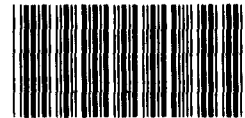


August 1990

CONSULTING SERVICES

Role and Use in Acquiring Three Weapon Systems



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**National Security and
International Affairs Division**

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August 20, 1990

The Honorable Les Aspin
Chairman, Committee on Armed
Services
House of Representatives

The Honorable David H. Pryor
Chairman, Subcommittee on Federal Services,
Post Office and Civil Service
Committee on Governmental Affairs
United States Senate

This report responds to your requests that we examine the role and use of consulting services in the acquisition of weapon systems. In conducting this review, we focused on those services obtained by both the Department of Defense and its contractors to support the development of three specific systems—the Army's Fiber Optic Guided Missile, the Navy's V-22 tiltrotor aircraft, and the Air Force's Peacekeeper Rail Garrison missile basing system.

Unless you announce its contents earlier, we plan no further distribution of this report until 30 days from the date of this letter. At that time, we will send copies to the Chairmen, House Committees on Appropriations and Government Operations, and the Chairmen, Senate Committees on Armed Services and Appropriations; the Secretaries of Defense, Army, Navy, and Air Force; the Director, Office of Management and Budget; and other interested parties.

This report was prepared under the direction of Paul L. Jones, Director, Defense Force Management Issues (202) 275-3990. Other major contributors to this report are listed in appendix II.

Frank C. Conahan
Assistant Comptroller General

Executive Summary

Purpose

As part of its ongoing efforts to assess the government's use of consulting services, GAO reviewed three Department of Defense (DOD) weapon systems to determine

- how DOD used consulting services in acquiring these systems;
- how the systems' contractors used consultants; and
- whether consultants worked for both the government and defense contractors on these systems, and if so, whether any conflicts of interest existed.

GAO also examined how well DOD identified and reported its use of consulting services.

This report responds to questions raised by the Chairmen, House Committee on Armed Services, and the Subcommittee on Federal Services, Post Office and Civil Service, Senate Committee on Governmental Affairs.

Background

DOD uses the term "contracted advisory and assistance services" to describe consulting services, which include individual experts and consultants, studies and analyses, management support services, and engineering and technical services. By law, DOD is required to establish an accounting mechanism to track these services and to provide, as part of the defense budget, data on proposed expenditures. DOD estimates that it spends about \$1.6 billion annually on such services.

Rules governing organizational conflicts of interest are contained in the Federal Acquisition Regulation. It defines such a conflict as existing when, because of the nature of the work to be performed, a contractor could gain an unfair competitive advantage or might provide biased advice unless appropriate safeguards concerning future activities are included in its contract. In addition, in December 1989, in response to the requirements of the Department of Defense Appropriations Act of 1989, the Office of Federal Procurement Policy issued a policy letter providing further guidance on contractor conflicts of interest.

Results in Brief

Consulting services played an important role in the three weapon systems GAO studied—the Army's Fiber Optic Guided Missile, the Navy's V-22 tiltrotor aircraft, and the Air Force's Peacekeeper Rail Garrison missile basing system. DOD used such services in developing system

specifications, preparing cost estimates, and reviewing requests for proposals.

Defense contractors for these systems used consultants to obtain a variety of services, ranging from advice on government business to technical assistance in preparing bids for defense contracts.

GAO did not find, based on its review of contract documentation, any basis to conclude that conflicts of interest existed in the three instances it identified where consultants worked for both the government and a defense contractor on matters related to the same weapon system. GAO's review, although limited to three specific systems, does highlight key principles to guide the government's approach to addressing conflict-of-interest concerns, among them (1) the need for government awareness of consultant employment relationships in order to make informed judgments about potential conflicts and (2) the use of appropriate contract clauses to avoid or mitigate identified conflicts.

GAO also found that DOD did not accurately identify or report its use of consulting services, due to difficulties in interpreting the definitions of these services or other internal control weaknesses. Without improvements in these areas, DOD and the Congress will continue to lack accurate information on how much DOD is relying on consulting services to develop its weapon systems.

Principal Findings

DOD's Use of Consulting Services

From 1984 to 1989, the Army obligated at least \$9 million in consulting services for the Fiber Optic Guided Missile to support cost estimates, acquisition strategy development, and reviews of draft requests for proposals. For the V-22, the Navy obligated \$18 million between 1983 and 1989 to define aircraft requirements, develop logistics support specifications, and track cost schedules. During fiscal years 1987 and 1988, the Air Force contracted for similar services to support the Peacekeeper Rail Garrison. GAO could not calculate the amounts obligated for consulting services under the Air Force contracts because in a number of cases, these services were combined with other services in the same contracts and not separately identified.

Contractor Use of Consultants

Information GAO obtained from 6 defense contractors showed that 3 retained a total of 18 consultants for the weapon systems GAO reviewed, generally to provide advice on dealing with DOD. Four of the 6 contractors also reported using an additional 40 companies or individuals to obtain more technical services, such as reviewing bids or system requirements.

Conflict-of-Interest Issues

Of the three instances where consulting firms worked both for DOD and a contractor, one firm that provided cost-estimating services to the Army Missile Command for the Fiber Optic Guided Missile system was later employed by a defense contractor for similar types of services. In the other two cases, the Air Force contracted with consulting firms to obtain services for the Peacekeeper Rail Garrison; these firms also worked for a defense contractor on matters related to the system.

GAO's review of the contracts and the products prepared by the consulting firms, such as briefing materials and summaries of hearings and public meetings, did not provide any basis to conclude that the firms acquired an unfair competitive advantage or were unable to provide impartial advice. However, in one case the contractor did not comply with the conflict-of-interest provisions contained in its contracts with the government. For example, the contractor did not submit required written certifications stipulating that it had no financial or other interests that could represent a conflict.

Moreover, in two of the cases, the government was aware of the consulting firms' proposed work and therefore was in a position to judge that no conflicts of interest existed.

Reporting Weaknesses

GAO identified one Fiber Optic Guided Missile contract and seven Rail Garrison contracts that should have been classified, in whole or in part, as advisory and assistance services but were not so designated by the respective Army and Air Force commands managing those systems. Individual commands also had differing interpretations of what constitutes advisory and assistance services. For example, the Naval Air Systems Command considered such services to include logistics support services, but the Air Force Ballistic Systems Division did not.

GAO found other errors in the military services' identification of these services and their budget submissions to the Congress, such as omissions

of data and failure to record obligations for these services in the accounting systems as required.

Several factors contributed to DOD's failure to provide accurate data on its use of consulting services, including difficulties in interpreting consulting services definitions, inadequate procedures and controls to identify and report these services, and, more generally, a lack of oversight by DOD and the military services.

Recommendations

GAO makes a number of recommendations to the Secretary of Defense to improve DOD's identification and reporting of consulting services. (See pp. 47 and 48.)

Agency and Contractor Comments

In commenting on a draft of this report, DOD agreed with GAO's findings and recommendations, and advised that it has begun action to strengthen its management and reporting of contracted advisory and assistance services. DOD's planned efforts include providing clear guidance on management and use of these services and establishing a database capability to report and track them. DOD believes that its initiative, when fully implemented, will satisfy GAO's recommendations.

The principal defense contractors and consulting firms that commented on the report agreed with the information presented on their respective firms.

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Abbreviations

CAAS	Contracted Advisory and Assistance Services
DOD	Department of Defense
FOG-M	Fiber Optic Guided Missile
GAO	General Accounting Office
OMB	Office of Management and Budget
OSD	Office of the Secretary of Defense

Introduction

The executive and legislative branches of government have long been concerned about the federal government's use of consulting services. That concern stems from the recognition that, although government can benefit from the advice and expertise consultants offer, their use can also cause problems, such as the potential for conflicts of interest that their employment by both government and industry creates.

What Is a Consultant?

The Office of Management and Budget (OMB) and the Department of Defense (DOD) use the term "contracted advisory and assistance services," or CAAS, to describe consulting services. As defined by DOD in its 1986 directive on CAAS, these services are

"acquired directly by the Department of Defense from nongovernmental sources to support or improve agency policy development or decision-making, or to support or improve the management of organizations or the operation of weapon systems, equipment, and components."

The four CAAS categories are the following:

1. Individual experts and consultants who possess special knowledge or skills and provide information, advice, or recommendations.
2. Studies, analyses, and evaluations that provide formal assessments of complex issues.
3. Management support services in the form of training, advice, or direct assistance to ensure the more efficient or effective operation of management systems.
4. Engineering and technical services in the form of instruction or hands-on training to ensure the more efficient or effective operation of weapon systems, equipment, components, and related software.

The services of individual experts or consultants may be obtained through temporary appointment¹ or by contract, depending on the circumstances. In cases where both CAAS and non-CAAS items, such as system hardware, are included in a single contract, the CAAS is to be separately identified and priced.

¹DOD has authority, under 5 U.S.C. 3109, to employ experts and consultants, in accordance with other requirements such as financial disclosure rules.

Legislation Governing Consulting Services

The Congress has enacted several laws governing federal agencies' reporting and management of consulting services. Pertinent legislation includes 31 U.S.C. 1114, which requires agencies to include in their budget justifications the amounts requested for consulting services and a description of the need for such services. In addition, inspectors general must submit annual evaluations of their agencies' progress in implementing effective management controls over consulting services and improving the accuracy and completeness of contract data on such services.

The Department of Defense Authorization Act of 1986 requires DOD to establish an accounting procedure to "aid in the identification and control of expenditures for services identified as contracted advisory and assistance services." The act further requires DOD to implement regulations defining such services and to present, with its budget, data on the amounts requested for CAAS. The legislation specifies that DOD is to separately identify those services carried out in direct support of a weapon system and essential to the development, production, or maintenance of the system.

The Congress has also periodically set limits on spending for consulting services. For example, the Department of Defense Authorization Act of 1985 limited DOD funding for consulting and related services to \$1.3 billion. The Department of Defense Appropriations Act of 1990 set a \$1.5-billion CAAS spending limit.

The Department of Defense Appropriations Act of 1989 sought to strengthen conflict-of-interest controls governing consultants. Section 8141 required the Office of Federal Procurement Policy to issue a policy establishing (1) conflict-of-interest standards governing consulting services provided to the government and those related to the preparation or submission of bids and proposals for federal contracts and (2) procedures to promote compliance with these standards, including, if appropriate, registration and certification.²

²The Office's Policy Letter 89-1 was published in the Federal Register December 18, 1989, and will apply to contract solicitations issued after implementing regulations are promulgated.

Related Audits, Studies, and Investigations

Numerous audits and studies of DOD's use of consulting services have been conducted over the past several years. Our reviews of DOD services contracts highlighted long-standing problems in accurately reporting and managing those services.³ As part of our continuing efforts to assess the federal government's controls over consulting services, we have in progress or planned a number of related reviews, among them assessments of (1) the adequacy of controls to identify and address organizational conflicts of interest and (2) management controls over contractor support in the operational test and evaluation area. In addition, the DOD Inspector General, in response to the legal requirement to conduct annual evaluations, has issued seven reports, the latest in June 1989.⁴ These reports identified inaccuracies in DOD's reporting of consulting services and noted other problems in the department's implementation of procedures to account for these services.

Other initiatives have also focused on identifying and correcting problems in managing and reporting consulting services. The President's Council on Integrity and Efficiency has headed an effort to, among other things, have selected agencies, including DOD, conduct a comprehensive audit of management controls over CAAS. An OMB interagency task force issued its own report in September 1988 calling for better management and reporting of CAAS. In addition, OMB is assessing the need for changes in the CAAS definitions and categories.

In the wake of the Ill Wind defense procurement investigation, DOD has taken additional actions. The Secretary of Defense established a procurement task force to address problems uncovered by the investigation and identify any needed changes to the acquisition system. The Secretary directed the Defense Contract Audit Agency to conduct a special audit of consulting service costs and also sent letters to 200 major defense contractors urging them to establish effective ethics programs and ensure that appropriate controls had been established over the use of consultants.

³Controls Over DOD's Management Support Service Contracts Need Strengthening (MASAD-81-19, Mar. 31, 1981) and Support Services: Actions to Gain Management Control Over DOD's Contract Support Services (GAO/NSIAD-86-8, Nov. 22, 1985).

⁴Report on the Audit of the Status of Consulting Services, Office of the DOD Inspector General, No. 89-084, June 28, 1989. The Inspector General's next report is scheduled to be issued in late July or early August 1990.

Objectives, Scope, and Methodology

In response to requests from the Chairmen, House Committee on Armed Services, and the Subcommittee on Federal Services, Post Office and Civil Service, Senate Committee on Governmental Affairs, we reviewed the use of consultants by DOD and its contractors on specific weapon systems and the existence of any conflicts of interest arising from cases where consultants worked for both DOD and contractors. More specifically, our review focused on (1) identifying consulting services used by DOD in the acquisition of individual weapon systems, particularly in such early stages of the process as the development of requests for proposals and the source-selection process, (2) identifying defense contractors' use of consultants for specific systems, (3) assessing the existence of conflicts of interest in cases where consultants were employed by both DOD and contractors, and (4) assessing DOD's identification and reporting of consulting services.

To determine how DOD uses consulting services, we selected three weapon systems as case studies. We chose a case study approach to describe specific consulting services used in weapon system acquisition. This approach does not, however, allow us to draw overall conclusions about the types of consulting services DOD uses or the extent of their use. The three systems we selected, one each from the Army, Navy, and Air Force, are the following:

- the Fiber Optic Guided Missile (FOG-M), one of several components of the Army's Forward Area Air Defense System;
- the Navy's V-22 Osprey, a tiltrotor aircraft program; and
- the Peacekeeper Rail Garrison, an Air Force system to deploy the missiles on rail cars.

The three principal criteria we used to select these systems were (1) the significance of the systems, as represented by their inclusion in DOD's Selected Acquisition Reports to the Congress, (2) stage of development—around the full-scale development phase,⁵ thereby far enough along to allow us to identify a full range of consulting services but not so old that documentation would be unavailable, and (3) our knowledge of the systems based on ongoing or prior work. We also considered other factors, such as avoiding highly classified systems.

⁵DOD acquisitions generally proceed through four phases: concept exploration, when alternative system concepts are identified and evaluated; demonstration and validation, where test articles are fabricated and tested; full-scale development, where several prototypes are made and tested to ensure that the design meets system requirements; and production, where the system is produced and fielded.

For our review, we used DOD's definition of CAAS. To identify services used to support each of our case study systems, we concentrated on those obtained by the commands responsible for managing them—Army Missile Command, Naval Air Systems Command, and Air Force Ballistic Systems Division. At each of these commands, we (1) reviewed contracts classified as CAAS contracts by the commands, (2) reviewed selected other contracts to test the accuracy of the commands' identifications, (3) discussed contract scopes of work with command representatives, and (4) traced, on a limited basis, funding issued to other agencies to obtain CAAS.

At the Army Missile Command, we reviewed a judgmental sample⁶ of 37 contracts out of a total of 94 contracts the Command used to fund the FOG-M system's development from March 1983 to April 1989. For the V-22, we reviewed 59 contracts identified from Naval Air Systems Command records—26 contracts designated as support contracts by the Naval Air Systems Command and 33 additional contracts not classified as CAAS by the Command. At the Air Force's Ballistic Systems Division, we reviewed all 41 contracts with Rail Garrison funding, including the one CAAS contract identified by the Division.

To supplement our command-level work, and to more fully describe the range of consulting services used by DOD in weapon system acquisition, we (1) searched the Defense Technical Information Center database to identify applicable studies, (2) reviewed lists of studies undertaken by the Defense Science Board, Army Science Board, Naval Research Advisory Committee, and Air Force Scientific Advisory Board, (3) met with Office of the Secretary of Defense (OSD) and military service headquarters representatives, and (4) reviewed OSD and Army, Navy, and Air Force personnel records to identify individual consultants. We limited our review of individual consultants to those hired by the DOD or service organizations most likely to be involved in weapon system acquisition—for example, the Office of the Under Secretary of Defense for Acquisition and the Office of the Assistant Secretary of the Navy for Research, Engineering, and Systems.

To determine how defense contractors use consultants, we obtained information from six full-scale development contractors for our case study systems: Hughes Aircraft Company and Boeing Military Airplanes Company (FOG-M), Boeing Helicopters and Bell Helicopter Textron (V-22

⁶We selected this sample using Federal Procurement Data System codes that are associated with CAAS transactions.

Osprey), and Boeing Aerospace and Rockwell International (Peacekeeper Rail Garrison). We reviewed these companies' policies and procedures for hiring and using consultants and obtained data on consultants they employed on our case study systems. In some cases, we conducted follow-up work and met with company representatives. Where available, we reviewed documentation obtained by the Defense Contract Audit Agency during its review of consultant costs. In those instances where the consultants employed by the contractors were former DOD employees, we also assessed compliance with the reporting requirements and employment restrictions contained in the "revolving door" legislation—the provisions of 10 U.S.C. 2397, 2397b, and 2397c.⁷

To address conflict-of-interest issues, we identified consultants working for both DOD and defense contractors by comparing DOD contract data with the information supplied by the six defense contractors we reviewed. We limited our review to consultants working directly for contractors; we did not attempt to identify consultants working for subcontractors. We reviewed contract scopes of work and conflict-of-interest provisions, examined products prepared by the consultants, and discussed their work with program and contracting officials. In those cases where a consultant's contract with the government contained an organizational conflict-of-interest clause, we assessed whether the consultant's work for the defense contractor was inconsistent with the clause. Further, in all cases where we identified consultants working for both the government and a defense contractor on the same system, we assessed the potential for bias or unfair competitive advantage that existed in these circumstances.⁸

To assess CAAS identification and reporting, we (1) reviewed DOD and military service regulations, procedures, and budget submissions, (2) assessed methods used at the local command level to identify and report CAAS, and (3) reviewed case study contracts awarded after the 1986 issuance of the DOD directive on CAAS.

We performed our fieldwork at the following locations:

- Office of the Secretary of Defense, Washington, D.C.;
- Departments of the Army, Navy, and Air Force, Washington, D.C.;

⁷The Ethics Reform Act of 1989 suspended the application of 10 U.S.C. 2397b for one year, beginning December 1, 1989.

⁸Inability to render impartial advice and unfair competitive advantage are the criteria the Office of Federal Procurement Policy used to define "conflict of interest" in its Policy Letter 89-1.

- Army Materiel Command, Alexandria, Virginia;
- Army Missile Command, Redstone Arsenal, Huntsville, Alabama;
- Naval Air Systems Command, Naval Sea Systems Command, and Space and Naval Warfare Systems Command, Crystal City, Virginia;
- Naval Air Development Center, Warminster, Pennsylvania;
- Air Force Ballistic Systems Division, Norton Air Force Base, California;
- Bell Helicopter Textron, Inc., Fort Worth, Texas;
- Boeing Aerospace, Seattle, Washington;
- Boeing Helicopters, Philadelphia, Pennsylvania;
- Boeing Military Airplanes, Huntsville, Alabama; and
- Hughes Aircraft Company, Canoga Park, California.

We conducted our review from July 1988 through March 1990 in accordance with generally accepted government auditing standards.

DOD provided written comments on a draft of this report, which are discussed in chapter 5 and are included in appendix I. We also provided portions of the draft to the principal defense contractors and consulting firms cited in the report. Their comments are discussed in chapters 3 and 4.

DOD's Use of Consulting Services in Weapon System Acquisition

DOD uses various consulting services—individual consultants, studies and analyses, management support, and technical and engineering services—to support its acquisition of weapon systems. Such services played an important role in the development of the specific systems we studied—the Army's Fiber Optic Guided Missile, the Navy's V-22 aircraft, and the Air Force's Peacekeeper Rail Garrison. Each of the services used consulting services in procurement areas that the Navy has characterized as "sensitive," such as reviews of requests for proposals. In mid-1988, the Navy decided to reduce its reliance on contractor support in these areas.

DOD Uses a Variety of Consulting Services

DOD's budget submission for CAAS provides examples of the types of consulting services it and the services use in weapon system acquisition. In the fiscal years 1988-1989 and 1990-1991 submissions, DOD and the services sought CAAS funding to

- develop briefings and provide other support for high-level reviews of the Navy's SSN-21 Seawolf submarine program;
- maintain logistics planning documents, such as the integrated logistics support plan, for the Air Force Maverick missile;
- review and evaluate sensor requirements for space surveillance systems; and
- provide maintenance support training for the Army's M1 tank.

These services fall within the categories of studies and analyses, management support, or engineering services. Generally, DOD organizations requesting the services would obtain them by awarding contracts.

DOD also employs consultants as individuals or as members of an advisory board to advise on a variety of issues, including weapon systems. We identified a limited number of individual consultants who were involved in some aspect of weapon system development. For example, OSD hired a consultant to advise on "technical issues related to the development of tactical ballistic missile defense and missile and aircraft detection systems."

Four advisory committees—the Defense Science Board, the Army Science Board, the Naval Research Advisory Committee, and the Air Force Scientific Advisory Board—also conducted studies focused on specific weapon systems. For example, the Naval Research Advisory Committee issued a 1983 report on torpedoes and antisubmarine warfare weapons.

DOD and the services obtain consulting services at different organizational levels to support varying aspects of weapon system development. For example, the Office of the Under Secretary of Defense for Acquisition requested funds for studies to address the "operational aspects of developing new weapon systems for improving warfighting capability." The Department of the Navy sought funds to support different types of cost analyses for specific systems. The "buying" commands¹ contract for a range of managerial and technical services to support their acquisition of weapon systems. For example, the Naval Sea Systems Command, which develops the Navy's ships and shipboard combat systems (e.g., torpedoes), requested \$290 million in CAAS for fiscal year 1990, or 30 percent of the Navy's CAAS request for that fiscal year.²

Case Studies: How Consulting Services Were Used on Individual Weapon Systems

The military services used consulting services to support each of the three weapon systems we reviewed. These services were primarily in the management support category. We did not find any individual consultants specifically working on our case study systems, other than those associated with studies conducted by the various advisory boards.

Table 2.1 summarizes the CAAS contracts used by the Army Missile Command, Naval Air Systems Command, and Air Force Ballistic Systems Division for our case study systems. In many instances, these contracts are "omnibus" ones used to support a number of different systems; only CAAS obligations for the case study systems are shown.

¹The buying commands, which have responsibility for managing weapon systems, include the Army Materiel Command and its subordinate commands; three Air Force commands, among them the Air Force Systems Command and its various divisions; and the Navy's systems commands.

²Similar calculations are not possible for Army and Air Force buying commands due to a lack of data.

Table 2.1: CAAS Contracts Used to Support the FOG-M, V-22, and Peacekeeper Rail Garrison Systems

Dollars in millions				
System	Buying activity	Number of contracts	Period of obligations	Obligated amount
FOG-M	Army Missile Command	5 ^a	1984–1989	\$9.0
V-22	Naval Air Systems Command	26 ^b	1983–1989	17.0 ^b
Peacekeeper Rail Garrison	Air Force Ballistic Systems Division	10	1987–1988	^c

^aThe Army Missile Command also used two purchase orders, totaling \$49,564, to obtain consulting services for the FOG-M.

^bThis does not include an additional five contracts awarded by the Naval Air Development Center; funding for the V-22 under these contracts totaled \$650,296.

^cWe could not calculate the CAAS obligations under these contracts because the Air Force did not separately identify these services.

The services we are describing are those that the commands designated as CAAS,³ plus other services that we believe meet the intent of the CAAS definitions. The Ballistic Systems Division did not agree with our including all these services, based on its different interpretation of what constitutes CAAS. (See ch. 5.)

The figures in table 2.1 are not likely to represent all the consulting services supporting these systems, for at least three reasons. First, consulting services used to establish requirements or assess technologies for potential systems may not be directly linked to a particular system. For example, a consultant might examine aspects of vertical-take-off-and-landing aircraft, such as the V-22, prior to that system's actual development.

Second, when different organizations and agencies are involved in the acquisition process, identifying all the services any of these organizations may have used is further complicated. For example, the Defense Acquisition Board directed the Army to conduct a number of studies as a result of its review of the Forward Area Air Defense System. According to an Army official, Army headquarters would not know whether those studies were conducted by the Army or contracted out.

Third, documentation on individual consultants was either unavailable or too general to determine whether these consultants worked on a particular weapon system. For example, four consultants who worked in

³For the V-22, this includes support services contracts awarded prior to 1986, as well as contracts designated as CAAS after the DOD directive was issued in 1986.

the Office of the Under Secretary of Defense for Acquisition did not provide written products, but instead advised office directors.

Army Case Study: Fiber Optic Guided Missile

The FOG-M is one component of the Army's Forward Area Air Defense System, which will provide new weapons for strengthening air defenses in forward combat zones. As the "non-line-of-sight" component, the FOG-M is intended to protect ground troops and vehicles by attacking enemy helicopters and tanks hidden by the terrain. The system consists of a missile, a launcher, a gunner station, and communication and navigation equipment.

We identified five contracts the Army Missile Command used to obtain consulting services for the FOG-M, including one contract awarded by an Air Force activity. The Missile Command acquired additional consulting services for the FOG-M using two purchase orders. The specific types of consulting services obtained included the following:

- reviewing program documentation, such as the acquisition plan, integrated logistics support plan, and program schedules to determine cost and schedule risks;
- conducting analyses and recommending approaches to help the program office manage the dual-source acquisition strategy adopted for the FOG-M program; and
- performing life cycle cost estimates used to support system requirement documents, cost and operational effectiveness analyses, and the annual budget preparation.

According to FOG-M program officials, they depended on a contractor for cost support because of the firm's experience and resident knowledge of the FOG-M system. Although the Missile Command has since acquired the computer modeling capability to perform such estimates, it still relies on contractor support because of a lack of in-house resources.

The FOG-M program office also obtained services under the Forward Area Air Defense System integration contract. The contractor has overall responsibility for integrating the various components of the air defense system, including (1) maintaining system baseline cost estimates, (2) monitoring progress of the component systems such as FOG-M, (3) advising the government on overall program deficiencies and recommending corrective actions, and (4) providing administrative and other support to meetings and major program reviews, such as those conducted by the Defense Acquisition Board.

Navy Case Study: V-22 Osprey

The V-22 Osprey is a tiltrotor aircraft designed to take off and land vertically like a helicopter and to fly like an airplane by tilting its wing-mounted rotors to function as propellers. The Navy is developing the V-22 to perform various combat missions, including medium lift assault for the Marine Corps.

The Navy has relied extensively on contractor services to support the development of the V-22. From July 1983 to December 1988, the Naval Air Systems Command used 26 such contracts⁴ to obligate \$17 million for the system. The Naval Air Development Center contracted for \$650,296 for the V-22 from 1987 to 1988 using five additional contracts. The Navy justified its use of CAAS by citing a lack of in-house expertise and the inability to hire sufficient numbers of qualified personnel.

The services obtained for the V-22 ranged from relatively simple management tasks to complex engineering studies and analyses for the aircraft's design and development. The services generally fell into three broad categories: logistics planning and analysis, engineering and other technical support, and program management.

First, CAAS contractors have been involved in virtually all aspects of logistics planning and analysis for the V-22 program, undertaking such tasks as (1) developing a Joint Integrated Logistics Support Plan and (2) preparing logistics support specifications for the full-scale development contract. Decisions on logistics support (e.g., maintenance plans, support and test equipment, and repair facilities) can affect system design, costs, and the program acquisition strategy.

Second, contractors provided engineering support, which is critical in developing the initial aircraft requirements and specifications. For example, contractors

- supported the creation of the initial specifications for the full-scale development contract;
- analyzed various aspects of the aircraft design, including proposed structural design criteria; and
- assisted in developing requirements for training systems hardware, such as cockpit simulators and air crew trainers.

⁴We did not review one additional contract because supporting documentation for it had been stored in the Navy records center and was unavailable.

Third, CAAS contractors have supported the program manager in overall management of the V-22. The program office tracks actual schedule and engineering progress against program goals to identify problems and take needed corrective measures. Since 1983, the program office has engaged contractors to perform such tasks as program schedule monitoring, evaluations of prime contractor status reports, and other administrative support services (e.g., monitoring engineering changes and preparing briefing materials).

Air Force Case Study: Peacekeeper Rail Garrison

The Peacekeeper Rail Garrison basing system consists of trains carrying Peacekeeper missiles that will be deployed in secure garrisons at Air Force bases throughout the continental United States. Each garrison will include train alert shelters to house the train and a maintenance area or facility. When needed, the missiles would move onto the nation's railroad network, or if necessary, could be launched from within the train alert shelters. The system's principal mission is to deter nuclear and conventional attacks against the United States and its allies.

The Air Force has used consulting services at both the headquarters and activity levels to support the Rail Garrison system. In fiscal years 1987 and 1988, the Ballistic Systems Division used eight Division-awarded contracts and two contracts awarded by another Air Force activity to obtain CAAS for the system. Rail Garrison obligations under these contracts totaled roughly \$96 million. We could not calculate how much of this amount represented CAAS because these services were, in many instances, "embedded" in contracts that also contained non-CAAS services. Air Force Headquarters obtained an additional \$6.2 million in management support services for the Peacekeeper Rail Garrison as part of its intercontinental ballistic missile modernization program.

The Ballistic Systems Division uses one contractor to provide engineering and technical assistance for various weapon systems, including the Rail Garrison. This contractor provides, among other things, general management support and technical advice in developing program plans and schedules, preparing cost analyses, and appraising other contractors' work. According to a Ballistic Systems Division official, this contractor has the Division's "corporate memory" and also the technical expertise essential to the Division's knowledgeable administration of its weapon system contracts.

Other CAAS contractors have supported the Rail Garrison system by

- assisting in developing cost estimates and ways to improve existing cost-estimating methodologies;
- aiding in base evaluation studies and the base selection process, with responsibility for preparing various briefing materials and providing management and cost support; and
- performing studies and analyses of programs to mitigate the environmental impact of the system, and determine its effect on the economy, population, public services and facilities, and natural resources.

The Office of the Assistant Secretary of the Air Force for Acquisition also sought assistance from CAAS contractors to, among other things, (1) analyze federal, state, and local regulations affecting missile deployment, (2) prepare briefing materials for Air Force congressional witnesses and other materials on hearings, budget actions, and legislative bills, and (3) support the budget process by, for example, analyzing the effect of reduced funding on the system's schedule. In addition, the Office of the Under Secretary of Defense for Research and Engineering employed a contractor to conduct a study on various missile basing system options, including Rail Garrison.

Reducing Reliance on Contractors in Sensitive Procurement Areas

In August 1988, the Navy announced a plan to reduce its reliance on contractor support in the more sensitive aspects of the procurement process. These areas include requirements definition, acquisition planning, preparation of justifications and approvals, requests for proposals, procurement requests, source-selection plans, and the source selection process.

The Under Secretary of the Navy directed the systems commands to review their use of contractor support in these areas and to begin transitioning from contractor support to in-house capability. In response, the Naval Air Systems Command identified 505 headquarters staff years for conversion to in-house resources by the end of fiscal year 1992; according to command records, that total included 5.1 staff years calculated for the V-22. In December 1988, OSD approved the Navy's planned conversion of a total of 3,132 staff years by the end of fiscal year 1994, including 533 staff years for the Naval Air Systems Command. According to Navy officials, the conversion will not require any additional government funding, and may ultimately result in some savings.

The Navy's decision to limit its use of contractors in sensitive procurement areas stemmed from two principal concerns. First, the Navy wanted to limit access to procurement information to lessen its vulnerability to the improper disclosure of sensitive data. Second, the Navy wanted to ensure that it retained the resources necessary to perform basic governmental functions—policy or managerial responsibilities that should not be contracted out.

We found that the Army and Air Force also used contractor support for our case study weapon systems in one or more sensitive procurement areas. For example, one contractor assists the Air Force Ballistic Systems Division in reviewing responses to requests for proposals as part of the source-selection process. For the Army's FOG-M system, a consulting firm reviewed the draft request for proposals and suggested areas needing updating or revising. According to DOD officials, the Air Force and Army have not identified any significant problems in existing procurement policies that would require a reduction in their current use of consulting services in the acquisition process. As a result, they have no initiatives planned to reduce their use of consulting services in sensitive areas of the process.

Conclusions

Our case study weapon systems illustrate the range and types of consulting services DOD and the services use to support major weapon systems, from acquisition strategy analyses to cost estimates to briefing and testimony materials. The case studies also indicate how DOD relies on such services to augment, or in some cases substitute for, internal capabilities. The Naval Air Systems Command depends on logistics support firms, the Air Force Ballistic Systems Division uses an engineering and technical assistance contractor, and the Army Missile Command employs a cost-estimating firm. These are all examples of external services acquired because of a lack of internal resources or expertise needed to accomplish those tasks.

The Navy's plan to reduce its reliance on outside contractors in sensitive procurement areas is intended to limit access to sensitive information and lessen the risks of transferring government functions to the private sector. We believe this action has merit because it represents an initiative intended to reduce opportunities for compromising the procurement process. Because our work focused on individual weapon systems, however, we are not in a position to judge whether the Army and the Air Force should take similar steps to reduce their use of consulting services in these sensitive areas.

Defense Contractors' Use of Consulting Services

We reviewed consulting services used by two full-scale development contractors for each of our case study systems—Hughes Aircraft Company and Boeing Military Airplanes for the FOG-M; Bell Helicopter Textron and Boeing Helicopters for the V-22; and Boeing Aerospace and Rockwell International for the Peacekeeper Rail Garrison. We found the following:

- The contractors generally have policies that define consulting services and outline hiring and billing procedures.
- Four of the six contractors reported using consultants on our case study systems, for advice on their government business or for technical assistance.
- Contractors use other technical services that are not always easy to distinguish from consulting services.

Guidelines and Procedures for Employing Consultants

All six firms have established policies on consulting services that define these services and prescribe the procedures for obtaining them, including procedures for identifying potential conflicts of interest and billing consulting services costs to the government.

Company Definitions of Consulting Services

Boeing has three categories of consultants: government affairs consultants, individual consultants, and international sales consultants. Boeing defines a government affairs consultant as an individual or firm operating as an independent contractor who is retained to “communicate with, attempt to influence or have any involvement in any other manner with” a U.S. government agency, employees of the executive branch, or Members of the Congress or their staffs. An individual consultant, which can include a company when it is intended to obtain the personal services of one or more specific individuals, advises Boeing on its business administration and management; production and design techniques; and product development, technology development, and new business applications. An international sales consultant markets and sells Boeing products worldwide.

Hughes Aircraft Company defines consulting services as those acquired from individual consultants and consultant firms for the purpose of obtaining advice on specific company projects or problems. Such individuals or firms work for specified periods as independent contractors not

under the direct supervision of Hughes personnel. Rockwell defines consulting services as “services of an advisory nature performed by an outside firm or individual in connection with special studies, surveys, analyses, and other special projects in which management seeks independent expert advice, opinions, evaluations, and appraisals.” Bell Helicopters defines consultants as those who “advise officers and employees of Bell on how to perform their duties more effectively.”

Procedures for Hiring and
Billing Consultant Costs

The contractors have similar procedures for hiring consultants, generally by using a consulting agreement. Under these procedures, the office requesting the services prepares a formal request that outlines the services to be performed. The review and approval process generally includes justifications as to why the task cannot be performed in-house, the rationale for selecting a particular consultant, and a description of the work.

The contractors who reported using consultants on our case study systems billed their cost to the government indirectly through overhead accounts.¹ For example, one contractor’s overhead account consists of five principal overhead categories, or “pools.” The contractor allocates consulting services costs to a particular pool based on the nature of the services. A percentage of these pool amounts is charged against the company’s government contracts.

Requirements Dealing
With Conflicts of Interest

The contractors review prospective consulting arrangements to determine the existence of any conflicts of interest. The goal is to prohibit consultants from having government or other business relationships that could create a conflict of interest or violate the companies’ ethics rules. We found that contractors included clauses to prevent such conflicts in the consulting agreements we reviewed. These clauses require, for example, that the consultants be aware of and comply with the companies’ ethics policies as well as current conflict-of-interest laws and limitations on activities of former government officials. One contractor engaged a number of former government officials as government affairs consultants. In each case, the contractor’s legal department prepared a memorandum to the file outlining the activities the consultant was prohibited from participating in based on his prior government service.

¹We did not audit these accounts to determine whether amounts included were allowable under the cost principles applicable to government contracts.

Use of Consulting Services on Specific Weapon Systems

Four of the 6 contractors reported using 58 consultants on our case study weapon systems, as shown in table 3.1.

Table 3.1: Numbers of Consultants Used by Case Study Contractors

Company	Service	
	Government/new business advice	Technical and other assistance
Boeing Military Airplanes	0	1
Hughes Aircraft Company	4	6
Boeing Helicopters	6	23
Bell Helicopter Textron	8	10
Boeing Aerospace	0	0
Rockwell International	0	0
Total	18	40

We grouped the companies' consulting services into two general categories. The first category includes consultants who advise the companies on their U.S. government business or otherwise assist in developing new business opportunities. The second category includes companies or individuals who have engineering or other technical expertise and provide assistance in such areas as reviewing system requirements, aiding in resolving technical problems, and reviewing and modifying system bids or proposals.

Use of Consultants to Advise on Government Business

Three contractors employed a total of 18 consultants to obtain advice on their government business or marketing efforts. As viewed by one contractor, these consultants provide insights into government operations and attitudes that allow the contractor to identify and address government concerns.

For example, Bell Helicopter Textron hired a former Navy admiral to assist its marketing effort for an antisubmarine warfare variant of the V-22. According to Bell officials, the consultant critiqued Bell's proposal for the variant and advised the Joint Program Office (the Bell-Boeing office managing the program) on marketing and engineering issues. He was also employed by Bell to confer with U.S. government officials to

acquire technical information about the government's future needs, which was, according to a Bell official, legally available to contractors.²

Boeing Helicopters employed a former Marine Corps officer because of his understanding of how the Marine Corps viewed the V-22. According to Boeing officials, he helped to identify Marine Corps concerns regarding aircraft schedule delays and recommended ways to address those concerns. A second consultant, a former Navy officer, was hired by Boeing to, among other things, assist the company in developing briefings to help promote the V-22 variant to the Navy. According to Boeing officials, the company did not pay the consultant to contact Navy personnel, but they believed he was in regular contact with Navy officials to "keep up to date with Navy thinking and provide competent services."

Hughes Aircraft Company obtained advice from three individuals and one firm to support the FOG-M. For example, Hughes employed one consultant because of his expertise in mission and operational analyses of air defense and land combat systems. According to Hughes' documentation, the consultant's expertise allowed the contractor to tailor its system to meet the Army's needs and enhance its ability to capture new programs. Hughes also hired a former congressional staffer on a retainer basis for a 3-year period to advise senior corporate executives on various programs, including the FOG-M, and to assist in devising new business strategies.

As illustrated by several of the above examples, a large majority of these consultants were former military officers or government officials who could be subject to specific DOD post-employment rules—the so-called "revolving door" legislation. These include individual and contractor reporting requirements (10 U.S.C. 2397 and 2397c) and a 2-year employment restriction affecting certain former DOD employees who performed procurement functions during their employment with DOD (10 U.S.C. 2397b).

We identified only 1 of the 18 consultants as subject to any of these requirements within the time period covered by our review. We believe that this consultant was required under 10 U.S.C. 2397 to advise DOD of

²Former military officers are subject to certain restrictions on their subsequent dealings with government agencies (see, e.g., the provisions of 37 U.S.C. 801(b) and 18 U.S.C. 207). These statutes do not prohibit all contacts with an official's former department, but are directed to particular situations such as representing other persons on matters in which that official had personally participated. We did not conduct an investigation to determine compliance with these statutes.

his defense contractor employment. Based on our review of DOD records, however, we were unable to find any documentation that he had filed.³ We therefore advised DOD of this non-filing to enable them to take appropriate follow-up action. The defense contractor complied with its reporting requirement (10 U.S.C. 2397c) and, based on that information, DOD determined that the consultant was in compliance with the provisions of 10 U.S.C. 2397b.

Use of Technical Services Consultants

Four contractors retained 40 consultants to provide various technical services, which ranged from engineering analyses to reviews of contractor proposals or bids. These consultants generally did not deal with government officials.

Bell hired a consulting firm to evaluate its adherence to the fixed-wing fatigue requirements of the detailed system specifications. Boeing Helicopters employed consultants to analyze composite materials for the fuselage and study potential aircraft variants. One such consultant, the retired chief of the company's structures department, provided detail design work for the V-22 airframe. He was also a member of Boeing Helicopters' weight reduction team tasked with identifying weight reduction measures and developing additional design changes to meet the aircraft's remaining weight shortfall.

Boeing Military Airplanes contracted with an individual consultant to assist the company's engineering team. The consultant participated in conceptual design trade-off studies and in the technical editing of the engineering volume of the FOG-M proposal for the full-scale development contract.

The technical consultants, all former company employees, hired by Hughes Aircraft Company helped develop the fiber optics technology critical to the FOG-M system. For example, one employee was retained as a consultant immediately upon his retirement because he was considered to be one of the best fiber optic/winding payout experts in the world.

³In an earlier GAO report we concluded that only about 30 percent of those probably required to report actually did so. See *DOD Revolving Door: Processes Have Improved but Post-DOD Employment Reporting Still Low* (GAO/NSIAD-89-221, Sept. 13, 1989).

Technical Services That Contractors Did Not Categorize as Consulting Services

In addition to consulting services, the contractors also supplement their in-house capabilities with other technical services. These services are referred to by Boeing's operational units as supplier technical assistance; by Hughes as personal services; by Rockwell as purchased time and technical services; and by Bell as purchased services.

Limited information we obtained from four of the contractors on their use of technical services indicates that it is not always easy to distinguish between these and consulting services. In two instances, contractors categorized the type of service based on who provided it rather than the nature of the service itself.

For example, Boeing Aerospace hired a firm under a supplier technical assistance arrangement to help prepare competitive proposals for the Peacekeeper Rail Garrison system. The firm prepared an evaluation standard used to draft Boeing's proposal, and briefed Boeing's proposal team on its approach. This firm was established by two former Air Force officers, one of whom was instrumental in developing source-selection procedures for the Air Force Ballistic Systems Division—the office responsible for managing the Rail Garrison and other missile systems. According to Boeing officials, they categorized this as technical assistance because the company had contracted with the firm rather than specified individuals of the firm. If the contract had designated a specific person, the services would have been categorized as consulting services.

Boeing Military Airplanes contracted with five technical assistance suppliers, for example, to revise the FOG-M master test plan, evaluate the missile's aerodynamics design, and review the request for proposals to discuss Boeing's approach. According to Boeing, these types of engineering services were similar to those provided by the one consultant it hired. In that case, the company employed the individual as a consultant because company policy precludes obtaining the services of a "one man firm" under a technical supplier arrangement.

The contractors' different interpretations of what constitutes consulting services may also result in inconsistent characterizations of technical services. For example, Boeing Helicopters hired a firm under a consulting agreement to prepare cost-effectiveness studies for the V-22. Boeing and Bell Helicopter Textron equally shared the cost of the study. According to Bell officials, using their company's definition of consulting services, they would have treated this as other purchased services and not consulting services.

The provision of the Federal Acquisition Regulation governing consultant costs does not specifically define what contractors should classify as consulting services. In conducting its review of consultant costs, the Defense Contract Audit Agency encountered difficulty in isolating consulting services costs due to the lack of a universally accepted definition of such services. As a result, the Agency recommended that the acquisition regulation be amended to better define consultant costs.

Conclusions

Our case study contractors used a mix of consulting or technical services in developing these weapon systems, ranging from advice on dealing with the government to technical engineering analyses. We found that most of the consultants in the government affairs category were former military or government officials, although we identified only one who had any current requirement to report his post-government employment. We found no evidence that the consultant complied with this requirement, and have so informed DOD. However, DOD determined, based on information supplied by the defense contractor that hired the consultant, that the consultant's work was not in violation of the applicable employment restrictions.

The contractors in some cases obtained technical services to support their efforts that they did not characterize as consulting services. These services, however, were not always easy to distinguish from those identified by some contractors as consulting services.

Contractor Comments

The contractors advised us that they agreed with the information presented about their respective firms.

Conflict-of-Interest Issues

For our three weapon system case studies—the Fiber Optic Guided Missile, the V-22 aircraft, and the Peacekeeper Rail Garrison—we found three instances where a contractor providing consulting services to the government was also employed by a defense contractor for work related to the same system. We found no basis to conclude that any of these specific instances resulted in a conflict—i.e., that the contractor gained an unfair competitive advantage or was unable to provide impartial advice. However, in one case the contractor did not comply with the organizational conflict-of-interest provisions contained in its contracts with the government. More generally, these cases illustrate the importance of the government’s awareness of consultant employment relationships in order to make informed judgments about potential conflicts.

Regulations Governing Organizational Conflicts of Interest

The Federal Acquisition Regulation establishes the general rules for identifying, evaluating, and resolving organizational conflicts of interest. As defined in the regulation, such a conflict exists when

“the nature of the work to be performed under a proposed Government contract may, without some restriction on future activities, (a) result in an unfair competitive advantage to the contractor or (b) impair the contractor’s objectivity in performing the contract work.”

The regulation also notes that although organizational conflict-of-interest concerns are not limited to any particular type of procurement, conflicts are more likely to occur in contracts involving such matters as management support services or other professional services that fall within the definition of contracted advisory and assistance services.

The Federal Acquisition Regulation charges the contracting officer with the responsibility for analyzing proposed procurements and determining the need for any actions to avoid or mitigate potential conflicts. It also recognizes the need to use judgment and discretion in making these decisions.

The regulation provides the following general rules to assess potential organizational conflicts of interest:

- A contractor that provides systems engineering or technical direction for a system¹ but does not have overall contractual responsibility for its development may not (1) be awarded a contract to supply the system or

¹These are defined to include such areas as determining specifications, developing test requirements and evaluating test data, developing work statements, and directing other contractors’ operations.

any of its major components or (2) be a subcontractor or consultant to a supplier of the system or any of its major components. This rule is intended to prevent a contractor that has a key role in determining a system's basic concept from being in a position to favor its own products or capabilities.

- A contractor that prepares complete specifications for nondevelopmental items to be used in a competitive acquisition may not furnish these items either as a prime contractor or as a subcontractor. This rule is intended to ensure that the government obtains unbiased advice by avoiding situations where a contractor could draft specifications favoring its own products or capabilities.
- A contractor that prepares work statements to be used in competitively acquiring a system or services may not supply the system, its major components, or services, unless (1) it is the sole source, (2) it has participated in the development and design work, or (3) more than one contractor was involved in preparing the work statement. This rule is intended to avoid the possibility of bias that could occur if a contractor is in the position of favoring its own products or capabilities.
- Development contractors involved in preparing either specifications or work statements are not prohibited from the award of production contracts. The development contractor has a competitive advantage, but one that is unavoidable and not considered unfair.
- Contracts that involve technical evaluations of other contractors' offers or consulting services should not generally be awarded to a contractor that would evaluate or advise the government on its own activities or those of a competitor, without proper safeguards. This rule is intended to ensure the contractor's objectivity.
- A contractor that obtains other companies' proprietary information must agree with these companies to protect their information and refrain from using it for any unauthorized purpose. This rule is intended to ensure that a contractor does not obtain an unfair competitive advantage.

In response to the requirements of section 8141 of the Department of Defense Appropriations Act of 1989, the Office of Federal Procurement Policy issued Policy Letter 89-1 on December 8, 1989.² The letter provides guidance on contractor conflicts of interest to supplement the organizational conflict-of-interest provisions contained in the Federal Acquisition Regulation. Basically, while the regulation emphasizes restrictions on future activities of contractors because of the nature of

²The Appropriations Act also required us to review the effectiveness of regulations to be promulgated to implement the policy letter; as of July 1990, final regulations had not been issued.

their work for the government, the policy letter authorizes contracting officers not to award a contract at all when a conflict of interest is found to exist. Such a conflict could exist, for example, when the advice to be provided to the government could benefit the contractor's other clients.

Neither the Federal Acquisition Regulation nor the Office of Federal Procurement Policy letter automatically precludes companies from working for both the government and the private sector. Rather, both stress the need to review the specifics of proposed procurements and to make judgments about the potential for conflicts and the need for actions to avoid or mitigate them. The policy letter, by incorporating notification and certification requirements, further emphasizes the importance of making sufficient information available to the contracting officer to allow for informed judgments about potential or actual conflicts.

Consulting Firms Working for Both Government and Industry

Under what circumstances, and how frequently, consulting firms are engaged by both DOD and defense contractors has been a subject of particular concern, given the potential for conflicts of interest such situations create. In reviewing a combined total of 52 contracts for our 3 weapon system case studies, we found 3 instances where a firm worked for both the government and a contractor on matters related to the same system—1 involving the Army's FOG-M system and 2 involving the Air Force's Peacekeeper Rail Garrison system. We did not identify any similar cases associated with the Navy's V-22 aircraft.

Fiber Optic Guided Missile

The Army Missile Command used a consulting firm primarily to maintain baseline and life cycle cost databases and program software in support of its FOG-M program. The company provided these services to the Missile Command between April 1984 and September 1986 under a direct contract with the Command and through a second contract with the Air Force for specialized cost reports.³ In all, the Command paid the company approximately \$1.1 million between 1984 and 1988 for these and other services related to the FOG-M.⁴

³The Missile Command obtained services under this contract by issuing "military interdepartmental procurement requests" to the Air Force contracting activity—the Electronic Systems Division of the Air Force Systems Command.

⁴The FOG-M costs represent only a portion of the total contract fees paid the company for work on a number of Missile Command weapon systems.

In December 1986, the Command awarded a letter contract to a second firm for FOG-M integration, which was later definitized for about \$48 million. The integration contractor is responsible for integrating and testing the missile and related components during the system's initial operation evaluation phase. This contractor in turn subcontracted with the Missile Command's consulting firm for \$1.6 million to obtain cost estimating and other services. The consulting firm's subcontract responsibilities include maintaining life cycle cost databases and program software to respond to "real time" cost charges and preparing life cycle cost estimates—essentially the same types of services as those it provided the Missile Command earlier, but at different stages as the estimates required updating. The Command was aware of the integration contractor's plans to use the consulting firm as a subcontractor; the firm was listed in the contractor's proposal submitted to the Command during the process of definitizing the contract.

The consulting firm's contracts with the Missile Command and the Air Force both contained conflict-of-interest provisions. The Army contract required the firm to advise the Missile Command of any financial or other interest involving a possible conflict of interest, or to certify to the lack of any such interest, at the time the Command issued delivery orders to the firm. The Air Force contract stipulated that the consulting firm would not

"perform as a prime contractor or subcontractor or consultant in Hardware/Software or Services acquisitions related to the systems or segments of systems for which the Contractor has performed a Specialized Cost Report hereunder nor shall it perform as a prime contractor, subcontractor, or consultant in studies/analyses in the cost estimation area as related to the systems or segments of systems for which it has performed a Specialized Cost Report hereunder . . ."

The consulting firm did not comply with either of these clauses. It did not notify the Command of any interests involving possible conflicts of interest, or certify to their nonexistence, at the time it received delivery orders for FOG-M work. In addition, the company's work as a subcontractor to the FOG-M integration contractor appears to violate the Air Force contract provision that it would not perform as a subcontractor on a related acquisition. Because the Missile Command used the Air Force contract to obtain cost estimating services from the consulting firm for the FOG-M system, the provisions of that contract would apply to any future work on that system, including the work for the integration contractor. According to the Air Force contracting officer, however, this clause was not intended to exclude the kind of future effort performed

by the consulting firm. To avoid such interpretations, the clause was formally amended in 1989, as a result of concerns stemming from a planned Air Force procurement.

Army Missile Command representatives acknowledged that the contracting officer should have monitored the Command contract to ensure compliance with its notification requirements, but could not, at the time of our review, explain why no such effort was made. With respect to the Air Force contract, Command officials stated that they were not aware of its conflict-of-interest clause, and that it would be the consulting firm's responsibility to advise the government of any problem. Representatives of the consulting firm acknowledged that it may have been in technical noncompliance with these contract clauses. However, both Command and company representatives stressed that no conflict occurred—the company did not acquire an unfair competitive advantage as a result of its government work, nor did it provide biased advice to the government.

Our review of the contract scopes of work and products prepared by the company, such as cost estimates, did not disclose evidence that a conflict of interest occurred as a result of the consulting firm's work for both the Missile Command and the integration contractor. The firm may have had a competitive advantage in obtaining its subcontract with the integration firm based on prior FOG-M cost-estimating work and its own, company-developed expertise. However, that advantage was obtained by winning a competitive government contract.

We also found no evidence of bias because the consulting firm was not placed in the position of representing competing interests. It performed essentially the same type of work for the integration contractor and the Army Missile Command, but at different stages of the system's development, by providing cost estimates as the program parameters and acquisition strategy were revised.

Rail Garrison Case #1

The Air Force Ballistic Systems Division contracted with a consulting firm in November 1985 for work related to a "deep basing" mode for the intercontinental ballistic missile, a basing mode that ultimately was not selected. The contract was modified in March 1988 to add work for the Rail Garrison basing system. The firm's tasks for Rail Garrison consisted of system-level trade studies and analyses of such areas as tactical doctrine and mission planning. The firm was also responsible for maintaining the system mission model (flow charts and decision trees for

operating the system) and preparing an information handbook. According to the Ballistic Systems Division contracting official, the contract contained no organizational conflict-of-interest clause because the Division did not believe the services involved required its inclusion.

In early 1989, one of the Rail Garrison's principal contractors contracted with the same consulting firm to obtain system test support services valued at \$4,566. The services included inspecting certain missile components and assessing the quality and suitability of those components for nuclear hardness and survivability tests. The contractor requested the services of a specific consulting firm engineer who had previously been involved in missile testing for the Ballistic Systems Division.

According to Division officials, the Division is generally aware of the subcontractors that its contractors use in performing work on Division weapon systems, but there is no formal requirement that the Division be informed of every such arrangement.

Our review of available work products prepared by the consulting firm for the Ballistic Systems Division (the information handbook and portions of the mission model documentation⁵) as well as the amended contract scope of work does not indicate that the company reviewed its own or other contractors' work. The limited engineering tasks performed for the contractor appear, based on available documentation, to be unrelated to the consulting firm's Rail Garrison work but instead were the result of engineering expertise gained from its previous work for the Division. In addition, the consulting firm does not appear to have acquired an unfair competitive advantage based on its Rail Garrison work for the Ballistic Systems Division, nor does the limited nature of its work for the contractor (at less than \$5,000) appear to have placed it in the position of having competing interests. As a result, we did not find any basis to conclude that a conflict of interest existed.

Rail Garrison Case #2

In June 1988, the Air Force contracted with a consulting firm to obtain analytical support on the deployment of a number of intercontinental ballistic missile systems, including the Peacekeeper Rail Garrison. In response to specific task orders issued by the Office of the Assistant Secretary of the Air Force for Acquisition, the firm prepared Rail

⁵We did not examine trade studies or analyses prepared by the consulting firm because the Division was unable to locate any for our review.

Garrison-related products, such as (1) summaries of congressional hearings and bill markups, (2) briefing papers on negotiating mitigation agreements between DOD and jurisdictions affected by missile deployment, (3) summaries of local environmental meetings and public hearings, (4) analyses of security issues, and (5) drafts of public affairs guidance and strategies for enhancing public understanding of the intercontinental ballistic modernization program. As of June 1989, the Air Force had paid the consulting firm approximately \$2.5 million for these services.

One of the Rail Garrison's principal contractors has used the same consulting firm to assist in the development and dissemination of information on the Peacekeeper and small intercontinental ballistic missile programs. The firm's work for the contractor included preparing and disseminating a reference manual on intercontinental ballistic missile systems. The manual provides, among other things, background material on missile systems and a summary of executive and legislative branch positions on the missile modernization program. In calendar year 1988, the consulting firm received \$40,000 for its services.⁶

The consulting firm's contract with the Air Force stipulates that it

"will participate in the technical evaluation of other contractors' proposals or products, or provide consulting services. To ensure objectivity, the contractor is precluded from award of any supply or service contract or subcontract for the system or its major components."

The contract also requires the firm to safeguard any proprietary information it obtains from other companies and to refrain from using such information in any manner other than its intended purpose.

According to Air Force officials, this is a standard clause used in various contracts; in this particular contract, the consulting firm is not performing technical evaluations of other contractors' work, nor has it obtained access to any other firms' proprietary data. Neither Air Force nor consulting firm officials interpreted this clause to prohibit the work undertaken for the contractor. As explained by consulting firm representatives, the firm did not assist the contractor in any work on its Rail Garrison contract to design and fabricate parts of the system, nor did it participate in contract negotiations or proposal preparation.

⁶According to the system contractor, it did not charge the government for any services it obtained from the consulting firm.

Officials of the Air Force's Office of the Assistant Secretary for Acquisition stated that the consulting firm had advised them of its plans to work for the contractor, and they had informed the firm that this would not pose a problem. These officials emphasized that the nature of the consulting firm's work for the government did not place it in a conflict-of-interest position—the services do not have any effect on the procurement of particular missile systems, nor do they provide the consulting firm with the opportunity to provide biased advice.

Based on our review of the consulting firm's contract scope of work and the work products it prepared, we did not find evidence that a conflict of interest existed. The company did not, according to the Air Force, obtain proprietary data that could unfairly benefit it or the contractor, nor did it engage in work that could have provided such an advantage—for example, reviewing other contractors' bids or preparing system specifications. We also found no basis to conclude that the firm was unable to provide impartial advice because the nature of the work the firm undertook for the Air Force—for example, summaries of legislative actions, synopses of public environmental meetings, and assistance in preparing materials for the system's environmental impact statement—as well as its work for the contractor, did not involve efforts to acquire the system contract or work directly related to it.

Conclusions

We found three instances where a consulting firm that was engaged by the government also performed services for a defense contractor related to the same weapon system. We found no basis to conclude that any of these specific cases resulted in a conflict of interest. However, in one of these cases the consulting firm did not comply with the conflict-of-interest clauses contained in its government contracts.

Because our review was limited to three individual case studies, we cannot draw general conclusions about the extent to which consulting firms work for both the government and defense contractors on the same weapon systems or the likelihood that conflicts of interest result. However, we believe that our work does highlight key principles and concerns to guide the government's approach to addressing conflict-of-interest concerns.

First, conflicts of interest must be assessed on a case-by-case basis, using the individual circumstances of a particular situation to determine the potential or actual conflicts of interest that may exist. This principle is

contained in existing regulations and is reinforced in the Office of Federal Procurement Policy letter on conflicts of interest.

Second, contracting officers are empowered to include appropriate conflict-of-interest safeguards in contracts as needed to ensure that potential conflicts of interest are mitigated or avoided. Our case studies suggest that conflict-of-interest clauses are not always tailored to meet the needs of specific contracting situations, and therefore may be less useful in protecting against conflicts of interest.

Third, and perhaps most important, the government needs to have access to information necessary to make informed judgments about potential or actual conflicts. As it happens, in two of the three cases we reviewed, the government was aware of the consultant's planned work for a defense contractor, and had the opportunity to limit that activity if conflict-of-interest concerns had existed. The second Air Force Rail Garrison example is a good illustration of how, on an informal basis, the process worked to ensure that the government, through information provided by the consultant, was aware of the consultant's work for a defense contractor. The December 1989 policy letter seeks to formalize this notification process by requiring prospective contractors to report their other contractual relationships.

The Department of Defense Appropriations Act of 1989 requires us to assess forthcoming regulations to implement the policy letter. The principles and issues discussed above, as well as the results of our ongoing work to assess controls over the federal government's use of consultants, will guide our analysis of these regulations.

Agency and Consulting Firm Comments and Our Evaluation

DOD concurred with the information discussed in this chapter, and indicated that such information would be helpful as it moves to fully implement the policy letter issued by the Office of Procurement Policy on consultant conflict-of-interest issues.

The consulting firm discussed in the second Rail Garrison example agreed with the information presented and otherwise had no comments. The ROG-M consulting firm commented that existing conflict-of-interest clauses should be rewritten to clearly denote the specific activities that are prohibited, and should be tailored to a specific procurement activity or procurement system. According to the firm, narrowing the clauses to specific areas would make them less restrictive; enforcing strict conflict-of-interest clauses would "hamper the competitive process that

guarantees the U.S. government the best products at the lowest, most realistic price." In the view of this firm, conflict-of-interest clauses should not restrict a company from doing business in a specific area because of expertise gained from previous work in the same or a related field.

As noted above, we believe that our case studies highlight the need to better ensure that contract conflict-of-interest clauses address specific contracting situations.

Identifying and Reporting Consulting Services

Our review indicated some individual commands did not consistently identify CAAS in accordance with DOD guidance or include these services in their required submissions to the Congress. These and other data problems were caused by a variety of factors, including difficulties in interpreting the CAAS definitions and weaknesses in review and reporting procedures. The result is a budget exhibit and reporting system that provide neither DOD managers nor the Congress with accurate information on how much DOD is spending for CAAS.

Requirements for Identifying and Reporting CAAS

The Department of Defense Authorization Act of 1986 requires DOD, among other things, to (1) present, as part of the budget, data on proposed CAAS expenditures, which are to be reported by type of service and whether in direct support of a weapon system and (2) establish accounting procedures to identify and control CAAS expenditures. To comply with these requirements, DOD's January 1986 CAAS directive requires the DOD comptroller to establish procedures for reporting CAAS data, which are included in a separate budget exhibit (the "PB-27" exhibit). As explained by DOD officials, this exhibit consolidates information reported in other portions of the DOD budget submission to identify expenditures for CAAS. In the fiscal years 1990-1991 exhibit, DOD estimated that it spends about \$1.6 billion annually for CAAS.

The directive defines the CAAS categories and describes the types of services to be included and excluded, as shown in table 5.1.

Table 5.1: DOD Definitions of CAAS

Category	Definitions and areas of application	Major exclusions
Individual experts and consultants	Persons possessing special knowledge or skill, who provide information, opinions, advice, or recommendations in subjects, issues, or problems involving policy development or decision-making in DOD	None cited in the DOD regulation
Studies, analyses, and evaluations	In-depth analytic assessments needed to understand complex issues and improve policy development or decision-making, in the form of formal, structured documents containing or leading to conclusions or recommendations	Basic research and system-specific engineering studies (studies related to specific physical or performance characteristics of existing or proposed systems)
Management support services	Advice, training, or direct assistance to ensure the more effective or efficient operation of managerial, administrative, or related kinds of systems, in such areas as acquisition management, project monitoring and reporting, data collection, and budgeting	Managerial or administrative services by the designer or producer of end-item hardware that are nonseparable from the development, production, or operational support processes
Engineering and technical services	Engineering and technical services provided to DOD personnel by manufacturers of weapon systems or technically qualified DOD contractor representatives, including information, instruction, and training	Engineering and technical services procured to increase a weapon system, equipment, or component's design performance capabilities—i.e., systems engineering or efforts associated with engineering change proposals

The directive also instructs DOD components to establish the necessary procedures to account for and report CAAS. In response, the services submit budget data for inclusion in the DOD budget exhibit and have established various mechanisms to track CAAS. For example, the Army has designated certain existing accounting codes (used to categorize types of goods or services) to be assigned to CAAS obligations. Each of the services has issued instructions governing its use of advisory and assistance services. The Navy and Air Force directives closely parallel the DOD guidance; the Army directive predates the DOD directive and does not conform to it in some respects. For example, the Army directive does not require that CAAS portions of contracts (so-called “embedded CAAS”) be separately identified. It also includes systems engineering under the professional and management support services category.

Problems in Identifying and Reporting CAAS

Our case studies indicated that individual commands or activities were not accurately or consistently identifying CAAS contracts, based on differing interpretations of what constitutes CAAS. We also found instances of inadequate accounting and reporting controls. One command did not use the appropriate accounting codes for CAAS transactions and another activity did not report CAAS contracts in its budget submission. Lastly, our review of the budget exhibit disclosed other errors and omissions, as

well as problems in assessing trends in DOD's use of CAAS due to changes in the data categories.

**Inaccurate and
Inconsistent Identification
of CAAS Contracts**

The Army Missile Command and the Air Force Ballistic Systems Division identified three and one CAAS contracts for the FOG-M and Rail Garrison systems, respectively. As shown in table 5.2, we identified one additional FOG-M contract and seven Rail Garrison contracts¹ that we believe contained at least some portion of CAAS based on our interpretation of the DOD definitions. The services we identified generally fell within the CAAS management support category—services used to assist program managers in their acquisition management or project monitoring functions (e.g., cost estimating or schedule preparation). We did not find any additional contracts that we believe the Naval Air Systems Command should have classified as CAAS for the V-22.

Table 5.2: Additional CAAS Contract Services Identified by GAO for FOG-M and Rail Garrison Systems

System	CAAS contract services^a
FOG-M	1. Revise logistics plan and prepare cost estimates and program schedules.
Rail Garrison	1. Conduct environmental planning and develop system environmental impact statement.
	2. Provide integrated logistics support, cost modeling, program planning, and other support tasks.
	3. Conduct follow-on effort to contract cited above, with similar tasks.
	4. Provide program and database management, including program schedule/cost support, library management, etc.
	5. Support development of management information system, with development of software programs.
	6. Provide integrated logistics support.
	7. Perform system studies and analyses, prepare mission model and system handbook.

^aDescribes only CAAS; contracts in some cases also contain non-CAAS services or materials.

A representative of the Army Missile Command's legal office, which reviews potential CAAS procurements,² agreed that part of the one additional FOG-M contract we identified represented CAAS. According to the

¹This does not include contracts awarded by other activities that were used by the Missile Command and the Ballistic Systems Division to obtain CAAS.

²The Missile Command has a review and approval process for CAAS procurements that involves the requesting office (such as the FOG-M program office), a management support services coordinator who initially reviews the request to see if it constitutes CAAS, a review by the legal office, and final approval by the Command's Deputy for Procurement and Readiness.

representative, the Command did not classify the contract as CAAS because it also contained non-CAAS items, and Army guidance, unlike the DOD directive, does not require CAAS portions of contracts to be separately identified.

The Air Force Ballistic Systems Division did not categorize the contracts we reviewed as CAAS principally because the services constituted weapon system-level tasks, such as logistics support, that are required to accomplish some element of weapon system full-scale development. The Division believes such services cannot be considered CAAS because they do not constitute the policy-oriented support tasks encompassed in the CAAS definitions.

The DOD directive on CAAS permits the exclusion of engineering studies related to the specific physical or performance characteristics of weapon systems. However, we do not believe this exclusion applies to the types of Ballistic Systems Division contract services we identified. For example, one contractor prepared a handbook that included synopses of press articles on issues related to the Rail Garrison and a roster of organizations involved in the system. A second contractor (responsible for systems engineering as well as management support services) provided cost-estimating support similar to that provided under another contract the Division agreed was CAAS.

In our view, these services are not directly related to a system's physical or performance characteristics, but rather support the program manager in performing his acquisition management functions. This contrasts with other Division contracts that we agree provide services related to the actual physical or performance characteristics of a system. An example would be the Division's contract to obtain modeling support services to determine the effects of gravitational forces on missile trajectories.

Our case studies also showed that various commands and activities interpret the CAAS definitions differently, which affects the accuracy of DOD's budget exhibit provided to the Congress. For example, the Ballistic Systems Division did not consider logistics support services for its systems to be CAAS, whereas the Naval Air Systems Command considered these services to fall within the CAAS management support category. The Navy expressly defines the management support category to include logistics support plans and logistics support services. In contrast, the Ballistic Systems Division does not believe these services are CAAS because they provide direct support to a specific weapon system.

Similarly, the Naval Air Development Center, a laboratory supporting the V-22, did not consider such services as tracking contract progress and funding as CAAS. In contrast, the Naval Air Systems Command classified similar services as CAAS management support. According to Center officials, the CAAS definitions are both vague and confusing, and have changed over time; what constitutes CAAS is therefore subject to a great deal of interpretation.

Such differences inevitably result in inaccurate budget exhibits. For example, if one took the position that the Ballistic Systems Division's exclusion of logistics support services is appropriate, the Naval Air Systems Command is overreporting its use of CAAS, possibly by as much as \$7 million per year. This is the average amount the Command reported for research and development funding in the logistics support services category for the fiscal year 1988-1989 budget submission. Conversely, assuming that the Navy's interpretation is the correct one, the Ballistic Systems Division underreported its use of CAAS by at least \$5 million.³

Inaccurate Accounting for and Reporting of CAAS

The Army Missile Command had procedures to identify prospective CAAS procurements, but it did not have adequate controls to ensure that it accurately recorded actual CAAS obligations or submitted complete budget estimates. We found that the Command had recorded no CAAS obligations for the FOG-M, even though it had identified and authorized three CAAS contracts used to support the system. This occurred because the FOG-M program office did not assign the correct accounting classification codes for CAAS as required. However, according to a FOG-M program analyst, the office had routinely assigned non-CAAS codes and the analyst was not aware of any requirement to use the CAAS-designated accounting codes. The Command has since taken action to correct this problem by issuing instructions to command offices to use the proper CAAS codes.

Further, the Command did not submit complete CAAS estimates for inclusion in the Army's CAAS budget exhibit. For the fiscal years 1990-1991 exhibit, the Command reported CAAS requirements submitted from three program offices. Only one of the CAAS contracts we reviewed was included, and it was reported by the Forward Area Air Defense System Program Executive Office. The Command did not include the two other contracts it considered CAAS, nor did the FOG-M program office prepare a CAAS submission. According to Missile Command officials, the Command

³This represents total contract obligations, including those for the Rail Garrison, as of February 1988.

did not verify the information provided by the program offices, and it did not have any follow-up procedures to determine why a program office did not submit any budget data.

We also found that the Air Force did not report the three management support contracts used by its Office of the Assistant Secretary for Acquisition to support its intercontinental ballistic missile modernization programs, including Peacekeeper Rail Garrison. The total value of one of these contracts alone was \$71 million as of mid-1989, representing obligations since the contract was awarded in March 1986. This means the Air Force has underreported its use of CAAS by at least that much. According to the Air Force, these amounts were not included in the budget estimates because the contracting officers did not classify them as CAAS.

Other Problems With the CAAS Budget Exhibit

Other errors in DOD's budget exhibit compound the types of problems noted above. For example, in the fiscal years 1988-1989 budget, the Air Force reported no budgeted or actual funding for individual appointed consultants, although it did employ such consultants. The Air Force did include funding for this category in the subsequent exhibit. Similarly, the Army included funding for federally funded research and development centers in the fiscal years 1990-1991 budget exhibit, inconsistent with other DOD components, which included no funding for these centers. According to DOD, CAAS-related efforts by the centers will be reported in the budget exhibit beginning in fiscal year 1991.

In addition to these data accuracy problems, DOD's budget exhibit has limited usefulness as an indicator of trends because the categories included in the submissions have not remained consistent over time. For example, in the amended fiscal years 1988-1989 budget request, information technology was included as a separate, identifiable CAAS line item. However, in response to a DOD Inspector General recommendation, DOD merged information technology into the four basic CAAS categories in the subsequent budget exhibit, but only that portion that would meet the definitional tests of those categories. As a result, it is unclear to what extent changes in these categories from one budget exhibit to the next are the result of the inclusion of information technology funding or are due to other factors.

Factors Impeding Accurate Reporting of Consulting Services

Difficulty in understanding the definitions of the CAAS categories remains a key impediment to improving DOD's reporting of CAAS. We found wide disparities in individual command interpretations, which ranged from the Naval Air System Command's including virtually all services to the Air Force Ballistic Systems Division's excluding almost all such services. Our discussions with contracting officers and program officials for our case study systems also showed differences in familiarity with the definitions and no common understanding of how to interpret the CAAS guidance.

Over a number of years, DOD's Office of Inspector General has also found problems with DOD's management and reporting of consulting services. For example, a 1988 Inspector General's audit found discrepancies in DOD's identification of CAAS contracts and recommended issuing further guidance and providing training to improve reporting.

OMB's September 1988 report on the government's use of CAAS concluded that the definitions were too broad, overly complex, and subject to varying interpretations. OMB, in consultation with DOD and other agencies, has been working since 1988 to revise and clarify the definitions. As of early 1990, no immediate changes were anticipated, pending the outcome of a proposed test to develop a working definition of advisory and assistance services.

A second factor discouraging accurate reporting may be the perception that reporting CAAS could cause funding for these services to be cut. As noted in the OMB report, problems with the CAAS definitions are exacerbated by the concern that the CAAS identified would be used as the basis for congressional budget cuts.

Other indicators suggest that DOD has not, at least until recently, emphasized CAAS reporting or exercised adequate oversight. The CAAS director position for DOD was filled recently on a permanent basis; for over 2 years, the job was held by acting directors on a part-time basis. The Army is using an outdated 1981 directive that does not conform to DOD's current guidance. The types of errors we found in the budget exhibits suggest that neither the DOD nor DOD component CAAS directors are adequately reviewing them.

In response to OMB direction, DOD discussed its efforts to manage CAAS in its 1988 Financial Integrity Act report,⁴ and noted its plan to conduct internal assessments of its CAAS program. In 1989, OMB identified five “highest risk” areas for DOD, which it expected the department to include in its fiscal year 1989 report. One of these was CAAS. In its report, DOD noted that it was giving “special attention” to the management of CAAS, but added that “unless proper incentives for accurate reporting are combined with educational initiatives, data collection of CAAS is unlikely to improve.”

Conclusions

Long-standing problems in accurately identifying and reporting CAAS have not been corrected. These range from failure to record CAAS obligations to inconsistent or inaccurate interpretations of the CAAS definitions. These findings are similar to those reported by DOD’s Office of the Inspector General and can be attributed to, among other things, unclear definitions or inadequate guidance.

The CAAS guidance needs to be clarified to improve DOD’s reporting. The definitions in DOD’s directive, coupled with numerous exceptions and qualifiers, do not always clearly indicate what services should be categorized as CAAS. OMB’s effort to revise the existing governmentwide definitions has not yet resulted in any changes or additional guidance, nor are any revisions expected in the near future.

DOD needs to implement controls to oversee and ensure accurate reporting, including (1) providing additional guidance on how to interpret the existing definitions, given the likelihood that governmentwide changes will not soon be forthcoming, (2) establishing mechanisms to review the CAAS budget data, and (3) performing command-level reviews of accounting systems used to record CAAS obligations. Without these actions, the agency and the Congress will continue to lack accurate information on how much DOD is relying on consulting services to develop and field its systems.

Recommendations

To improve DOD’s identification and reporting of CAAS, we recommend that the Secretary of Defense

⁴The Federal Managers’ Financial Integrity Act of 1982 requires heads of executive agencies to evaluate their internal control systems against specific standards and to report annually to the President and the Congress. If the agency head decides that the agency’s systems do not comply with the standards, the report is to identify any material control weaknesses and the agency’s plans for correcting them.

-
- review and clarify existing guidance on CAAS to preclude differing interpretations among the military services;
 - direct the DOD and component CAAS directors to strengthen their review procedures to ensure that the services accurately report CAAS budget data; and
 - direct the Secretaries of the Army, Navy, and Air Force to review, and where necessary, develop or revise component instructions and procedures to ensure that CAAS is accurately identified and entered into the accounting systems.

Agency Comments and Our Evaluation

DOD agreed with our findings and recommendations to improve the identification and reporting of CAAS. According to DOD, it will develop an “action plan” to strengthen CAAS management and reporting controls. The plan will (1) provide assurances of adequate internal controls over consulting and contractor support services, (2) provide for training of CAAS users, resource managers, and procurement personnel, and (3) provide a database capability to report, document, and track CAAS. DOD believes that its initiative, when fully implemented, will satisfy our recommendations.

DOD stated the inaccuracies and inconsistencies referred to are the result of the vague and confusing definitions used to identify individual CAAS efforts in the budget exhibit. DOD said that it is time to take a “fresh approach” to solving the many documented problems. To that end, DOD said that it will try to identify what specific services need to be managed and controlled as a basis for determining what a revised definition should encompass.

Comments From the Department of Defense

Note: GAO comments supplementing those in the report text appear at the end of this appendix.



PRODUCTION AND
LOGISTICS

ASSISTANT SECRETARY OF DEFENSE
WASHINGTON, D.C. 20301-8000

26 JUN 1990

Mr. Frank C. Conahan
Assistant Comptroller General
National Security and International
Affairs Division
U.S. General Accounting Office
Washington, DC 20548

Dear Mr. Conahan:

This is the Department of Defense (DoD) response to the General Accounting Office (GAO) draft report, "CONSULTING SERVICES: Role and Use in Acquiring Three Weapon Systems," dated May 17, 1990 (GAO Code 391102/050 Case 8026-A). The Department concurs with the report findings and recommendations.

The portion of the report describing the use of consultants by systems' contractors, and those instances where the GAO identified consultants working for both the government and defense contractors on those systems, is very helpful as the Department fully implements the Office of Federal Procurement Policy Letter 89-1, "Conflict of Interest Policies Applicable to Consultants," issued December 8, 1989.

The department agrees that the difficulty with interpreting the definition of contracted advisory and assistance services as reported in Office of Management and Budget Circular No. A-120, "Guidelines for the Use of Advisory and Assistance Services," January 4, 1988, and other implementing directives, affects the reporting accuracy of the Services.

Earlier this year, the Department began action to strengthen its management and reporting of contracted advisory and assistance services. With the many different and yet legitimate interpretations of what is a reportable advisory and assistance service, developing a consistent and easy-to-use definition is the key to improved management. When fully implemented, this initiative will respond fully to the GAO recommendations and will:

- o provide assurance of the adequacy of internal management controls for the use of contractor/consultant support;

Appendix I
Comments From the Department of Defense

- o provide for the training of CAAS users, resource managers, and procurement personnel to consistently apply appropriate procedures and policies for its acquisition, management and use; and
- o provide for a data-base capability to report, document and track the use of contracted advisory and assistance services in DoD.

The overall report was a balanced presentation of the facts and related findings and recommendations. The detailed DoD comments are provided in the enclosure. The DoD appreciates the opportunity to comment on the Draft Report.

Sincerely,



David J. Berteau
Principal Deputy

Enclosure:

GAO DRAFT REPORT - DATED MAY 14, 1990
(GAO CODE 391102) OSD CASE 8026-A

"CONSULTING SERVICES: ROLE AND USE IN ACQUIRING
THREE WEAPON SYSTEMS"

DEPARTMENT OF DEFENSE COMMENTS

* * * * *

FINDINGS

- o **FINDING A: Background: Contracted Advisory and Assistance Services.** The GAO reported that the DoD uses the term "contracted advisory and assistance services" (CAAS) and defines CAAS to include consulting services. The GAO explained that the four categories of such services are (1) individual experts and consultants, (2) studies, analyses and evaluations, (3) management support services, and (4) engineering and technical services. The GAO further reported that, by law, the DoD is required to establish an accounting mechanism to track such services and to provide data on proposed expenditures (as part of the defense budget). The GAO noted that the DoD January 1986 contracted advisory and assistance services directive requires the DoD Comptroller to establish procedures for reporting the data. The GAO observed that, in its FY 1990-FY 1991 exhibit, the DoD estimated it spends about \$1.6 billion annually on contracted advisory and assistance services.

The GAO noted that rules governing organizational conflicts of interest are contained in the Federal Acquisition Regulation, which defines that such a conflict exists when, because of the nature of the work performed, a contractor would gain an unfair competitive advantage or might provide biased advice unless appropriate safeguards are included in its contract. The GAO further noted that, in 1989, the Office of Federal Procurement Policy issued a letter providing further guidance on contractor conflicts of interest. The GAO observed that, while neither automatically precludes companies from working for both the Government and the private sector, both stress the need to review the specifics of proposed procurements and make judgements about the potential for conflicts and actions needed to avoid them. (pp. 3-4, pp. 12-15, pp. 52-56, pp. 69-71/GAO Draft Report)

DOD RESPONSE: Concur.

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Now on pp. 2, 8-9, 30-32,
40-41.

- o **FINDING B: Related Audits, Studies and Investigations.** The GAO reported that numerous studies of the use of consulting services by the DoD have been conducted over the past several years. The GAO cited two of its prior reports as highlighting long-standing problems in accurately reporting and managing contracted advisory and management assistant services ("Controls Over DoD's Management Support Service Contracts Need Strengthening," dated March 31, 1981--OSD Case 5592; "SUPPORT SERVICES: Actions to Gain Management Control Over DoD's Contract Support Services," dated November 22, 1985--OSD Case 6838)). In addition, the GAO noted that the Inspector General, DoD, had issued seven reports in response to the legal requirement to conduct annual evaluations. The GAO observed that those reports also identified inaccuracies in the DoD reporting of consulting services, as well as other problems in the DoD implementation of procedures to account for the services. The GAO also noted several DoD initiatives focused on identifying and correcting problems in managing and reporting consulting services. (pp. 16-23/GAO Draft Report)

Now on pp. 10-14.

DOD RESPONSE: Concur.

- o **FINDING C: The DoD Uses a Variety of Consulting Services.** The GAO noted several examples of consulting services from the DoD budget submission, including the following:
- developing briefings and providing support for high level reviews;
 - maintaining logistics planning documents; and
 - providing maintenance support training.

Now on pp. 2, 15-16.

The GAO observed that the cited examples fall within the categories of studies and analyses, management support or engineering services. The GAO found that the DoD also employs consultants as individuals or as members of an advisory board (such as the Defense Science Board) on a variety of technical issues, including those related to weapon systems. The GAO specifically noted that the DoD and the Services obtain consultant services at different organizational levels to support varying aspects of weapon system development. (p. 4, pp. 24-26/GAO Draft Report)

DOD RESPONSE: Concur.

- o **FINDING D: Case Studies: How Consulting Services Were Used on Individual Weapons.** The GAO found that consulting services played an important role in three weapon systems the GAO selected for study--i.e., (1) the Army Fiber Optic Guided Missile, (2) the Navy V-22 tiltrotor aircraft, and

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(3) the Air Force PEACEKEEPER Rail Garrison. Table 2.1 of the report summarizes the contracted advisory and assistance services contracts for the three systems that the GAO found were used by the Army Missile Command, the Naval Air Systems Command, and the Air Force Ballistic Systems Division. The GAO noted it is very likely that the figures do not represent all of the consulting services supporting the three systems because (1) there were applicable consultant services before the system's development, (2) there were different organizations and agencies involved, and (3) documentation on individual consultants was unavailable or too general.

oo Fiber Optic Guided Missile. The GAO reported that, from 1984 to 1989, the Army obligated at least \$9 million for consulting services related to the Fiber Optic Guided Missile system. The GAO specifically identified five contracts and two purchase orders the Army Missile Command used to obtain consulting services for the Fiber Optic Guided Missile. The GAO found the following types of consulting services:

- reviewing program documentation;
- training plans and support;
- conducting analyses of the dual-source acquisition strategy; and
- performing life cycle cost estimates.

In addition, the GAO found that the Fiber Optic Guided Missile program office also obtained consulting-type services under the related Forward Area Air Defense System integration contract.

oo V-22 Osprey. The GAO reported that the Navy relied extensively on contractor services to support the development of the V-22. The GAO found that, from July 1983 to December 1988, the Naval Air Systems Command used 26 such contracts, obligating \$17 million for consulting-type services for the V-22 Osprey system. The GAO also found that the Naval Air Development Center contracted for \$650,296 in consulting-type services from 1987 to 1988, using five additional contracts. The GAO observed that the services obtained for the V-22 ranged from relatively simple management tasks to complex engineering studies and analyses for the aircraft's design and development.

oo PEACEKEEPER Rail Garrison. The GAO reported that the Air Force used consulting services at both the headquarters and activity levels to support the PEACEKEEPER Rail Garrison system. The GAO found

that, in FY 1987 and FY 1988, the Ballistic Systems Division used eight Division-awarded contracts and two contracts awarded by another Air Force activity to obtain contracted advisory and assistance services for the system. The GAO could not calculate how much of the total for the contracts represented consulting-type services because the Division did not separately account for those services. The GAO also reported that the Ballistic Systems Division uses one contractor to provide engineering and technical assistance for various weapons, with other contractors having supported the Rail Garrison system by (1) assisting in developing cost estimates, (2) aiding in base evaluation and base selection, and (3) performing studies and analyses on environmental impact. The GAO reported that, in addition, the Office of the Assistant Secretary of the Air Force for Acquisition sought assistance from contracted advisory and assistance services contractors, and the Office of the Under Secretary of Defense for Research and Engineering employed a consultant to conduct a study on the various missile-basing system options.

The GAO observed that the Naval Air Systems Command depends on logistical support firms, the Air Force Ballistic Systems Division uses an engineering and technical assistance contractor, and the Army Missile Command employs a cost estimating firm. The GAO concluded that the case studies indicate how and the extent to which the DoD relies on consulting services to augment or, in some cases, substitute for internal capabilities. The GAO further concluded that contracted advisory and assistance services played an important role in the development of all three of the systems it studied. (p. 4, p. 6, pp. 26-35, pp. 37-38/GAO Draft Report)

DOD RESPONSE: Concur.

- o **FINDING E: Reducing Reliance On Contractors in Sensitive Procurement Areas.** The GAO reported that, in August 1988, the Navy announced a plan to reduce its reliance on contractor support in the more sensitive aspects of the procurement process, including requirements definition, acquisition planning, preparation of justifications and approvals, requests for proposals, procurement requests, source-selection plans, and the source selection process. The GAO noted that that decision stemmed from two principal Navy concerns, as follows:

- oo to lessen vulnerability to disclosure of sensitive information; and
- oo to ensure that the Navy retained the resources to perform basic Governmental functions.

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Now on pp. 2, 3, 16-22.

The GAO found that the Army and the Air Force also used contractor support in one or more procurement sensitive areas, at least for the weapons that were studied. The GAO found that one contractor assists the Ballistic Systems Division in reviewing responses for requests for proposals. The GAO also found that, for the Army system, a consulting firm reviewed the draft request for proposals. The GAO noted that, according to DoD officials, the Air Force and Army have no plans to reduce their use of consulting services in sensitive areas of the acquisition process. The GAO concluded that the Navy action has merit but, because the GAO work focused on individual weapon systems, the GAO is not in a position to judge whether the Army and Air Force should take similar steps. (p. 24, pp. 36-38/GAO Draft Report)

Now on pp. 15, 21-22.

DOD RESPONSE: Concur.

- o **FINDING F: Defense Contractors Guidelines and Procedures for Employing Consultants.** The GAO reported that it reviewed consulting services used by two full-scale development contractors for each of the three weapons systems studied. The GAO found that all six firms have established policies that define consulting services and prescribe the procedures for obtaining them. The GAO reported that the procedures also cover hiring of consultants. The GAO observed that the contractors included in its study that hired consultants, generally billed their cost to the Government indirectly through overhead accounts. The GAO found that the contractors reviewed prospective consulting agreements to determine the existence of any conflicts of interest. (The GAO noted that the goal is to prohibit consultants from having Government or other business relationships that create conflicts of interest or would violate the companies' ethics rules.) The GAO also found that the contractors included clauses to prevent such conflicts--in the consulting agreements that the GAO reviewed. (pp. 39-42/GAO Draft Report)

Now on pp. 23-24.

DOD RESPONSE: Noted.

- o **FINDING G: Contractors Use of Consulting Services on Specific Weapon Systems.** The GAO reported that three contractors employed a total of 18 consultants to obtain advice on their Government business or marketing efforts. The GAO noted the view of one contractor that these consultants provide insights into Government operations and attitudes, which allow a contractor to identify and address Government concerns. The GAO observed that a large majority of the consultants were former military officers or former Government officials, although it identified only one who had any current requirement to

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Now on pp. 3-4, 25-27, 29.

report his post-Government employment. (The GAO reported it found no evidence that the consultant complied with this requirement but, based on information supplied by the defense contractor, the consultant's work was found by the DoD not to be in violation of the applicable employment restrictions.) The GAO also found that four contractors retained 40 consultants to provide various technical services, which ranged from engineering analyses to reviews of contractor proposals for bids. (p. 4, pp. 6-7, pp. 43-47, p. 50/GAO Draft Report)

DOD RESPONSE: Concur.

- o **FINDING H: Technical Services that Contractors Did Not Characterize as Consulting Services.** The GAO reported that, in addition to consulting services, the contractors also supplemented their in-house capabilities with other technical services. The GAO observed the limited information it obtained from four of the contractors indicates that it is not always easy to distinguish between those technical services and consulting services. The GAO found that, in two instances, the contractors categorized the type of service based on who provided it rather than the nature of the service itself. The GAO also observed that the contractors' differing interpretations of what constitutes consulting services may also result in inconsistent characterization of technical services. The GAO noted that the Federal Acquisition Regulation governing consultants does not specifically define what contractors should classify as consulting services. The GAO also noted that, in conducting its review of consultant costs, the Defense Contract Audit Agency encountered difficulty in isolating consultant services and costs--due to the lack of a universally accepted definition of such services. (pp. 48-51/GAO Draft Report)

Now on pp. 28-29.

DOD RESPONSE: Concur.

- o **FINDING I: Contractors Working for Both Government and Industry.** As a result of reviewing a combined total of 52 contracts for the three weapon system case studies, the GAO found three instances where a firm worked for both the Government and a contractor on matters related to the same system.
 - oo **Army.** The GAO reported that the Army used a consulting firm primarily to maintain baseline and life cycle cost databases and program software. The GAO found that the Fiber Optic Guided Missile integration contractor subcontracted with the same consulting firm to obtain cost estimating and other services. The GAO reported that the consulting firm's contracts with the Government contained

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conflict-of-interest provisions, with which the company did not comply. The GAO observed that the applicable clause was not intended to exclude the kind of future efforts performed by the consulting firm and that both Command and company representatives stressed that no conflict occurred. The GAO review of the contract scopes of work and products did not disclose evidence that a conflict of interest actually occurred as a result of the consulting firm's working for both the Missile Command and the contractor. The GAO also found no evidence of bias, because the consulting firm was not placed in the position of representing competing interests.

- oo Air Force #1. The GAO reported that a March 1988 contract modification by the Ballistic Systems Division for work on the Rail Garrison provided for the consultant to conduct studies and analyses in such areas as tactical doctrine and mission planning. The GAO noted that the consulting services also involved maintaining the system mission model and preparing an information handbook. The GAO found that, in 1989, one of the principal Rail Garrison contractors contracted with the same consultant firm to obtain system test support services. The GAO study did not identify any situations in which the company reviewed its own or any other contractors' work. The GAO observed that the limited engineering tasks performed by the contractor appeared to be unrelated to the consulting firm's Rail Garrison work and the GAO did not find that any conflict of interest existed.
- oo Air Force #2. The GAO further reported that, in June 1988, the Air Force contracted with a consulting firm to obtain analytical support on the deployment of PEACEKEEPER Rail Garrison and a number of other missile systems. The GAO found that one of the principal Rail Garrison contractors used the same consulting firm to assist in the development and dissemination of information on the PEACEKEEPER and small intercontinental ballistic missile programs. The GAO noted Air Force officials claimed that the standard clause in the consultant contract dealing with technical evaluation of other contractors' proposals was not applicable because the company was not performing such evaluations. The GAO also noted that neither the Air Force nor the contractor interpreted the clause as prohibiting work undertaken for the contractor. The GAO further reported that Air force officials had been advised by the consultant of its plans to work for the contractor and had informed the consulting firm that this would

not pose a problem, as its work for the Government did not place it in a conflict-of-interest position. The GAO review did not find evidence that a conflict of interest existed.

In summary, the GAO review did not provide any basis to conclude that the consulting firms acquired an unfair advantage or were unable to provide impartial advice. The GAO also observed that, because its review was limited to three individual case studies, it could not draw general conclusions about the extent to which consulting firms work for both contractors and the Government or the likelihood that conflicts of interest result. The GAO found that, in two of the three cases, the Government was aware of the consultants' planned work for a defense contractor and had the opportunity to limit that activity. The GAO highlighted some key principles and concerns, as follows:

- oo conflicts of interest must be assessed on a case-by-case basis;
- oo contracting officers are empowered to include appropriate conflict-of-interest safeguards in contracts as needed to assure that conflicts of interest are mitigated or avoided; and
- oo the Government needs access to information necessary to make informed judgements about potential or actual conflicts (pp. 4-5, pp. 7-8, p. 52, pp. 56-68/GAO Draft Report)

DOD RESPONSE: Concur.

- o **FINDING J: Inaccurate Identification of Contracted Advisory and Assistance Services Contracts.** The GAO reported that its weapon system case studies indicated that individual commands or activities were not accurately identifying contracted advisory and assistance services contracts--due to differing interpretations on what constitutes contracted advisory and assistance services. The GAO reported that the Army Missile Command and the Air Force Ballistic Systems Division, respectively, identified three, and one contracted advisory and assistance services contracts for the Fiber Optic Guided Missile and the Rail Garrison systems. The GAO, however, identified eight other contracts that the GAO concluded contained at least some portion of contracted advisory and assistance services, based on the GAO interpretation of the DoD definitions. (The GAO listed these in table 5.2 of the report.)

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Now on pp. 3-4, 30, 32-38.

oo Army. The GAO noted that a representative of the Army Missile Command legal office agreed that part of the one Army contract the GAO identified represented contracted advisory and assistance services, but the Army did not identify it as such because it contained non-contracted advisory and assistance services items. The Army guidance, unlike the DoD directive, does not specify the requirement to separately identify and report CAAS resources embedded in non-CAAS contracts.

oo Air Force. The GAO found that the Air Force Ballistic Systems Division did not categorize the seven contracts that the GAO listed as contracted advisory and assistance services principally because the services constituted weapon system-level tasks, such as logistics support. The GAO noted that the Division claimed that such services cannot be considered contracted advisory and assistance services because they do not constitute the policy-oriented support tasks encompassed in the contracted advisory and assistance services definitions. The GAO observed that the DoD directive on contracted advisory and assistance services permits the exclusion of engineering studies related to the specific physical or performance characteristics of weapon systems. The GAO held, however, that the exclusion does not apply to the types of Ballistics Systems Division contract services that the GAO identified. The GAO concluded that the identified services are not directly related to a system's physical or performance characteristics, but rather support the program manager in performing his acquisition management functions. (p. 5, pp. 8-9, p. 69, pp. 73-75, p. 82/GAO Draft Report)

DOD RESPONSE: Concur.

- o FINDING K: Inconsistent Identification of Contracted Advisory and Assistance Services Contracts. The GAO reported that its case studies showed that various commands and activities interpreted the contracted advisory and assistance services definitions differently. For example, the GAO found that the Ballistic Systems Division did not consider logistics support services to be contracted advisory and assistance services, whereas the Naval Air Systems Command did. Similarly, the GAO found that the Naval Air Development Center did not classify services, such as tracking contract progress and funding, as contracted advisory and assistance services, whereas the Naval Air Systems Command did. The GAO noted that Center officials stated the contracted advisory and assistance services definitions are vague and confusing and have changed over time. The GAO concluded that these

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Now on pp. 3-5, 40, 41-43,
47.

Now on pp. 3-5, 40, 43-44,
47.

See comment 1.

Center officials stated the contracted advisory and assistance services definitions are vague and confusing and have changed over time. The GAO concluded that these inconsistencies inevitably result in inaccurate budget submissions. (p. 5, pp. 8-9, p. 69, pp. 73-77, p. 82/GAO Draft Report)

DOD RESPONSE: Concur. However, the Department does not submit inaccurate budget submissions when requesting resources for CAAS. The inaccuracies and inconsistencies referred to are as a result of vague and confusing definitions used to specify individual CAAS efforts in the PB-27 Budget Exhibit.

- o **FINDING L: Inaccurate Accounting and Other Problems in Reporting of Contracted Advisory and Assistance Services.** The GAO reported that the Army Missile Command had procedures to identify prospective contracted advisory and assistance services procurements. The GAO found, however, that the Command did not have adequate controls to ensure that it accurately recorded actual contracted advisory and assistance services obligations or submitted complete budget estimates. The GAO found that the Army had recorded no contracted advisory and assistance services obligations for the Fiber Optic Guided Missile, even though it had identified and authorized three contracted advisory and assistance services contracts used to support the system. The GAO observed that that occurred because the program office did not assign the correct accounting classification codes. The GAO further found that the Command did not submit complete estimates for inclusion in the Army contracted advisory and assistance services budget exhibit. The GAO also found that the Air Force did not report three contracts used by its Office of the Assistant Secretary for Acquisition. The GAO noted that, according to the Air Force, these were not included because the contracting officers did not identify them as contracted advisory and assistance services. In addition, the GAO found other errors in the Budget submission--such as the Air Force omission of funding for individual appointed consultants and the Army inclusion of costs at Federally Funded Research and Development Centers (FFRDCs) (which should not be included). The GAO observed that the DoD submission on contracted advisory and support services has limited the report's usefulness as an indicator of trends because the categories included in the submissions have not remained consistent over time. (p. 9, pp. 77-79/GAO Draft Report)

Now on pp. 44-45.

DOD RESPONSE: Concur. Beginning in Fiscal Year 1991, FFRDC CAAS efforts are reported in the PB-27, Contracted Advisory and Assistance Services Budget Exhibit.

- o **FINDING M: Factors Impeding Accurate Reporting of Consulting Services.** The GAO reported that difficulty in understanding the definitions of the contracted advisory and assistance services categories remains a key impediment to improving DoD reporting. The GAO found wide disparities in individual command interpretations. The GAO discussions with contracting officers and program officials also showed differences in familiarity with the definitions and no common understanding of how to interpret the guidance. The GAO noted that the September 1988 Office of Management and Budget report on the Government's use of contracted advisory and assistance services concluded that the definitions were (1) too broad, (2) overly complex, and (3) subject to varying interpretations. The GAO found that office has been working with the DoD and other agencies since 1988 to revise the definitions, but as of early 1990, no immediate changes were anticipated. The GAO observed that a second factor discouraging accurate reporting may be the perception that reporting CAAS in the PB-27 Budget Exhibit could cause funding for these services to be cut. The GAO also observed that other indicators suggest that, until recently, the DoD had not emphasized contracted advisory and assistance services reporting or exercised adequate oversight. The GAO found, for example, that the Army is using an outdated 1981 directive--which has not been revised to conform to DoD guidance. The GAO also observed that the errors it found indicate that contracted advisory and assistance services directors are not adequately reviewing submissions. The GAO noted that, in response to guidance from the Office of Management and Budget, the DoD identified contracted advisory and assistance services in its 1988 Financial Integrity Act report and is expected to include it in the 1989 report. Finally, the GAO noted that, over the years, the DoD Inspector General has also found problems with DoD management and reporting of consulting services. The GAO concluded (1) that long-standing problems in identifying and reporting contracted advisory and assistance services have not been corrected and (2) that the continuing problems are attributable, in part, to unclear definitions and inadequate guidance. The GAO further concluded that the present reporting system provides neither DoD managers nor the Congress with accurate information on how much the Department is spending for contracted advisory and assistance services. (p. 9, p. 69, pp. 79-82/GAO Draft Report)

Now on pp. 5, 40, 46-47.

DOD RESPONSE: Concur. It is important to note that on at least five different occasions over the last 15 years, the Office of Management and Budget and/or the Office of Federal Procurement

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Policy, with the help of the agencies, have attempted to define, redefine or clarify contract support services and contracted advisory and assistance services categories and definitions. This has resulted in confusion and inconsistent determinations of what are contracted advisory and assistance services and has reflected negatively on the Department in numerous GAO and DoDIG audit findings. The Department believes it is time to take a fresh approach to solving the many documented problems. Therefore, before developing a more consistent and easy-to-use definition of contracted advisory and assistance services, the Department will attempt to identify what service contracts a revised definition is intended to encompass. Implicit in this task is the necessity to determine exactly what it is we want to manage and control. The Department will need and will seek the help of Congress and other Government Agencies to define these management objectives.

* * * * *

RECOMMENDATIONS

- o **RECOMMENDATION 1:** The GAO recommended the Secretary of Defense review and clarify existing guidance on contracted advisory and assistance services to preclude differing interpretations among the Military Services. (p. 83/GAO Draft Report)

DOD RESPONSE: Concur. An action plan for strengthening the DoD management and reporting controls over CAAS will be developed and approved by the Deputy Secretary of Defense by June 30, 1990. Full implementation of the plan will take one year. Detailed plan milestones will be defined by July 31, 1990, by the "CAAS Management Plan Working Group to be led by the Director, DoD Contracted Advisory and Assistance Services. Monitoring and oversight of plan implementation will be done by the Assistant Secretary of Defense, Production and Logistics. Plan implementation will result in clear guidance for the management and use of CAAS and will preclude differing interpretations among the DoD Components.

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Now on pp. 47-48.

Now on pp. 47-48.

- o **RECOMMENDATION 2:** The GAO recommended the Secretary of Defense direct the DoD and component contracted advisory and assistance services directors to strengthen their review procedures to ensure the Services accurately report contracted advisory and assistance services budget data. (p. 83/GAO Draft Report)

DOD RESPONSE: Concur. A major objective of the CAAS Management Plan is to ensure that the DoD Components report accurate and consistent CAAS budget data. This recommendation will be completed upon full implementation of the Plan.

Now on pp. 47-48.

- o **RECOMMENDATION 3:** The GAO recommended the Secretary of Defense direct the Secretaries of the Army, Navy, and Air Force to review and, where necessary, develop or revise component instructions and procedures to ensure that contracted advisory and assistance services are defined accurately and entered into accounting systems. (p. 83/GAO Draft Report)

DOD RESPONSE: Concur. A major objective of the CAAS Management Plan is to provide for a data-base capability to report, document and track the parameters of CAAS in the Department of Defense. Full implementation of the Plan includes the DoD Components developing or revising component instructions and procedures so that CAAS activities are consistently identified, entered and tracked into accounting systems.

The following are GAO's additional comments on DOD's letter dated June 26, 1990.

GAO Comments

1. Where necessary, we have clarified the report to indicate that we are referring to inaccuracies in the CAAS budget exhibit, rather than DOD's budget submission. The exhibit is intended to accurately present DOD's planned and actual expenditures for CAAS.

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Related GAO Products

Use of Consulting Services in Defense Acquisition (GAO/T-NSIAD-89-36, June 7, 1989).

Government Consultants: Agencies' FY 1987 Consulting Services Obligations at Specified Reduction Levels (GAO/GGD-88-104FS, June 24, 1988).

Government Consultants: Agencies' Consulting Services Contract Obligations for Fiscal Year 1987 (GAO/GGD-88-99FS, June 23, 1988).

Federal Government's Use of Consulting Services (GAO/T-GGD-88-39, June 13, 1988).

Support Services: Actions to Gain Management Control Over DOD's Contract Support Services (GAO/NSIAD-86-8, Nov. 22, 1985).

Controls Over DOD's Management Support Service Contracts Need Strengthening (MASAD-81-19, Mar. 31, 1981).

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

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

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