements for existing service contracts subject to the Circular's provisions to be rewritten using the OMB work statement guidance before reprocurement, unless the agency determined that using the guidance would not be in the best interests of mission accomplishment. (See footnote 3 in this chapter.) On March 30, 1982, DOD informed the military services that OMB guidance on work statements was effective immediately.¹⁰ The Assistant Secretary of Defense for Acquisition and Logistics issued a revised DOD Instruction 4100.33 relating to its commercial activities program in September 1985. Neither this nor, according to an official in the Office of the Secretary of Defense, the earlier version of the instruction contained any reference to the OMB requirement to rewrite existing contract work statements.

The military services have generally not required existing contract work statements to be rewritten in accordance with the OMB guidance. For example, the Air Force regulations contain clauses allowing contracting officers to exempt umbrella contracts from following the OMB guidance. In addition, Army regulations and Navy instructions on the commercial activities program require new A-76 cost studies to use OMB work statement guidance but do not require existing contract work statements to be rewritten.

Furthermore, one Navy command, which is responsible for about half of the Navy umbrella contracts that have been awarded, has a policy in conflict with the OMB guidelines. OMB guidance states that acceptable

⁹However, DAR 1-1201(a) states that plans, drawings, specifications, standards, or purchase descriptions for acquisitions shall state only the actual minimum needs of the government and describe the supplies and/or services in a manner which will encourage maximum competition

¹⁰In August 1983 OMB revised the Circular again and provided that existing contract work statements must be reviewed and rewritten, if necessary, using the OMB work statement guidance before beginning a subsequent procurement action, unless waived by an assistant secretary. A waiver is permitted when it is determined that applying the OMB guidance to existing contracts would not be in the best interests of mission accomplishment

quality levels should be included in work statements. Navy Facilities Engineering Command Regulation MO-327 follows OMB guidance, except it states that acceptable quality levels “should never be made known to contractor personnel.” Navy officials told us they will only receive the minimum required levels of service if contractors know the acceptable quality levels. The Navy’s policy could lead to buying more than the government’s minimum requirement, especially in procuring routine or predictable services.

Another command has issued what we believe are more appropriate regulations. The Air Force Space Command has issued a regulation, SPACECOM Regulation 400-5, which provides criteria for work statement preparation compatible with the OMB guidance. Space Command (1) has 7 fixed-price contracts with economic price adjustment clauses out of its 10 umbrella contracts and (2) reported, in response to our questionnaire, a high proportion of its umbrella contracts in compliance with OMB work statement guidance.

DOD and the military services have developed some standard or model performance work statements that can be used by all of the military services. These actions are commendable. However, it seems likely that many umbrella contracts will continue to have work statements contrary to the concepts in the OMB guidance as long as DOD and military service instructions and regulations either permit broad, across the board exemptions from or otherwise do not require following those concepts.

OMB established a Productivity Clearinghouse in October 1984. The Clearinghouse is charged with studying work statements prepared by federal agencies, including the military services, to make them more complete and accurate. Office of Federal Procurement Policy officials told us they plan to revise OMB guidance on work statements.

Conclusions

Statements of work in most umbrella contracts, regardless of contract type, need to be improved. Vague and incomplete umbrella contract work statements have contributed to the questionable use of cost reimbursement and fixed-price incentive contracts, reduced amount of competition, and cost overruns. Furthermore, statements of work in single function as well as umbrella base support service contracts often did not closely follow the OMB guidance on work statements.

Although DOD regulations state that the selection of contract type should generally be a matter for negotiation, they do not specifically require or encourage solicitations for mostly routine or predictable work, such as base support services, to include statements of work that permit firmly priced contracts to be proposed and considered during negotiations. In addition, DOD and military service instructions and regulations either (1) do not require existing umbrella base support contract work statements to follow the concepts in the OMB work statement guidance, (2) specifically exempt such work statements from following the concepts, or (3) conflict with the concepts. Such lack of coverage, exemption, and conflict, together with inadequate planning, contribute to vague and incomplete work statements. Planning needs to be done far enough in advance to permit the development of good work statements and their inclusion in solicitations.

Recommendations

We recommend that the secretaries of the Army, Navy, and Air Force:

- Revise their regulations and instructions to remove provisions which either exempt existing umbrella contracts from following OMB work statement concepts or conflict with those concepts relating to (1) clear, definitive, performance oriented descriptions of the work that needs to be done and (2) standards with acceptable quality levels for measuring performance.
- Promote better planning for base support service contract work statements by such actions as (1) identifying and disseminating examples of well developed work statements from existing contracts, model work statements, or future OMB guidance and (2) using personnel highly skilled at work statement preparation to provide technical assistance to contracting officers.

Agency Comments and Our Evaluation

The Office of Federal Procurement Policy concurred with all of our draft report recommendations and stated that they will be adopted when OMB Circular A-76 is revised. The Policy Office added that it plans to submit proposed FAR changes for using performance work statements in service contracts. In addition, it said that (1) the standard set by the government in the performance work statement will be required if a government activity wins the competition and (2) therefore, more service at a higher price will not be expected from a contractor.

Furthermore, the Policy Office stated that adequate performance work statements are required for good management whether tasks are performed by government personnel or contractors and that sufficient management resources must be devoted to defining the government's requirements. In this regard, the Policy Office suggested that centralized offices of dedicated functional and contracting specialists, highly skilled at performance work statement development, be established. Such dedicated resources would bring about dramatic improvements in the quality of performance work statements in a reasonable period of time, according to the Policy Office.

DOD did not agree with our first recommendation. It (1) stated that the Office of Federal Procurement Policy's Pamphlet number 4¹¹ is a guide and flexibility must be maintained to tailor performance work statements to the individual procurements and (2) referred to its positions on the two recommendations in chapter 2.¹²

We have no problem with the idea of tailoring performance work statements to the individual procurements, as long as this is done in a manner consistent with procurement law and regulations. However, tailoring does not obviate the need for adequate planning related to work statement development, as discussed on page 61, and for adequately supporting contract type decisions. (See pp 36 to 38 and 75.) We believe that rather than exempting umbrella contracts from the work statement concepts in question or retaining provisions that conflict with those concepts, adopting our recommendation, along with our recommendations in chapter 2, would better encourage tailoring of work statements for umbrella contracts so that they are in the best interests of the government

DOD said it partially concurred with the second recommendation. DOD explained this position by stating that it agreed with and was implementing both of the recommendation's suggested actions, but it was not doing so "in support of" our recommendations in chapter 2 since it did not concur with those recommendations.

¹¹See footnote 3 on page 57

¹²As noted on page 26, DOD stated that our chapter 2 recommendation for clear, definitive, performance oriented work statements and standards with acceptable quality levels for measuring performance is in the best interests of the government, but that additional requirements to achieve them are not necessary. Also, DOD agreed that the development of umbrella contract work statements needs to be well planned, initiated early, and effectively carried out, but did not agree that the purpose of such planning is to encourage fixed-price contracting

Chapter 5
Contract Work Statements Need to Be
Improved to Encourage Effective Use of
Firmly Priced Contracts and More
Price Competition

In response to our findings concerning statements of work that permit firmly priced contracts to be considered, DOD agreed that quality work statements are essential. However, DOD took the position that these statements should not be written toward a particular contract type; instead, they should be written to accurately describe the work to be performed and then the appropriate contract type should be selected. DOD's position conflicts with our findings about the practices actually followed. That is (1) the contract type decision was made before the solicitation, which includes the work statements, was written for most of the 64 umbrella contracts reviewed and (2) this was the situation for 27 of the 28 contract type decisions that we found to be unsupported. (See p. 75.)

In response to our other findings, DOD said that although it agreed that increasing the quality of performance work statements is very important, the difficulties in writing a good work statement affect all aspects of the procurement, including quality, contract type, and price. DOD added that its revised Instruction 4100.33, dated September 9, 1985, which sets forth commercial activities (A-76) program procedures, emphasizes the importance of performance work statements.

DOD also agreed that personnel skilled in work statement preparation should assist functional personnel writing the work statements. DOD stated that improved work statements should result from (1) training its sponsors, (2) training and assistance the military services offer to their activities, and (3) Instruction 4100.33.

However, as we note in this report, DOD's Instruction 4100.33, revised in September 1985, did not include any reference to the OMB requirement to rewrite existing contract work statements. This, together with the provisions in the military services' regulations and instructions that exempt existing umbrella contracts from, or conflict with, the OMB work statement concepts, has significantly limited the application of the OMB guidance.

Sampling Plan

We focused our sampling on umbrella and single function base support service contracts.

Sampling Methodology for Umbrella Contracts

Our universe of umbrella contracts involved \$3.5 billion worth of contract actions relating to 64 contracts for fiscal years 1977-1983. To identify these contracts, we asked Army, Navy, and Air Force officials to provide a list of umbrella contracts. We obtained information on all 64 contracts identified by sending questionnaires to their contracting officers. We also judgmentally selected 17 of the 64 umbrella contracts for more detailed review.

Single Function Contract Sampling

DOD's Directorate for Information Operations and Reports maintains the Defense Acquisition Management Data System, which is developed from data submitted by DOD components on DD Form 350 for all contract actions over \$25,000. We obtained from the directorate a computer tape which contained all DOD contract actions in fiscal year 1983, and identified the contracts relating to the types of work done in typical umbrella base support service contracts. To do this, we first examined several umbrella contracts to identify work functions and corresponding service codes. We then reviewed this tentative list of service codes with DOD, Army, and Navy officials and reached agreement on a final list which represented the type of work done in umbrella base support contracts. We created a new computer file containing only fiscal year 1983 contract actions that used the selected service codes. This resulted in an original universe of 5,925 contracts.

We found that 4 out of every 5 of the 5,925 contracts were for the "Maintenance, Repair, Alteration, and Minor Construction of Real Property" codes. To help ensure that our sample had an adequate representation of all the work in umbrella contracts, our total original sample of 400 was divided into 2 strata of 200 each. One strata contained only maintenance, repair, alteration and minor construction of real property contracts, and the other contained all the other codes sampled. The distribution is shown in table I.1.

**Appendix I
Sampling Plan**

Table I.1: Single Function Contract Sample

Code group	Original universe	Original sample	Adjustment to sample^a	Adjusted sample	Adjusted universe
Stratum I					
Base services	972	165	22	143	842
Research and development	146	26	4	22	124
Maintenance and/or repair of equipment	56	7	0	7	56
Other nonmanufacturing operations such as graphic and photographic services	10	2	0	2	10
Total	1,184	200	26	174	1,032
Stratum II					
Maintenance, repair, alteration, and minor construction of real property contracts	4,741	200	0	200	4,741
Total	5,925	400	26	374	5,773

^aThese cases were excluded from our sample because they were found not to belong in our original universe (See table I.2.)

For the 400 questionnaires we sent out, 336 were returned to us and analyzed; 38 were not returned; and 26 were returned but not used because they did not belong in our sample for the reasons shown in table I.2. We adjusted the original universe based on the 26 contracts that did not belong in our sample.

Table I.2: Reasons for Return of Questionnaires

Reasons	Number
Miscoded by procurement officials	5
Federal supply schedule contracts awarded by DOD	4
U S Army Corps of Engineers civil projects	17
Total	26

List of 64 Umbrella Contracts Reviewed

Contract number	Military base/location
Army contracts	
DAAE07-81-C-5002	Selfridge Air National Guard Base, Michigan
DACA31-80-C-0154	Vint Hill Farms Station, Virginia
DAAG60-81-C-0057	U S Military Academy, West Point, New York
DAAB07-82-C-C057	Fort Monmouth, New Jersey
DABT57-83-C-0009	Fort Eustis, Virginia
DAAG08-81-C-0001	Sacramento Army Depot, California
*DAAJ09-80-C-5227	St Louis Area Support Center, Illinois
*DAAJ09-82-C-B907	St Louis Area Support Center, Illinois
*DABT11-80-C-0100	Fort Gordon, Georgia
*DAKF04-81-C-0006	Fort Irwin, California
DAAA09-80-C-3011	Hawthorne Army Ammunition Plant, Nevada
Navy contracts	
*N62474-81-C-8529	Naval Weapons Center, China Lake, California
*N62474-82-C-0051	Naval Weapons Center, China Lake, California
*N62474-77-C-2410	Naval Submarine Base, Bangor, Washington
*N62474-81-C-8831	Naval Submarine Base, Bangor, Washington
N62467-78-C-0694	Naval Submarine Base, Kings Bay, Georgia
N62467-80-C-0277	Naval Submarine Base, Kings Bay, Georgia
N62467-82-C-0053	Naval Air Station, Memphis, Tennessee
N62467-82-C-0010	Naval Air Station, Whiting Field, Florida
N00140-83-C-1780	Naval Inactive Ship Maintenance Facility, Bremerton, Washington
N00140-82-C-5954	Naval Inactive Ship Maintenance Facility, Pearl Harbor, Hawaii
N00140-83-C-1779	Naval Inactive Ship Maintenance Facility, Philadelphia, Pennsylvania
N00140-82-C-6888	Naval Inactive Ship Maintenance Facility, Portsmouth, Virginia
Air Force contracts	
F05604-82-C-0052	Concrete Missile Early Warning Station, North Dakota
F64605-83-C-0050	Wake Island Air Force Base
F23608-83-C-0002	Richards-Gebaur Air Force Base, Missouri
*F61101-80-C-0018	Thule and Sondrestrom Air Force Bases, Greenland
*F61101-83-C-0015	Thule and Sondrestrom Air Force Bases, Greenland
F05604-78-C-0328	Ballistic Missile Early Warning System, Greenland and Alaska
F05604-82-C-0060	Ballistic Missile Early Warning System, Greenland and Alaska
F05604-78-C-0327	Distant Early Warning Line, Alaska, Canada, and Greenland
F05604-82-C-0055	Distant Early Warning Line, Alaska, Canada, and Greenland
F61546-76-C-0469	Kaiserslautern, Germany

Appendix II
List of 64 Umbrella Contracts Reviewed

Contract number	Military base/location
F65517-77-C-0001	Aircraft Control and Warning Stations, Alaska
F65517-82-C-0001	Aircraft Control and Warning Stations, Alaska
F09607-77-D-0017	Moody Air Force Base, Georgia
F09607-80-D-0006	Moody Air Force Base, Georgia
F41689-81-D-0007	Hondo Air Force Base, Texas
*F61355-77-9-0013	Various sites, Turkey
F04690-82-C-0005	Sunnyvale Air Force Station, California
F04690-82-C-0003	Sunnyvale Air Force Station, California
F05604-78-C-0262	Cobra Dane, Alaska
F05604-77-C-0235	Cobra Dane, Alaska
F05604-81-C-0050	Cobra Dane, Alaska
*F41689-78-C-0082	Vance Air Force Base, Oklahoma
*F41689-83-C-0045	Vance Air Force Base, Oklahoma
F41689-82-C-0047	Sheppard Air Force Base, Texas
F08606-84-C-0001	Eastern Test Range (various sites)
*F40600-77-C-0003	Arnold Engineering Development Center, Tennessee
*F40600-81-C-0004	Arnold Engineering Development Center, Tennessee
F29601-80-C-0046	Holloman Air Force Base, New Mexico
F26600-81-C-0024	Nellis Air Force Base, New Mexico
F26600-81-C-00060	Nellis Air Force Base, New Mexico
*F61355-81-C-0008	Various sites, Turkey
*F61355-83-C-0007	Various sites, Turkey
F61817-80-C-0002	Various sites, Spain
F61546-83-C-0024	Various sites, Spain
F61546-82-C-0042	Various sites, Greece
F61546-79-C-0021	Various sites, Greece
F61546-80-C-0029	Kaiserslautern, Germany
F04703-81-C-0101	Western Test Range (various sites)
F08635-82-C-0384	Eglin Air Force Base, Florida
F08606-78-C-0004	Eastern Test Range (various sites)
F04690-81-C-0004	Sunnyvale Air Force Station, California

*Contracts of bases visited

Work Functions Not Performed in Firmly Priced Umbrella Contracts

The following is a list of work functions that were performed in either cost reimbursement or fixed-price incentive contracts but not in other (firmer) fixed-price contracts:

- (1) Clothing sales store operation.¹
- (2) Maintenance and/or repair of armament.¹
- (3) Maintenance and/or repair of combat vehicles.¹
- (4) Physical therapy.²
- (5) Test and evaluation of instrumentation and meteorology.²

¹The contracting officer said the work function was routine enough that a firm fixed-price contract could have been used

²The function was performed only at one umbrella contract location and we did not question the contract type decision

Reasons for Cost Reimbursement and Fixed-Price Incentive Contracts Being Used

Through questionnaires and interviews, we identified the following reasons for contracting officials' limited use of firmly priced contracts for umbrella base support service work:

- The perceived need to have flexibility in meeting the base mission.
- The belief that cost reimbursement and incentive contracts are less costly.
- The fact that contract types were usually not a matter for negotiation because the work statements included in solicitations often did not permit firmly priced proposals to be offered and firmly priced contract types to be considered during negotiations.
- The influence of contract type philosophy expressed by higher service commands.

Flexibility to Perform the Base Mission

Contracting officials for 21 of the 28 cost reimbursement and fixed-price incentive umbrella contracts which were not supported cited the need for flexibility to accomplish the base missions as being an important consideration in selecting the type of contract. Base commanders and other officials stated that because of the size and complexity of an umbrella contract they need the flexibility that a cost reimbursement or fixed-price incentive contract provides to obtain services quickly. We also believe that accomplishing base missions is important. However, we question whether assuring their successful accomplishment requires the use of a less preferred contract type for support services.

For the 15 bases using 21 firmly priced umbrella contracts, we did not find evidence that the contract type used would normally interfere with the successful performance of the base mission. These bases have a wide range of functions and some operate in isolated locations, such as Greenland. Several of these contracts were over \$30 million. Although base missions are classified, we noted that the 15 bases used firmly priced contracts to perform base support services for a variety of missions. For example, the Greenland contract for Thule and Sondrestrom Bases, Elmendorf Air Force Base, Selfridge Air National Guard Base, and China Lake Naval Weapons Center, all were able to perform their different base missions with firmly priced umbrella contracts. All 10 of the contracting officers we spoke with that were responsible for 19 firmly priced contracts stated they were satisfied with this contract type.

The Greenland base support fixed-price with economic price adjustment contract had a flexible contingency clause, which permitted the base commander to order work done immediately. The contract clause had

2,500 hours for contingency work, which provided the base commander with flexibility to perform the base mission. The price of the hours was included in the competitive contract. We believe that contract provisions such as these, if used judiciously, might permit increased use of firmly priced contracts, while also meeting many extraordinary base mission needs

In spite of contracting officials' statements to us about base missions, 38 of the 43 cost reimbursement or fixed-price incentive D&Fs did not cite such reasons as a justification for not using a firm fixed-price contract. Moreover, in view of current budgetary constraints, we question whether the widespread use of cost reimbursement and fixed-price incentive contracts achieves the proper balance between the need to ensure that (1) contract costs are controlled and (2) base mission requirements are met.

Belief That Cost Reimbursement and Fixed-Price Incentive Contracts Are Less Costly

Contracting officers for 17 of the 28 cost reimbursement and fixed-price incentive contracts that were not supported said that the contracts would be less costly than firm fixed-price contracts. They said contingency costs would be added if firmly priced contracts were used. A particularly important advantage of cost reimbursement contracts is that they reduce the time and effort required by the contracting officer to initially award the contract and make contract changes. To use or consider using firmly priced contracts, the contracting officer should develop clearly defined contract specifications or statements of the work to be done and the performance standards to be met. This is a time-consuming, labor-intensive process. With cost reimbursement contracts, the contracting officer is only required to develop a general statement of the nature of the work to be performed. Contracting officers then can direct contract changes. Contract specifications for fixed-price incentive contracts also are not required to be as definitive as for firmly priced contracts.

However, the ease of contract administration and making quick contract changes are not reasons cited in DOD regulations for using a cost reimbursement or fixed-price incentive contract. DOD contracting officials provided no clear demonstration or cost analyses supporting use of these 17 umbrella cost reimbursement and fixed-price incentive contracts as less costly than firmly priced contracts. DOD regulations state that firm fixed-price contracts are the preferred contract type. They are preferred because, when used properly, the government has less risk and contractors have maximum incentive to keep costs under control

Therefore, we believe that when firm fixed-price contracts are used appropriately, they are less costly. Cost reimbursement contracts have three significant drawbacks: (1) they place maximum risk on the government and minimum risk on the contractor, (2) they provide the contractor with little incentive to control costs, and (3) they place a large administrative burden on both the government and the contractor to oversee, control, and identify contract costs. To a lesser extent these drawbacks also apply to fixed-price incentive contracts. These considerations suggest the need for better support as a basis for using these types of contracts.

Contract Type Usually Not a Matter for Negotiation

DAR 3-402(a) states that generally the selection of contract type should be a matter for negotiation because the type of contract and price are interrelated. (Also see FAR 16.103 (a).) However, contracting officers said that the contract type decision was made for 57 (or 89 percent) of the 64 umbrella contracts before the solicitation was written. We found that 27 of the 28 contracts that were not supported were among these 57 contracts. In spite of the routine and predictable nature of the work, we believe contractors were in effect precluded from making firm fixed-price or other firmly priced proposals because solicitations did not contain work statements that provided a reasonable basis for preparing them.

Contract Type Philosophy Expressed by Higher Service Commands

Air Force, Army, and Navy officials have expressed differing philosophies about the contract types that should be used for umbrella contracts. These philosophical preferences appear to have a bearing on the type of contract selected because commands with a preference generally use their preferred contract type. For example, the U.S. Air Forces in Europe Command prefers cost-plus-award fee contracts and all four of its current umbrella contracts are cost-plus-award fee. The Navy Facilities Engineering Command prefers a fixed-price environment. Of its eight umbrella contracts awarded in fiscal years 1977 to 1983, six were fixed-price incentive contracts and the other two were firm fixed-price contracts.

Appendix V shows, by military command, the number and type of base support service umbrella contracts used. As appendix V shows, the Air Force Space Command has the most extensive use of firmly priced contracts. Of the 10 contracts, accounting for \$241 million (or 93 percent of the total of \$258 million) worth of its annual umbrella base support services, 7 were fixed price with economic price adjustment contracts.

**Appendix IV
Reasons for Cost Reimbursement and Fixed-
Price Incentive Contracts Being Used**

According to the Director of Contracting at the Space Command, this contract type is used because firmly priced contracts are the preferred method. Space Command contracting officers stated that they usually try to specifically determine if there is a good reason why they should deviate from using firmly priced contracts; without a compelling reason for deviating, such contracts are used. They said they are satisfied with their firmly priced contracts and the services received under this type of contracting.

Although the command officials may express preferences concerning contract types, we believe the circumstances of each procurement, including (1) the type of property or services being procured, such as routine base support services and (2) regulatory requirements, should determine the type of contract.

Schedule of Command Contract Type Philosophy and Contracts Used

Command	Total contracts	Has contract philosophy and type	Type of contracts used
Air Force:			
Air Force Systems Command	9	No specific philosophy	4 CPAF 1 CPIF 3 FPI 1 FP LOE/ FPI
Space Command	10	Yes, FFP	7 FP/EPA 3 FPI
U S Air Forces in Europe	9	Yes, CPAF	8 CPAF 1 FPAF
Tactical Air Command	5	No specific philosophy Guidance in regulations	3 CPAF 2 FFP
Air Training Command	4	No formal written policy, follow FAR	3 FPI 1 FFP
Alaska Air Command	2	Yes, FFP	2 FFP/AF
Pacific Air Forces	1	No specific philosophy Guidance in AF Reg 400-29	1 FFP
Air Force Reserves	1	No specific philosophy, use FFP whenever we can	1 FFP
Total	41		
Army:			
Forces Command	1	No specific philosophy, adequate guidance in regulation	1 CPFF
Intelligence & Security Command	1	Yes, FFP	1 FFP
Training & Doctrine Command	2	Comply w/FAR	2 CPAF
Army Materiel Command (formerly Materiel Development and Readiness Command)	6	Yes, FFP	3 CPAF 1 CPFF 1 FFP 1 FPI
U S Military Academy	1	Yes, FFP	1 FFP
Total	11		
Navy:			
Navy Facilities Engineering Command ^a		Yes—basically a fixed-price environment	
Pacific Fleet	2		2 FPI
Atlantic Fleet	2		2 FPI
Chief of Naval Education and Training	2		2 FPI
Laboratory	2		2 FFP
Total	8		

**Appendix V
 Schedule of Command Contract Type
 Philosophy and Contracts Used**

Command	Total contracts	Has contract philosophy and type	Type of contracts used
Naval Supply Systems Command ^b	4	No specific philosophy, depends on the work	4 CPFF
Total	64		

Legend

- FFP - firm fixed price
- FFP/AF - firm fixed price/award fee
- FP/EPA - fixed price/economic price adjustment
- FP/LOE - fixed price/level of effort
- FPI - fixed-price incentive
- CPAF - cost-plus-award fee
- CPIF - cost-plus-incentive fee
- CPFF - cost-plus-fixed fee

^aThe Naval Facilities Engineering Command is the contracting office for eight umbrella contracts on behalf of the four Naval commands or units shown above

^bThe Naval Supply Systems Command is the contracting office for four umbrella contracts on behalf of the Naval Sea Systems Command

Examples Where Cost Reimbursement or Fixed-Price Incentive Contracts Were Appropriate

Fort Irwin

The Fort Irwin Army National Training Center was started as a reactivated base in California. A cost-plus-fixed-fee contract was awarded in 1981. Available data indicated that \$22 million was obligated on this contract in 1983. This contract type was used because the extent of work could not be defined. For example, the structures and facilities had to be brought up to an acceptable standard. Also, the base had to be supplied with such things as vehicles and the contracting officer could not determine the maintenance needs for the vehicles. We believe the contracting officer had selected the appropriate contract type because the work could not be defined.

Bangor Submarine Base

The Bangor Naval Submarine Base started with a cost-plus-award fee contract in 1976 and was changed to a fixed-price incentive contract in 1977. In 1977 the contract was estimated to cost \$12 million which expanded rapidly to \$42 million by 1982. Since nearly \$1 billion was spent to construct the base, significant contract changes were expected and were in fact made, so that a firmly priced contract would not have been feasible. Therefore, we believe the 1977 contract decision type was appropriate.

Vandenberg

The Air Force Western Test Range at Vandenberg awarded a cost-plus-award fee type contract in fiscal year 1982, covering test, launch, and range support for space, missile, and aeronautical programs. The fiscal year 1983 cost was \$51.1 million. We believe award of a firm fixed-price contract was not appropriate because nearly 100 percent of the work was technical.

Umbrella Prime Contract Dollars^a Awarded by Type of Business

Dollars in Millions

Fiscal year	Large business ^b	Large business awards made outside United States	Small business	Total
1977	\$17,455	\$2,658	\$0	\$20,113
1978	213,306	31,184	0	244,490
1979	281,048	136,994	6,617	424,659
1980	316,135	175,244	7,356	498,735
1981	321,899	206,651	16,599	545,149
1982	546,571	214,652	14,577	775,800
1983	840,884	166,893	10,738	1,018,515
Total	\$2,537,298	\$934,276	\$55,887	\$3,527,461

Dollars in millions

Single Function Contract Dollars Awarded by Type of Business

Fiscal year	Large business ^b	Large business awards made outside United States	Small business	Other nonprofit institutions ^c	Total
1983	\$96,537	\$316,962	\$1,003,795	\$11,928	\$1,429,222

^aData was obtained from the Federal Procurement Data System

^bThis excludes awards to large businesses made outside the United States, shown in the next column

^cEducational, hospitals, and other entities

Amount of Subcontracted Work at Umbrella Contract Bases Visited

Dollars in millions

Base	Total prime contract amount FY 83	Total subcontract amount	Percent	Small business subcontract amount	Percent of total prime amount
Bangor	\$36.1	\$10.4	28.7	\$8.7	24.1
Arnold	64.3	22.5	35.0	10.9	16.9
St. Louis	5.1	0.7	12.7	0.5	10.3
Vance	28.8	5.9	20.5	5.5	19.1
China Lake	7.7	3.9	50.3	3.3	43.1
China Lake	2.7 ^a	1.1	41.9	1.1	41.9
Fort Irwin	23.0	1.7	7.5	1.7	7.5
Fort Gordon	25.8	14.7	57.0	9.9	38.2
Greenland	b	b	b	b	b
Turkey	b	b	b	b	b
Total	\$193.5	\$73.4	37.9	\$41.6	21.5

^aLess than a fiscal year: March 13, 1983 through September 26, 1983^bData was not available

Contracting Officers' Expectations of Benefits From Not Awarding Umbrella Contracts Based on Lowest Price

In our questionnaire we asked the contracting officers that awarded the 22 umbrella contracts to other than low offerors what benefit or benefits they expected from making such awards. Based on their responses:

- Seven wanted better quality services from a new contract, although past services were at or above the minimum requirements.
- Five wanted greater responsiveness to requests for additional work.
- Four wanted faster emergency response time.
- Three wanted a better relationship with their contractor.
- Two wanted better quality work because past services did not meet the government's minimum requirements.
- Eleven indicated other reasons, such as the belief that quality was more important than price, the desire for the best possible contractor, and the desire for more technical competence and a more stable work force

Comments From the Assistant Secretary of Defense



ACQUISITION AND
LOGISTICS

ASSISTANT SECRETARY OF DEFENSE

WASHINGTON D C 20301-8000

13 AUG 1986

I-CA

Mr. Frank C. Conahan
Director, National Security
and International Affairs Division
U. S. General Accounting Office
Washington, D. C. 20548

Dear Mr. Conahan:

This is the Department of Defense (DoD) response to the General Accounting Office (GAO) Draft Report entitled "PROCUREMENT: Opportunities To Use More Preferred Practices For Base Support Contracts", dated May 26, 1986 (GAO Code 942197) OSD Case No. 6891-A.

While the DoD agrees with some of the findings of the report, the DoD disagrees with the basic GAO recommendation that firmly fixed price contracts be required for umbrella contracts, and that price rather than non-price factors be given at least half the weight in source selection. In effect, the GAO would require the contracting officer to prejudice the selection process in favor of a firmly priced contract which is contrary to established contracting policies and procedures. In conformance with FAR policy, the Department maintains that due consideration be given to all methods of contracting prior to selecting the best method overall to achieve continuous quality improvement at a reasonable price for the product or service required.

It is the DoD's goal that quality should be at the top of our agenda for the future. The DoD view is that competition is too frequently based on price alone and an "award to the low bidder" mentality is too pervasive. The DoD must move away from defining requirements in minimally acceptable terms, and move toward a system whereby the best quality at an acceptable price is our recognized objective.

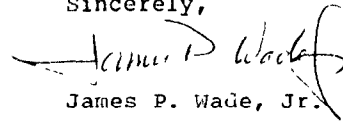
The elements that also divide our thinking are the definitions of "routine" and "predictable", and the suitability of Office of Federal Procurement Policy (OFPP) Pamphlet Number 4 for umbrella contracts. The work performed under the contracts reviewed by the GAO may be routine, but is often not predictable to the degree necessary to allow for use of a firm fixed price contract. The OFPP Pamphlet 4 is a guide and flexibility must be maintained to tailor performance work statements for individual procurements.

**Appendix X
Comments From the Assistant Secretary
of Defense**

The Department agrees on the need for definitive performance work statements and has incorporated expanded guidance in DoD Instruction 4100.33 "Commercial Activities Program Procedures", September 9, 1985.

The findings and recommendations are addressed in greater detail in the enclosed comments. The DoD appreciates the opportunity to comment on the draft report.

Sincerely,



James P. Wade, Jr.

Enclosure

**Appendix X
Comments From the Assistant Secretary
of Defense**

DEPARTMENT OF DEFENSE COMMENTS
ON GAO DRAFT REPORT
(GAO CODE NO. 942197) (OSD CASE NO. 6891-A)

MAY 26, 1986

"PROCUREMENT: Opportunities To Use More
Preferred Practices For Base Support Contracts"

FINDINGS

FINDING A: Use of Less Preferred Practices For Umbrella Contracts Often Not Appropriate. The GAO reported that the DoD uses umbrella contracts at some military bases to provide a broad range of support services such as custodial work, maintenance, food preparation, etc. The GAO reviewed 64 umbrella contracts awarded in FY 1977 through FY 1983, and found that less preferred contracting practices, rather than the more preferred firm fixed price contract type, are often used for these umbrella contracts. According to the GAO, the less preferred contracting practices are mainly suited to unpredictable or nonroutine work, such as the design and development of weapons systems. In the case of umbrella contracts, however, the GAO found (1) the work involved was generally routine or predictable, and (2) the reasons for using the less preferred practices were frequently not reasonably supported or consistent with good management. The GAO also found differences between the contracting practices used to award umbrella contracts and single function contracts covering similar work. The GAO noted that the less preferred practices were often used when the support work was consolidated using umbrella contracts. Further, the GAO found the cost-effectiveness of using the umbrella contracts had generally not been demonstrated. While recognizing the flexibility offered by the less preferred contracting methods, the GAO concluded that these methods were often inappropriate for the umbrella contracts, noting that this flexibility may lead to unnecessary cost and the Government paying more than necessary when price should be the primary basis for contract award. (pp. 1 and 11-20, GAO Draft Report)

Now on pp 10 and 18 to 23

DOD POSITION: Partially Concur. The DoD agrees that after several periods of performance it may be appropriate, as predictable elements are identified, to then redefine the statement of work towards tighter specifications which will allow for a firmer type of contracting. The DoD does not agree, however, that the use of umbrella contracts was frequently inappropriate in those contracts reviewed by the GAO.

**Appendix X
Comments From the Assistant Secretary
of Defense**

The GAO uses the words "routine" and "predictable" almost synonymously. Although umbrella services may be considered routine, the predictability is dependent upon the proper description of quantity, frequency, and accuracy of workload data for past performance of the task to be accomplished. In many umbrella contracting situations, including those reviewed by the GAO, these elements are unknown or at best estimated at the time of solicitation. Therefore, the predictability of the needed services can not adequately be determined at the time of award.

Further, Federal Acquisition Regulations (FAR) 16.201 and FAR 16.202 do not make mention of "preferred" contract type, although the inference is present. The FAR does state that "selecting the contract type is generally a matter for negotiation and requires the exercise of sound judgement."

While the GAO found that the cost-effectiveness of using various contracting methods in the umbrella contracts had generally not been demonstrated, they conversely did not find that umbrella contracts in fact were more costly. The GAO states the flexibility offered in using various contract types may lead to unnecessary cost, but the DoD does not agree this is necessarily so for the contracts reviewed.

FINDING B: DoD Guidance On Contracting For Commercial Activities. The GAO reported that in June 1983, the DoD issued a policy statement requiring a cost analysis to justify using consolidated (including umbrella) contracts. According to the GAO, this policy was revised in October 1984, to ensure that base commanders obtain needed services at the lowest cost to the Government. Although the June 1983 policy stated that competition is enhanced in consolidated contracts, the GAO found umbrella contract solicitations resulted in less competition than single function contracts. Nevertheless, the GAO observed that the revised DoD policy is a step in the right direction since analysis is required, but that justification should also be required when less preferred contract practices are to be used. The GAO concluded that umbrella base support contracts, based on the less preferred contracting practices, should not be permitted unless their use is justified as more advantageous to the Government. (pp. 20-21, GAO Draft Report)

DOD POSITION: Partially Concur: The DoD agrees that proper documentation is required for the use of other than firm fixed price type contracts, however, the DoD does not agree that

Now on pp 23 and 24

**Appendix X
Comments From the Assistant Secretary
of Defense**

additional documentation is required. Since FAR 16.103(d) currently requires the file documentation to show why the particular contract type was selected and the limitations of FAR 16.301-3 apply, the need for additional justification of the use of other than firm fixed price and/or fixed price with economic price adjustment is not necessary.

The DoD agrees that fewer contractors may elect to participate in umbrella contracting solicitations than on single function solicitations, however, in accordance with the Competition in Contracting Act (CICA), the requirements to synopsise and to compete for full and open competition, provides each procurement with the maximum exposure possible. The lesser degree of competition received does not in itself mean that the prices received are not fair and reasonable. The GAO report states that 53 percent of the 64 umbrella contracts were awarded based on more than two offers compared with 89 percent of the single function contracts, but this is to be expected since the requirements are not segmented. Notwithstanding the need to know the total number of single function contracts, the primary concerns of the contracting officer are the price reasonableness, quality and performance of the total award. The degree of competition received is not the absolute goal in contracting, but rather, whether a fair and reasonable price has been received in order to fill the requirements.

Additionally, it should be noted that the policy statement referred to in Finding B was directed specifically toward the areas of small and small disadvantage business concerns. The policy for consolidation is for contracting activities to give a high degree of consideration to adverse impacts that consolidations may have on small and small disadvantaged business concerns. Particularly, actions must be taken to ensure that such contractors are not displaced merely to accomplish consolidation.

FINDING C: Opportunities Exist To Use More Fixed-Price And Other Firmly Priced Contracts. The GAO found that most umbrella contracts awarded by the DoD were not firm fixed-price contracts. The GAO also found that the types of work performed under firmly priced contracts were usually the same as the work performed under either cost reimbursement or fixed-price incentive contracts. The GAO reported that all the contracting officers it interviewed who were responsible for firmly priced umbrella contracts were satisfied with the contract type and services received, and that Office of Federal Procurement Policy officials stated most umbrella contracts should be firmed fixed-price. Although contracting officials have the discretion to split umbrella contracts into different contracts, and a few have done so, the GAO reported that most contracting officers

Now on pp 30 to 36

were opposed to splitting their umbrella contracts because doing so could result in disputes over contractor work responsibility and increase administrative costs. The GAO concluded that splitting umbrella contracts is an alternative to awarding a single cost reimbursement or fixed-price incentive contract, which should be considered when the majority of the work is routine. The GAO also found that umbrella contracts are usually not being switched to firmer contract types even though the work appeared to be of a repetitive, routine nature and information is generally available to develop the greater specificity needed for firmly priced solicitations and contracts. The GAO concluded that for routine work, it is reasonable to expect movement over a number of years toward increasingly firm contract types. (pp. 24-34, GAO Draft Report)

DOD POSITION: Partially Concur. The DoD agrees that as a procurement situation becomes more predictable then the contract type being used should be reevaluated and a new determination of the most appropriate contracting method should be made.

The DoD does not support the concept that after a number of years a contract should necessarily evolve into a firm fixed price contract, but agrees with the FAR guidance that recommends selecting the best contracting method. Converting to a firm fixed price does not guarantee receiving the best service for a reasonable price (See the DoD response to Finding A).

FINDING D: Contract Type Decisions Need Better Documentation and Support. The GAO found that although regulations required documentation for any decision to use other than a firm fixed-price contract, documentation for most decisions was inadequate, and the decisions themselves were often unsupported. The GAO reviewed documentation and interviewed contracting officers for 43 cost reimbursement and incentive contracts and found that 37 of the contract decisions were inadequately documented, while interview results showed that contract decisions were not adequately supported in 28 cases. The GAO concluded that better assurance is needed that the contract type decisions are properly documented and justified, and repeated use of less preferred contract types is avoided, whenever possible. (pp. 34-41 and 43, GAO Draft Report)

Now on pp 36 to 43

DOD POSITION: Partially Concur. The DoD agrees with the importance of proper documentation in deciding which contract type is necessary. The DoD cautions, however, that determinations of contract type should not be based on the idea of preferred/less preferred rather than the individual procurement situation (See DoD response to Finding A). The DoD continually stresses the importance of proper supporting documentation in Directives, Instructions, as well as specific guidance. The DoD will emphasize the issues of proper

documentation and justification in an interdepartmental staff meeting with the procurement principals.

FINDING E: Review of Contract Type Decisions By Higher Command Officials. The GAO found that in cases where higher level review of contract type decisions was required, the reviews often appeared to be perfunctory, and in some cases were intended to be limited. The GAO reported that many of the reviews may have been inadequate, at least partly, because contracting officers did not specifically describe; (1) how the work was so unpredictable that a reasonably definite statement of work could not be developed, (2) how they knew that the use of the contract type was less costly, and (3) why the use of the contract type was the only practical way to do the work. The GAO concluded that without such information, reviewing officials often may not have enough information to determine if the justification has a reasonable basis. (pp. 42-43, GAO Draft Report)

Now on p 42

DOD POSITION: Concur. In cases where contracting officers are stating the selection of a particular type of contract is likely to be less costly, impractical or unpredictable, then an analysis supporting that determination should be included. Contracting personnel should make the procurement situation clear and definitive enough for higher command officials to fairly evaluate. (See DoD's position on Finding D.)

FINDING F: Price Not Given Dominant Consideration of Most Umbrella Contracts. The GAO found that in spite of the routine or predictable nature of the work involved, for 59 umbrella contracts on which competitive offers were solicited, nonprice criteria were given more weight than price in 28 cases. As a result, the GAO found that 42 of the 64 umbrella contracts were not awarded on the basis of price competition; in contrast, 95 percent of single function contracts for support services were awarded on a 100 percent weighting to price criteria. The GAO concluded that the extensive reliance on nonprice criteria for umbrella contracts does not appear justifiable since much of the work performed was of a routine or predictable nature. The GAO also reported that the dollar impact of not awarding contracts to low offerors can be considerable, pointing out that for 22 contracts awarded to other than the low offerors, there would have been a difference of more than \$81 million had the low offers been accepted. Based on its analysis of umbrella contracts where price was an equal or greater evaluation criterion, the GAO concluded that the emphasis on nonprice criteria in the other contracts was not necessary, and that overall, more reliance should be placed on price in awarding base support contracts. (pp. 45-54 and 58, GAO Draft Report)

Now on pp 46 to 52 and 54

DOD POSITION: Partially Concur. The DoD agrees that in situations where a firm fixed price type contract is anticipated, price should be the determining factor for award unless the evaluation criteria values performance capability greater than the lowest price. However, if more weight is given to price-related factors in a cost type contract, it would encourage cost factors to be unrealistically low in order to be initially successful, then result in cost overruns during the life of the contract because actual, not estimated costs are paid. This rationale is supported by FAR 15.605(d).

The DoD does not agree with the findings that normally at least half of the weight should be given to price-related factors. Neither the FAR nor DoD Directive 4105.62 "Selection of Contractual Sources for Major Weapon Systems", September 9, 1985, supports that policy. The recommended source selection policy in DoD Directive 4105.62 is to take into consideration the specific requirements to be performed and the relative importance to the Government of essential contractor capabilities. Evaluations are then based on an integrated assessment (combined evaluation of all factors) as to the most advantageous position for the Government.

FINDING G: Evaluation Criteria Guidance. The GAO reported that in response to a request by the Assistant Secretary of Defense (Manpower, Reserve Affairs, and Logistics), all three Services responded that technical evaluations, in addition to price, are necessary for multifunction contracts. Although not taking issue with the use of technical evaluations for umbrella contract awards, the GAO concluded that reliance on nonprice selection criteria should not normally be greater than price criteria, and nonprice criteria should not substitute for careful work definition and reasonable price consideration. The GAO also pointed out that neither the DoD nor the Services have adequate guidance on weights to be given price and nonprice source selection factors. The GAO concluded that additional DoD guidance is needed on the appropriate weights for umbrella base support service contracts. (pp. 55-58, GAO Draft Report)

DOD POSITION: Non-Concur. The DoD does not agree that additional guidance is needed on the appropriate weights to be assigned for umbrella type contracts for base support services. (See DoD's response to Finding F.) The majority of umbrella procurements were not firm fixed price type contracts, therefore an increase weight on price could reduce the quality of performance and increase the potential for cost overruns. The FAR 15.605(c) clearly discusses the possibility of quality and

Now on pp 52 to 54

performance having more importance than price. The criteria for using various weights and how they are assigned is dependent upon the individual procurement requirements and their relative importance to the Government.

FINDING H: Problems With Contract Work Statements. The GAO reported that the Office of Management and Budget (OMB) Circular A-76 establishes Federal policy guidance for contract work statements. The GAO found, however, that the majority of both umbrella and single function base support contracts reviewed had work statements that did not closely follow OMB guidance. For example, the GAO found work statements in umbrella contracts were often too broad to award firm priced contracts. The GAO identified a number of problems resulting from inadequate work statements; such as, questionable use of specific contract types, cost overruns, limited competition, and increased difficulty for the contractor to prepare an accurate offer and manage and control contract costs. While recognizing the time and effort required to develop quality work statements, the GAO pointed out that a lack of adequate planning was a possible cause why contract type decisions were not adequately supported, as discussed in Finding D. The GAO concluded that contract work statements need to be improved, and that the problems in writing specific work statements can be overcome. (pp. 59-69 and 72, GAO Draft Report)

Now on pp 56 to 62 and 64

DOD Position: Partially Concur. The DoD agrees that increasing the quality of the performance work statement is very important. It should be noted, however, that the Office of Federal Procurement Policy Pamphlet Number 4 is a guide, and flexibility must be maintained to tailor performance work statements for individual procurements. The difficulties experienced in writing a good, clear, all encompassing work statement directly affects all aspects of the procurement--quality, contract type, price and services received. The DoD has established a communication system (Defense Logistics Studies Information Exchange) which will fill requests for sample performance work statements. This service does not, however, relieve the DoD components of their responsibilities in formulating definitive performance work statements. The DoD published a revised DoD Instruction 4100.33 "Commercial Activities Program Procedures," September 9, 1985, which emphasizes the importance of the performance work statement.

FINDING I: Requirements for Umbrella Contract Work Statements. The GAO found that neither the Defense Acquisition Regulation (DAR), which was in effect at the time the umbrella contracts reviewed by the GAO were awarded, nor the Federal Acquisition Regulation (FAR) and the DoD FAR Supplement which replaced the DAR, specifically require or encourage solicitations to include statements of work that permit firmly priced contracts to be proposed or considered. Further, the GAO found that although

Now on pp 62 to 65

the OMB revised Circular A-76 in 1982 to require existing service contract work statements to be rewritten using OMB guidance before reprourement, the Services have generally not required their work statements to be rewritten. Although noting that the DoD has developed some standard or model work statements, the GAO concluded that the work statement problems found (Finding H) indicate that DoD requirements need to be strengthened. The GAO further concluded that it seems likely many umbrella contracts will continue to have work statements contrary to OMB guidance as long as OSD and Service regulations either permit broad, across the board exemptions from, or otherwise do not require, those concepts to be followed. (pp. 69-72, GAO Draft Report)

DOD POSITION: Partially Concur. The DoD agrees that a quality work statement is essential to the entire procurement process (see DoD's response to Finding H). However, the DoD cautions that these statements should not be written toward a particular contract type, but rather written to accurately describe the work to be performed and then the appropriate contract type selected.

The GAO report indicates that the contracting officer made no attempt to write a performance work statement that would allow for the use of a firm fixed price contract. This presumes that the contracting officer is responsible for preparing the performance work statements or that if a contracting officer receives a work statement not suited for contracting on a firm fixed price basis, it will be rejected. Actually, the contracting officers are individually responsible for the entire procurement and are to make every effort possible to ensure a definitive work statement is presented. The responsibility of the contracting officer is generally to procure, ensuring that the requirement does not unnecessarily limit competition, and to attain a fair and reasonable (not necessarily the lowest) price by using the best contracting method available.

The DoD agrees that personnel skilled in work statement preparation should provide assistance to the functional personnel writing the work statements. The DoD sponsors training on developing performance work statements that is offered through the Army Logistics Management School, Fort Lee, Virginia. The Services also offer training and assistance to their activities. These initiatives together with the recently issued DoD Instruction 4100.33 (See DoD response to Finding H), should result in improved work statements.

RECOMMENDATIONS

RECOMMENDATION 1: The GAO recommended that the Secretary of Defense require all of the following contracting practices be used whenever the use of an umbrella contract covering a substantial amount of routine or predictable base support work is proposed, unless (1) the contracting officer certifies, justifies, and reasonably supports the use of any other practice(s) in writing as more advantageous to the Government, and (2) the justification is approved at a level higher than the contracting officer:

- a firm fixed-price contract or a fixed price contract with an economic price adjustment clause;
- source selection evaluation criteria which give at least half of the weighting to price-related, rather than nonprice, factors;
- a solicitation containing work statements with (1) clear, definitive, performance-oriented descriptions of the work that needs to be done, and (2) standards with acceptable quality levels for measuring performance.

The GAO further recommended that this requirement apply to proposals to resolicit previous umbrella contract awards, as well as to solicit first time awards of umbrella contracts. (pp. 22-23, GAO Draft Report)

DOD POSITION: Non-Concur. The DoD does not agree that the Secretary of Defense require the use of firm fixed price or firm fixed price with economic price adjustment contracts or giving at least half of the weighting in source selection evaluation criteria to price-related, rather than nonprice factors. These requirements would have an adverse impact on the responsibility of the contracting officer to select the most appropriate contracting method. Requiring certification supporting the contracting officer's determination, justifying the use of other than firm fixed price, is redundant since this is already required by the FAR. Also, requiring a higher level of approval of a contract type justification is not a requirement of FAR and creates an additional level of approval that does not ensure the selection of an appropriate contract type.

In reference to the source selection criteria it should be noted that while FAR 15.605(b) does require that the "... price or cost to the Government shall be included as an evaluation factor in every source selection," FAR 15.605(c) states that

Now on p 25

Appendix X
Comments From the Assistant Secretary
of Defense

"... while lowest cost or lowest price to the Government is properly the deciding factor in many source selections, in certain acquisitions the Government may select the source whose proposal offers the greatest value to the Government in terms of performance and other factors." Therefore, it is possible that price may not be the determining factor in a fixed price acquisition.

The GAO's recommendation for clear, definitive, performance oriented work statements and standards with acceptable quality levels for measuring performance is in the best interest of the Government. However, the DoD does not agree that further requirements, over and above those already contained in the DoD regulations and in the FAR, are necessary. (see DoD's position on Findings I and H).

RECOMMENDATION 2: The GAO recommended that the Secretary of Defense require the development of umbrella contract work statements to be (1) planned and initiated early enough and (2) effectively carried out, so as to encourage either firm fixed-price contracts or fixed-price contracts with economic price adjustments clauses to be proposed in response to the solicitation and considered during negotiations, unless the use of another contract type has been justified and approved as recommended in Recommendation 1. (p. 23, GAO Draft Report).

DOD POSITION: Non-Concur. While DoD agrees that development of umbrella contract work statements need to be well planned, initiated early, and effectively carried out, we do not agree that the purpose of the planning is to encourage fixed price contracting. (see DoD's position on Recommendation 1).

RECOMMENDATION 3: The GAO recommended that the Secretary of Defense require that for base support service umbrella contracts:

- contract type decisions are documented and justified in accordance with current requirements, giving proper consideration to the nature of the work involved; and
- alternatives to using cost reimbursement and incentive contracts are fully considered, such as switching to firmly priced contracts or splitting contracts into (1) those functions that can be effectively performed on a firmly priced basis, and (2) those that should be performed using a [less preferred] contract type. (pp. 43-44, GAO Draft Report).

Now on p 25

Now on p 43

**Appendix X
Comments From the Assistant Secretary
of Defense**

DoD POSITION: Partially Concur. The DoD agrees with the thrust of the recommendation (see DoD response to Findings D and E). The DoD would like to point out, however, that currently the Federal Acquisition Regulations (FAR) do not directly provide specific direction for umbrella type contracting. However, FAR 16.102 does suggest that contracts negotiated under part 15 may be of any type or combination of types (hybrid) which will promote the Government's interest. Using a combination of contract types provides the flexibility to perform various services under one "umbrella" contract and still maintain a quality performance standard at a reasonable cost to the Government. The management decision to consolidate functions of base support operations is predicated on an evaluation of the overall impact on the acquisition, not merely contract type. The appropriate contract type necessary to meet the requirements may not be of a firm fixed price nature. Therefore, contract type in itself is not sufficient rationale for splitting-up an "umbrella," thereby invalidating the original management decision. During the contract performance and prior to a follow-on award, all contract types should be analyzed for effectiveness and applicability and changed to a more appropriate type of contracting method when circumstances dictate.

RECOMMENDATION 4: In support of Recommendations 1 and 2, the GAO recommended that the Secretary of Defense provide guidance to contracting officers concerning the relative importance to be given to price and nonprice source selection evaluation criteria in awarding umbrella base support service contracts. The guidance should emphasize the need to normally give at least equal or greater importance to price as opposed to nonprice criteria for work that is mostly routine or predictable. Consistent with this concept, the guidance should also describe acceptable ways to structure source selection evaluations for umbrella contracts under various circumstances, considering the nature of the work involved. This should include describing the two-step evaluation method that (1) eliminates offerors with inadequate technical proposals on the first step and (2) awards the contract to the low responsible offeror on the second. (p. 58, GAO Draft Report).

DoD POSITION: Partially Concur. While price may or may not be a determining factor in fixed price contracting, when cost type contracts are necessary, emphasizing greater importance on price elements rather than quality (nonpriced criteria) may, as indicated in FAR 15.605 (d), encourage submissions of unrealistically low estimates and increase cost overruns. In umbrella contracting the determining factor should be which

Now on p 54

**Appendix X
Comments From the Assistant Secretary
of Defense**

contractor can perform in a manner most advantageous to the Government, price and other factors considered. Recent guidance issued by the DoD should improve the source selection process. (See DoD response to Finding F).

RECOMMENDATION 5: In support of Recommendations 1 and 2, the GAO recommended that the Secretaries of the Army, Navy and Air Force revise their regulations and instructions to remove provisions which either exempt umbrella contracts from following OMB work statement concepts or conflict with those concepts relating to (1) clear, definitive, performance-oriented descriptions of the work that needs to be done and (2) standards with acceptable quality levels for measuring performance. (p. 73, GAO Draft Report).

Now on p 65

DoD POSITION: Non-Concur. The DoD does not agree that DoD Component instructions need revision to remove provisions which exempt umbrella contracts from following OMB work statement concepts or conflict with those concepts. The Office of Federal Procurement Policy Pamphlet 4 is a guide and flexibility must be maintained to tailor the performance work statement for the individual procurement. (See DoD's position on Recommendations 1 and 2).

RECOMMENDATION 6: In support of Recommendations 1 and 2, the GAO recommended that the Secretaries of the Army, Navy and Air Force promote better planning for base support service contract work statements, by such actions as (1) identifying and disseminating examples of well developed work statements from existing contracts, model work statements, or future OMB guidance, and (2) using personnel highly skilled at work statement preparation to provide technical assistance to contracting officers. (p. 73, GAO Draft Report)

Now on p 65

DoD POSITION: Partially Concur. The DoD agrees with and is implementing the suggested actions (1) and (2). However, the DoD has already non-concurred in Recommendations 1 and 2, and is not taking these suggested actions in support of those Recommendations.

Our Comments

1. Our draft report recommended the use of these contracting practices, as well as work statements conforming to the concepts in the OMB guidance, except where the use of other practices has been justified in writing, certified, and approved. We recognize that use of the less preferred practices may be appropriate in some cases. (For example, see p. 41.)

2. Contrary to DOD's statement, we did not take the position in our draft report (nor in this final version) that the use of umbrella contracts was frequently inappropriate. However, we did conclude that (1) the use of the less preferred practices in awarding umbrella contracts was often inappropriate for the contracts we reviewed and (2) decisions often were made to use umbrella contracts based on such practices without justifying that they were the most advantageous method of meeting the government's needs.

3. Considering the expected increase in the use of umbrella contracts and their substantial value, as discussed on pages 10 through 12, we believe that decisions to award them based on the less preferred contracting practices need more careful analysis and justification. That is, more visibility needs to be given to the anticipated use of these contracting practices. However, we do not take the position, as DOD implies, that not using a firmly priced type of contract will result in unnecessary costs every time an umbrella contract is used.

4. As FAR 1.6 provides, contracting officers are responsible for requesting and considering the advice of specialists and ensuring performance of all necessary actions for effective contracting, including the requirements of law, regulations, and all other applicable procedures. We did not intend to give the impression in our draft report that contracting officers should personally write the performance work statements. However, in one place (in chapter 3) our wording could have been interpreted this way. To clarify, we have revised that sentence (in the first full paragraph on p. 39) and conformed it more closely to our draft report wording in chapter 5. (See p. 61.) That is, we considered contract type decisions not to be supported when (1) no attempt had been made to develop a statement of work that would have provided a sufficient basis for a firm fixed-price contract and (2) aside from the lack of adequate work statements, the determination was not otherwise supported.

Comments From the Office of Management and Budget



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

OFFICE OF FEDERAL
PROCUREMENT
POLICY

JUL 8 1986

Mr. Frank C. Conahan, Director
National Security and International
Affairs Division
United States General Accounting Office
Washington, DC 20548

Dear Mr. Conahan:

Thank you for your May 26, 1986 letter and the opportunity to comment on the draft report entitled "Procurement: Opportunities to Use More Preferred Practices for Base Support Contracts."

The review of the contracting practices of the military services in awarding umbrella contracts for base support services is thorough and timely. We concur with the recommendations in Chapters 2, 3, 4 and 5 of the draft report. The recommendations will be adopted when OMB Circular A-76 is revised. OFPP plans to submit proposed FAR changes for using Performance Work Statements in service contracts and to clarify that price is the paramount criterion for deciding between a contractor and a Government activity in an A-76 competition. The standard set by the Government in the Performance Work Statement will be required if a Government activity wins the competition. Therefore, more service, at a higher price, will not be expected from a contractor.

The need for adequate Performance Work Statements is required for good management whether tasks are performed by Government personnel or contractors. Sufficient management resources must be devoted to defining the Government's requirements. In that regard, you may want to consider whether centralized offices of dedicated manpower, functional and contracting specialists, highly skilled at Performance Work Statement development, are required. In our view, such dedicated resources would bring about dramatic improvements in the quality of Performance Work Statements, in a reasonable period of time.

If you have any questions, please call Martin Connolly on 395-3254.

Sincerely,

David J. Baker
Acting Administrator

Requests for copies of GAO reports should be sent to:

U.S. General Accounting Office
Post Office Box 6015
Gaithersburg, Maryland 20877

Telephone 202-275-6241

The first five copies of each report are free. Additional copies are \$2.00 each.

There is a 25% discount on orders for 100 or more copies mailed to a single address.

Orders must be prepaid by cash or by check or money order made out to the Superintendent of Documents.

United States
General Accounting Office
Washington, D.C. 20548

Official Business
Penalty for Private Use \$300

Address Correction Requested

First-Class Mail
Postage & Fees Paid " " >
GAO
Permit No. G100