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PROPOSED STRATEGIC DEFENSE INITIATIVE INSTITUTE

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Before the
Subcommittee on Strategic Forces and
Nuclear Deterrence,
Committee on Armed Services, and the
Subcommittee on Oversight of Government Matters,
Committee on Governmental Affairs
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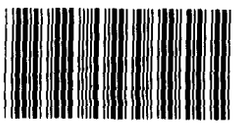

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Mr. Chairmen and Members of the Subcommittees:

I am pleased to be here today to discuss GAO's report on the Department of Defense's (DOD's) proposal for establishing a new federally funded research and development center (FFRDC) to provide the Strategic Defense Initiative Organization (SDIO) with technical support. SDIO's plans for the new FFRDC, to be known as the SDI Institute, raised concerns within the Congress as to whether the proposed FFRDC would be independent and objective in accordance with government-wide policies.

BACKGROUND

DOD determined that SDIO needed to quickly augment its capability to assess technical questions regarding strategic defense. In November 1985, an ad hoc SDIO Technical Support Working Group was formed in response to a request from SDIO's Director to identify and assess possible organizational approaches for providing SDIO with technical support. The working group developed a list of characteristics considered essential for the support capability. Based on these criteria, the group evaluated eight possible organizational alternatives and concluded that the best option was to establish a new FFRDC. The other seven options were to establish a new division in an existing FFRDC or national laboratory; contract with an existing FFRDC or national laboratory; contract with a university; contract with a non-profit laboratory or corporation; contract with a for-profit firm; expand the present

SDIO staff; and establish a new DOD field or military organization.

According to DOD, the SDI Institute would support SDIO through technical evaluation and integration of existing and potential technological advances and system concepts. DOD's position on the Institute was contained in the Secretary of Defense's August 1986 report to the Senate Committee on Armed Services.

On August 4, 1986, the Senate Committee on Armed Services asked us to (1) evaluate alternative organizational approaches for providing SDIO with technical support, (2) evaluate the extent to which DOD's plans provided for an independent and objective FFRDC in conformity with government-wide policies for FFRDCs, and (3) determine whether there were any precedents for DOD creating a new FFRDC to provide technical support for a major research program. Subsequent to the Committee's request, the Congress passed the National Defense Authorization Act for Fiscal Year 1987. Section 213 (c) of the act required us to report, as appropriate, on certain matters concerning the proposed new FFRDC. Our report was prepared in response to both the Committee request and the legislative requirement.

To conduct our assessment, we obtained the views of a select group of individuals. We used this approach because (1) an evaluation of alternative organizational approaches can perhaps be best performed by individuals with experience and close familiarity

with the organizations, (2) government guidelines concerning a FFRDC's independence and objectivity are broadly stated and do not provide specific criteria with which to measure DOD's plans, and (3) the views and experiences of individuals with knowledge of FFRDCs can provide insights on the acceptability of DOD's plans, given the absence of specific criteria. Our report is a compilation of views expressed by the select group of individuals contacted during our review.

We asked 11 consultants with broad governmental, military, industrial, and/or academic experience, but with no involvement with the SDI Institute proposal, to (1) evaluate the organizational options assessed by the SDIO working group, (2) rate the options in terms of DOD's criteria for providing SDIO with technical support, (3) rank the options according to effectiveness and cost, and (4) assess the impact on the FFRDC's independence and objectivity of DOD plans for evaluating proposals and selecting a contractor for the SDI Institute and for participating in staff selection.

In addition, we asked the heads of nine DOD-sponsored FFRDCs to express their views on the impact on the FFRDC's independence and objectivity of DOD's plans for staff selection, work plan approval, provisions for independent research, and conflict-of-interest and post-employment restrictions. Prior to meeting with the consultants and heads of the FFRDCs to discuss their views, we had them record their responses on questionnaires that we designed.

RATING OF ORGANIZATIONAL OPTIONS

The consultants concluded that the SDIO needs technical support to oversee research program and systems integration efforts. They agreed with the SDIO working group's overall effectiveness ranking of the top two and bottom two organizational options. The consultants assigned their highest overall rankings to the option of creating a new FFRDC and a new division in an existing FFRDC. These options tied for first. The consultants generally preferred the FFRDCs because of their proven records at (1) attracting high-quality personnel, (2) providing objective and independent assistance, and (3) safeguarding proprietary information.

The new FFRDC option scored especially well with the consultants on the criteria of independent, objective, and dedicated assistance. However, concerns were expressed about a new FFRDC: the time needed to establish it, the cost as compared to other organizations, and its ability to attract top quality people. A new division in an existing FFRDC was given high marks for its perceived ability to be established quickly and relatively less costly by drawing upon existing talent and infrastructure. However, several consultants expressed concerns about using an existing FFRDC: the current sponsors would probably not allow their FFRDCs to assume the SDI Institute mission, the assumption of the SDI mission could severely impair the FFRDC's current

operations, and present work commitments would impair the existing FFRDC's responsiveness to SDIO.

The consultants ranked expansion of SDIO and creation of a new DOD/service group seventh and eighth, respectively, for overall effectiveness. The consultants' consensus was that SDIO and the new DOD organization would not be able to attract high-quality scientific and engineering talent because of low salaries and other Civil Service restrictions and would not be able to be established quickly and grow rapidly.

The consultants found it difficult to compare organizations on the basis of cost and selected no clear favorite as the least-cost organization. Most selected the for-profit firm as the highest cost option and scored the existing FFRDC, the expansion of SDIO's staff, a new division in a FFRDC, and a new DOD/service group as the first through fourth lowest cost options. They scored a new FFRDC as the third highest cost option. Cost was not a primary criterion for DOD's ranking of organizational options.

INDEPENDENCE AND OBJECTIVITY ISSUES

Contractor Selection

Using the Secretary of Defense's sole-source selection authority under the Competition in Contracting Act of 1984, DOD

invited a group of individuals to submit a proposal for the establishment and operation of the Institute, rather than opting to engage in a competitive negotiation process. Any others wishing to submit proposals would be allowed to do so. Eight of the nine original contracts for the DOD-sponsored FFRDCs included in our review had been established by sole-source awards.

We asked the consultants to indicate which method--sole source or competitive selection--they believed would least compromise the independence and objectivity of the contractor chosen to provide technical support to SDIO. No consensus existed among consultants on this question. Three said that competition compromises independence and objectivity more than sole-source; four said that competition compromises less than sole-source selection; and three said that the impact of the selection methods on independence and objectivity is about the same.

Reviewing Proposals

DOD stated that SDIO, alone, would review any proposal received from prospective contractors interested in operating the SDI Institute. Although nine of the 11 consultants said that some kind of peer review of the proposal(s) is necessary to best guarantee the independence and objectivity of the Institute, there was no consensus on what organizations should comprise the review group. The consultants expressed the views that peer review would

enhance the credibility of the review process, improve the quality of the proposal(s), and was necessary in the political climate of the SDI. We believe that the consultants' views in favor of peer review of proposal(s) have merit and deserve DOD's consideration.

Staff Selection

DOD, in its August 1986 report, stated that the Institute's president and heads of its technical directorates would have to be acceptable to the SDIO's Director. The Secretary of Defense's Special Assistant on the Institute told us that the SDIO's Director would exercise veto power over the selections. Subsequent to our discussions with the consultants, DOD stated that the Director would exercise veto power only over the selection of the Institute's president and that coordination with appropriate SDIO peer directors would be required in the selection of key Institute technical personnel.

We asked the consultants and heads of the nine FFRDCs for their views on whether SDIO's veto power over staff selection would compromise the independence and objectivity of the new FFRDC. The consultants were about evenly split, with five saying that it probably would not and six saying that it would or probably would. Three considered veto power over the FFRDC director acceptable; two would accept it to the technical director level; three said no veto power at any level would be acceptable; and one favored veto power

down to an unspecified level. The other two consultants did not express strong views on this issue.

All nine heads of FFRDCs said that staff selection veto power would compromise independence and objectivity. Two considered sponsor veto power over a FFRDC's director acceptable, but none would advocate veto power over technical directors. Only one of the sponsors of the nine DOD FFRDCs has veto power and that power is limited to the selection of the president and vice-president.

Work Plans

DOD proposed that SDIO would review the Institute's work plan every 6 months. We asked the heads of the FFRDCs whether the necessity for a sponsor's approval of a work plan would compromise the FFRDC's independence and objectivity more than joint agreement on the plan. No consensus surfaced on this issue. All nine FFRDC directors agreed that work plans must be developed by mutual agreement and consultation between the sponsor and the FFRDC. Five FFRDCs negotiate work with their sponsors; three have annual work plans approved by advisory committees after sponsor/center interaction; and one has 1- and 5-year plans approved by its sponsor.

Provisions for Independent or Self-Initiated Work

DOD first said that it was not opposed to contract provisions that would permit the Institute the flexibility to initiate its own work proposals, but it would not commit a fixed percentage of the Institute's budget to such work. DOD later noted that SDIO would encourage the Institute to initiate related research that the Institute deems necessary and that SDIO would provide a level of funding for such work in future contract negotiations. Officials of all nine FFRDCs said that the guarantee of some level of independent research generally enhances independence and objectivity. Independent research permits the FFRDCs to do forward planning, to explore long-term problems, and to examine questions that the sponsors do not think of or want to ask. All nine DOD-sponsored FFRDCs have provisions for independent or self-initiated research.

Conflict-Of-Interest and Post-Employment Restrictions

DOD plans to address real or apparent conflicts of interest through SDIO's sponsoring agreement with the SDI Institute. For example, the sponsoring agreement would prohibit any SDI Institute employee, officer, or Board of Trustees member from holding any position with SDIO. The agreement would also prohibit more than one-half of the members of the SDI Institute Board of Trustees from simultaneously holding any position with the SDI Advisory

Committee, a not-for-profit consultative group of private citizens who make available their scientific and technical expertise to the SDI program. Moreover, in order to avoid any actual or apparent conflict-of-interest, DOD expects that persons who are members of both the Advisory Committee and the SDI Institute Board of Trustees would abstain from participation in any evaluation or advice by the Advisory Committee regarding the Institute. DOD intends no post-employment restriction on Institute employees.

All nine FFRDCs have conflict-of-interest provisions, but none has post-employment restrictions. The nine FFRDC heads did not believe that the absence of such restrictions would compromise the Institute's independence and objectivity.

FFRDCS ESTABLISHED TO SUPPORT MAJOR RESEARCH PROGRAMS

Some consultants and FFRDC officials told us that DOD's proposal to establish a new FFRDC for the SDI program is not unusual and that FFRDCs have been established to support programs, missions, or functions. For example, the Aerospace Corporation was established in 1960 to support the military space and advanced ballistic missile programs.

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This concludes my prepared testimony. At this time, I would be happy to answer any questions you may have.