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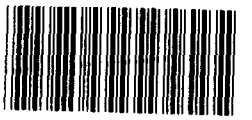

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Use of Consulting Services in Defense Acquisition

Statement of
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Before the
Subcommittee on Investigations
House Armed Services Committee

Mr. Chairman and Members of the Subcommittee:

We are pleased to be here to discuss our review of how consultants are used in the defense acquisition process. As the Committee requested, we focused our work on three areas: how the Department of Defense (DOD) uses consulting services in this process; how defense contractors use such services; and how conflict-of-interest regulations and their proposed changes apply to the use of consultants. We also have some observations on DOD's management and reporting of consulting services.

As our definition of consultants, we used DOD's, and the Office of Management and Budget's, definition of "contracted advisory and assistance services," or CAAS. Basically, CAAS is defined as those services obtained from nongovernmental sources to support or improve (1) agency policy development or decision-making or (2) the management of organizations or the operation of weapon systems. Specific CAAS categories include

-- individual experts and consultants who have specialized knowledge or skills and provide advice on particular issues;

-- studies and analyses that provide formal, in-depth assessments of complex issues;

-- management support services in such areas as acquisition management, project monitoring, and data collection; and

-- technical and engineering services generally performed at contractor plants or test sites to help ensure that the product works.

To identify consulting services used by DOD and defense contractors, we selected one weapon system from the Army, Navy, and Air Force as case studies:

-- the Fiber Optic Guided Missile (FOG-M), one of several components of the Army's forward area air defense system, costing an estimated $3.2 billion and managed by the Army Missile Command;

-- the Navy's V-22 Osprey, a $26 billion tiltrotor aircraft program managed by the Naval Air Systems Command (NAVAIR); and

-- the Peacekeeper Rail Garrison, a $6.8 billion system to deploy the missiles on rail cars, managed by the Ballistic Systems Division of the Air Force Systems Command.

We selected systems in full-scale development because, among other things, they were far enough along to enable us to identify a full range of consulting services, yet not so old that documentation would be difficult to obtain. However, a case study approach does not allow us to draw overall conclusions about the types of consulting services used or the extent of their use. Nonetheless,

we believe the case studies offer important insights into how both DOD and defense contractors use consultants.

DOD'S USE OF CONSULTING SERVICES

Consulting services played an important role in the development of the weapon systems we studied. These services, generally in the areas of management support or specific analyses, were used, for example, to develop system specifications, track system schedules, and review responses to requests for proposals.

FOG-M Program

For the FOG-M program, we judgmentally sampled 37 out of 94 contracts and identified 5 for consulting services. The five contracts, with FOG-M obligations of about $51.4 million, included consulting services in such areas as:

-- preparing data and briefing materials to support Army presentations to the Defense Acquisition Board;

-- analyzing logistics support programs for the various forward area air defense component programs, including the FOG-M;

-- participating in financial and budget meetings to track program costs and funding; and

-- assisting in developing acquisition strategies, and reviewing and assessing draft requests for proposals.

V-22 Program

For the V-22 program, we identified 31 contracts obligating about $18 million for consulting services for the aircraft from the period December 1982 through December 1988. Generally, these contracts were "omnibus" or purchase-order type contracts established by NAVAIR components to support various weapon systems programs, including the V-22.

NAVAIR relied on consultant contractors for a range of activities from relatively simple program management tasks to complex engineering studies and analyses for the design and development of the aircraft. In the majority of cases, the Navy categorized these contracts as "management support services." Consultant contractors have played a significant role in defining aircraft requirements, logistics support specifications and system support equipment needs. For example, consultants

-- assisted in developing a joint integrated logistics support plan that addressed elements of logistics support for the system;

-- assisted in formulating structural design requirements for use in preparing contract specifications;

-- prepared logistics support specifications for review by NAVAIR and for subsequent inclusion in the full scale development contract request for proposals; and

-- provided management and administrative support services by monitoring schedule progress, preparing briefing materials, and tracking contractor reports.

In addition to the NAVAIR contracts, other organizations sponsored separate studies and analyses. For example, the Defense Science Board assessed the technological and service requirements for various short take off and landing aircraft, including tiltrotor.

Peacekeeper Program

For the Peacekeeper Rail Garrison program, we identified 15 contracts awarded by the Ballistic Systems Division that provided about $99 million in support services for the system during fiscal years 1987 and 1988. These services generally were for (1) technical support to the Division's planning efforts, or in its reviews and evaluations of other contractors' efforts; (2) studies and analyses of issues to support management decisions; and (3)

developing or improving systems designed to provide management information. For example, these support contractors

-- assisted the program office in determining system and component specifications, participated in developing statements of work for contract requests for proposal, and subsequently made technical reviews of the responding contractor proposals;

-- provided cost estimating support for the Division's independent program cost estimates; and

-- reviewed contractor logistic support plans to assess their accuracy and completeness.

Air Force headquarters also contracted for management support services to prepare budget analyses of the impacts of reduced funding on system operational dates; to review and develop threat assessments; to prepare graphs, point papers and briefings; and to prepare backup books for Air Force witnesses for congressional hearings.

Our review showed that for each system DOD used consultants to obtain a wide range of services. However, I should point out that despite our best efforts, we cannot be sure that we identified the entire universe of consulting services DOD used for these systems. There are a variety of reasons for this. For example, the

decentralized nature of contracting for consulting services made it difficult to identify all contracts. This was true in the case of the V-22, where contracts awarded by Navy research labs were not identifiable at the Navy headquarters level. Also, documentation available on special government employees was sometimes too general to positively determine whether they worked on the systems we studied, but thus far we have not identified any such consultants specifically working on these systems.

REDUCING RELIANCE ON CONTRACTORS IN SENSITIVE ACQUISITION AREAS

The Navy recently developed plans to reduce the use of contractor support in what it regards as the more critical, or sensitive, aspects of the procurement process, including acquisition planning, requests for proposals and procurement requests, and the source selection process. Information we obtained from three of the Navy systems commands--NAVAIR, the Naval Sea Systems Command, and the Space and Naval Warfare Systems Command--indicates that they plan to convert about 2,000 staff-years of contractor support to in-house capability over the next five years.

We believe the Navy's proposed reduction in contractor support is a positive step because it lessens the risk of transferring inherently governmental functions to the private sector and the risk involved in contractor access to sensitive procurement

information. However, the commands will need to implement the appropriate controls to ensure that, as internal resources increase, this reduction does in fact occur.

Our case study work shows that the Air Force and Army also used consulting services or contractor support in one or more areas that the Navy has characterized as procurement sensitive. For example, on both the FOG-M and Rail Garrison systems, contractors either helped to develop requests for proposals or made technical reviews of contractor proposals. Consequently, we believe it may be useful for the Army and the Air Force to follow the Navy's lead and identify the extent to which they use such services in procurement sensitive areas and determine whether measures should be taken to curtail that use.

CONTRACTOR USE OF CONSULTING SERVICES

To understand how defense contractors use consulting services, we obtained information from full-scale development contractors for the systems we selected. The contractors for the Navy's V-22 are Boeing Helicopters and Bell Helicopter Textron; for the Air Force's Peacekeeper Rail Garrison, Boeing Aerospace and Rockwell International; and for the Army's FOG-M, Hughes Aircraft and Boeing Military Airplanes.

Information provided by these firms showed that their use of consulting services can be generally grouped into two categories. The first category includes individuals or firms that are retained to assist management in developing marketing and policy strategy by, for example, communicating with government or congressional representatives. The second category is generally comprised of individuals or companies having engineering or other expertise that provide assistance in such areas as reviewing system requirements, aiding in resolving technical problems, or reviewing and modifying system bids or proposals.

With respect to the first category, 3 of the 6 contractors reported they retained 18 consultants to assist in developing marketing and policy strategies. For example, a former military officer provided insights that aided the contractor in preparing a successful response to the full scale development contract request for proposals. In another case, a former military officer provided information on the military's likely support for the system and helped the contractor develop methods to increase support and awareness of the system among potential military users.

In the second category, 4 of the 6 contractors identified a total of 40 companies or individuals they considered to be consultants who were retained to provide various technical services. For example, one former employee of a contractor was retained as a consultant because of his expertise in a particular technical

field. Another consultant was hired by a contractor to, among other things, identify technologies and generate requirements for weapon system design and assist in writing and reviewing proposals.

It should be noted, however, that in reviewing additional information provided by the contractors, we found that similar services were identified as consultant services by some contractors but not by others. 4 of the 6 contractors provided information on an additional 41 firms they hired for technical services that they did not characterize as consulting services. For example, one contractor informed us that it did not use any consultants on our case study system, but provided us information on 25 firms it contracted with for technical services. Our review of the statements of work for these technical services indicates that the work performed in a number of instances was similar to work performed by firms characterized by other contractors as consultants.

One area of specific concern was the identification of consultants or firms working for both DOD and contractors. Thus far, we have identified two instances where a full-scale development contractor employed a firm also under contract to DOD for the same system. We also found a case where a consulting services firm was under contract to DOD for cost estimating and other services, while also subcontracting with the system integration contractor. We are

still reviewing these contracts, and at this time do not have sufficient information to draw conclusions about these situations.

CONFLICT-OF-INTEREST REGULATIONS APPLICABLE TO USE OF CONSULTING SERVICES

Contracts for consulting or other management and technical support services, such as those we reviewed for our case studies, offer at least the potential for conflicts of interest. That potential is recognized in the Federal Acquisition Regulation (FAR), which provides guidance on dealing with organizational conflicts of interest. The FAR states that such conflicts exist when a contractor could obtain an unfair competitive advantage or the contractor's objectivity in performing the work could be impaired. The FAR requires DOD to identify and mitigate such conflicts.

DOD did use conflict-of-interest clauses in some of the consulting services contracts covered by our case studies. For the V-22, we randomly checked 1987 and 1988 contracts and found conflict-of-interest clauses used in all. These clauses required the contractor to certify that no conflicts existed. Conflict-of-interest clauses were included in 3 of 15 Peacekeeper Rail Garrison contracts we reviewed. These clauses, among other things, prohibit the contractors from becoming prime contractors for the Peacekeeper or becoming a consultant to any contractor for the system. The other contracts, in the judgment of Ballistic Systems Division

contracting officials, did not require conflict-of-interest clauses because they did not pose situations where conflicts of interest were likely to occur. Conflict-of-interest clauses were included in four of the five FOG-M consulting services contracts we reviewed. These clauses required the contractors to disclose all facts that could impair their ability to provide objective advice and recommendations. We were unable to determine the Army Missile Command's rationale for not using a conflict-of-interest clause in the fifth contract.

Recently enacted legislation will directly affect the area of organizational conflicts of interest. Section 8141 of the DOD Appropriations Act of 1989 requires the Office of Federal Procurement Policy to issue a policy establishing (1) conflict-of-interest standards governing consulting services provided to the government as well as those related to the preparation or submissions of bids and proposals for federal contracts and (2) procedures to promote compliance with these standards, including, if appropriate, registration and certification. The office has not yet issued its policy, but expects to do so shortly.

Section 6 of the Office of Federal Procurement Policy Act Amendments of 1988, entitled "Procurement Integrity," will also affect how DOD and contractors use consultants. Both the law and the interim regulations cite specific prohibited conduct on the part of government procurement officials. The interim regulations

implementing this act define government procurement officials to include officials or employees who have participated "personally and substantially" in activities such as development of acquisition plans, specifications and statements of work, and evaluation or selection of a contractor. A procurement official could include a contractor, subcontractor, consultant, expert, or adviser involved in an agency's procurement. The regulations were to have become effective on May 16, 1989, but congressional action has delayed implementation for another 60 days to allow industry and government more time to study the regulations.

Contractors are also concerned with the potential for conflicts of interest on the part of consultants they hire. The six contractors involved in our case studies have varying procedures to prevent consultants from having government or other business relationships that could create conflicts of interest. For example, one contractor, as a result of Operation Ill Wind, tightened its procedures by adding a clause to all of its consulting service contracts that requires consultants to certify that no conflicts exist.

MANAGEMENT AND REPORTING OF CONSULTING SERVICES

We did not conduct a comprehensive review of how DOD or the services report or manage consulting services. However, our case

study work, coupled with an assessment of existing service procedures and reports, indicates that both areas have problems.

DOD is required by law to report, as part of its budget submission to the Congress, the amount it proposes to spend on contracted advisory and assistance services. Attachment I shows that, in the fiscal years 1990 and 1991 submission, DOD budgeted $1.6 billion for these services in each of fiscal years 1988, 1989, 1990, and 1991.

We believe these figures do not provide an accurate picture of DOD's use of contracted advisory and assistance services, nor do they accurately indicate trends in the use of these services. This is due to a variety of factors, including changes in the data categories over time. For example:

-- In the revised fiscal years 1988 and 1989 budget request, information technology was included as a specific, identifiable subset of CAAS. However, in response to a DOD Inspector General's recommendation, in the fiscal years 1990 and 1991 budget exhibit, DOD merged information technology into the four basic CAAS categories, but only that portion that would meet the definitional tests of those categories. Consequently, it is unclear to what extent changes in these categories from one budget to the next are a result of the inclusion of information technology funding or are due to other factors.

-- Starting with the fiscal years 1990 and 1991 budget request, DOD decided to exclude its reporting of funds for federally funded research and development centers, which had previously been reported as a separate, non-CAAS category. However, the Army still included funding for these centers within the studies and analyses category of CAAS.

-- In the revised fiscal years 1988 and 1989 budget submission, the Air Force reported no budgeted or actual funding for the services of individual appointed consultants, although it used such services. The Air Force corrected this omission in the fiscal years 1990 and 1991 submission.

These examples illustrate that problems exist with the reported CAAS data. However, an even greater problem is the inconsistent interpretations among the Army, Navy and Air Force as to what constitutes CAAS. This is partly due to a lack of understanding of the CAAS definitions and the difficulty in interpreting those definitions.

Our case studies illustrate these problems very well. For example, only one of the five contracts we described for the FOG-M system was reported as CAAS. For the V-22 program, similar services were categorized by one Navy component as CAAS but not by another. The Air Force's Ballistic Systems Division excluded from

CAAS its contract with a firm to obtain logistics support; NAVAIR, on the other hand, reported, as CAAS, services similar to those provided under the Air Force contract. The Ballistic Systems Division considered only one of the 15 contracts we reviewed to be CAAS, based on its interpretation of the CAAS definitions. We agree that the Division's interpretation could result in the exclusion of some--but not all--of these contracts. However, we have chosen to include all 15 services contracts to illustrate both the types of services obtained and the differences in interpretation among the services as to what constitutes CAAS.

In addition to these data and definitional problems, we observed other problems that fell into the more general area of CAAS management and oversight. For example, the Army dedicated certain codes from its accounting system to capture CAAS data. Our test of the Army Missile Command's accounting system, however, showed that these codes are not being assigned for the FOG-M weapon system. Also, the Army had not updated its implementing regulations on consulting services since October 1981 to reflect current DOD policy. As a result, the Army regulation is not consistent with the DOD regulation in some areas.

The Air Force Ballistic Systems Division did not have procedures to ensure that contracted advisory and assistance services were properly identified. Contracting officers and project officers were generally unfamiliar with the CAAS definitions and

regulations, and used the applicable parts of the FAR as a guide. The lack of consistency between the FAR and CAAS definitions, and the corresponding unfamiliarity with the CAAS regulations, was one reason why the Ballistic Systems Division did not fully identify and report its use of CAAS.

Problems with managing and reporting CAAS are not new. The DOD Inspector General's Office and we have reported on these problems. Similarly, the Office of Management and Budget's recent report on the federal government's use of CAAS cited concerns with the overly broad nature of the CAAS definition and the fact that it is subject to varying interpretations.

We believe the Congress will continue to have little assurance that the data it receives give an accurate picture of DOD's use of CAAS until specific steps are taken. First, it is important to determine which kinds of consulting services need to be reported and managed. The Office of Management and Budget is currently considering changes to the CAAS definitions. In our view, developing clear and specific definitions is essential to correcting the existing problems.

Second, DOD needs to ensure that the military services consistently and uniformly understand and implement these definitions and the necessary management controls. Without such actions, consulting

services will likely continue to be inconsistently identified and reported.

In summary, our review of DOD's use of consulting services in weapon system acquisition indicates that the military services do rely in several critical areas on a variety of consultant services. However, the Navy has efforts underway to reduce its reliance. Contractors also used a variety of consultant services, generally in the areas of marketing and technical expertise. With respect to to the reporting and management of consulting services, we are concerned that long-standing and persistent problems with the identification and reporting of such services still exist.

That concludes my prepared remarks, and I would be pleased to respond to your questions.

ATTACHMENT ATTACHMENT

DOD CONTRACTED ADVISORY AND ASSISTANCE SERVICES AND OTHER CONTRACT SUPPORT SERVICES[a]

(Fiscal Years 1987 Through 1991)

	Fiscal Year						
	1988-89 Budget Submission			1990-91 Budget Submission			
	1987	1988	1989	1988	1989	1990	1991
	(millions)						
Individual experts and consultants	$ 11.5	$ 11.4	$ 11.0	$ 10.8	$ 10.5	$ 10.3	$ 10.4
Studies, analyses and evaluations	231.7	254.2	286.9	242.6	264.3	303.1	318.3
Management support services	860.5	970.2	925.7	979.1	988.2	994.7	955.1
Engineering services[b]	1,429.7	1,323.6	1,293.1	373.1	353.3	331.8	320.5
Federally funded research and development centers	713.6	725.0	760.1	c	c	c	c
Information technology	593.9	583.8	588.3	d	d	d	d
TOTAL	$3,840.9	$3,868.2	$3,865.1	$1,605.6	$1,616.3	$1,639.9	$1,604.3

[a]The fiscal years 1988 and 1989 budget submission also included other contract support services which are not defined as CAAS but were presented with CAAS estimates because of related interest.

[b]In the fiscal years 1990 and 1991 budget submission, systems engineering was deleted from this category.

[c]Starting with the fiscal years 1990 and 1991 budget submission, DOD excluded reporting of funds for federally funded research and development centers.

[d]Starting with the fiscal years 1990 and 1991 budget submission, DOD merged information technology into the four basic CAAS categories.