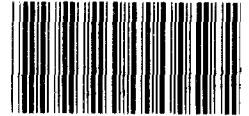


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UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

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STATEMENT OF
CLIFFORD I. GOULD
DIRECTOR
FEDERAL PERSONNEL AND COMPENSATION DIVISION
BEFORE THE
SUBCOMMITTEE ON DEFENSE
HOUSE APPROPRIATIONS COMMITTEE
ON
THE [GOVERNMENT'S USE OF CONSULTING
SERVICE AND MANAGEMENT SUPPORT CONTRACTS]



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Mr. Chairman and Members of the Subcommittee:

We are pleased to be here today to discuss the Government's use of consulting services and management support contracts. The General Accounting Office's (GAO's) concern about the Government's use of consulting services is evidenced by over 30 audit reports we have issued on this subject during the last 20 years. These reports identified the need for practically every major Federal agency to better manage consulting services. Although we continue to believe that the appropriate use of consulting services is a legitimate and economical way to improve Government operations, we see little evidence that agencies are acting administratively to correct abuses. Two recent GAO reports show that serious problems continue to exist in the

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Government's use of consultants, particularly in the Department of Defense (DOD). Although some improvements have been made, we believe congressional action is necessary to correct long-standing problems and strengthen the controls over the use of consultants.

CONTROLS OVER DOD'S MANAGEMENT SUPPORT
SERVICE CONTRACTS NEED STRENGTHENING

On March 31, 1981, we issued a report showing serious and pervasive problems existing in DOD's use of consulting services and other management support service contracts. 1/

The report was based on a review of 256 randomly selected contract awards valued at about \$175.4 million. The sample was drawn from contracts for

- consulting services;
- management and professional services and special studies and analyses; and
- management support services for research, development, test, and evaluation.

In fiscal year 1979, DOD spent about \$2.6 billion for these types of contracts. The contracts range from relatively simple studies to aid in management decisions to contracts involving complex engineering support for major weapon systems.

Our review disclosed many problems including:

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

1/"Controls Over DOD's Management Support Service Contracts Need Strengthening" (MASAD-81-19).

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

We recommended that the Congress, as an interim measure, consider legislation which would minimize the funding of sole-source contracts for management support services and the funding of such contracts resulting from unsolicited proposals. One way to accomplish this might be to establish quotas for a period of 2 to 4 years.

Although we recognize that reductions in the amount of funds for consulting services will not assure that agencies manage these services properly, such reductions would draw DOD managers' attention to the immediate need to correct abuses that have existed for many years. Of course, such reductions should not be so drastic that they restrict agencies' proper use of consulting services.

The report also recommended that the Director, OMB:

--Extend the management controls outlined in OMB Circular A-120 for consulting services to other categories of management support services.

--Assure that agencies identify all requested funds to be used for management support services and provide this information to the Congress. This would give the Congress a basis on which to review agencies' use of such services as well as a means of controlling available funds.

The report also recommended that the Secretary of Defense take the following actions:

--Require DOD activities to establish an independent review board to assure the highest level review of proposed contract awards and modifications over \$100,000 for management support services. This independent assessment is particularly critical for those contracts to be performed by former DOD employees.

--Identify functions being performed by contractors which are governmental in nature, determine personnel needs, and develop ways to meet those needs.

--Identify management support services which are not governmental in nature and which are required on a continuing basis. For each service, an assessment should be made of current in-house capability, the possibility of acquiring such capability, and the relative costs involved in performing the work in-house or by contract.

DOD, in comments provided to GAO after the report was signed, stated it agreed with the thrust of our report but disagreed

with several of the findings and recommendations. In essence, DOD believes actions already underway will correct the problems. We disagree. We believe the problems are bigger and more pervasive than DOD is willing to admit, and the actions recommended in our report are necessary to correct them.

CIVIL SERVANTS AND CONTRACT EMPLOYEES:
WHO SHOULD DO WHAT FOR THE FEDERAL
GOVERNMENT?

On June 19, 1981, we issued an overview report on the use of consulting service contract personnel to do work that Federal employees should do. ^{1/} This report discussed several previous GAO audits that found many agencies using contractors to do work involving basic management decisions. Although contractors may not be making final decisions, we are concerned about the extent to which contractors are influencing agencies' control of Federal programs and policies.

For example, DOD contractors are playing a significant role in identifying defense needs and, in effect, are articulating and performing DOD management functions. The result is that DOD is weakening its ability to perform in-house work essential to its mission. Several of the DOD contracts, in our opinion, preempted DOD's prerogatives in directing national defense and in managing and directing the Armed Services. We found DOD was using contractors to:

^{1/}"Civil Servants and Contract Employees: Who Should Do What For The Federal Government" (FPCD-81-43).

- Develop plans and organizational responsibilities in the event of mobilization.
- Review the performance of other contractors.
- Prepare basic contracting documents, evaluate other contractors' proposals, and help negotiate the final contract.

We believe these functions are the responsibility of the Secretary of Defense and should be delegated only to other Federal officials. DOD program officials in each of the services told us that the expertise to perform these Government functions simply was not available, and many officials cited personnel ceilings as one of the reasons.

Although OMB Circular A-76 states that Federal employees must perform Government functions, it recognizes that agencies can obtain contractors' advice on these functions. However, it is difficult to tell where advice stops and performance begins. Circular A-76 defines a Government function as "a function which must be performed in-house due to a special relationship in executing governmental responsibilities" and that "certain functions are inherently governmental in nature, being so intimately related to the public interest as to mandate performance by Federal employees." Direction of the national defense is specifically mentioned as a Government function as is direction and management of the Armed Services.

Agency officials often contend that contractors do not perform Government functions--they only advise on such functions

since a Federal official approves any resultant policy directive or report before it is issued. In our opinion, extensive contractor involvement in basic management functions (as we found at DOD) can limit an agency's ability to develop options other than those proposed by the contractor.

Accordingly, we recommended that the Director, OMB, issue guidelines to better define the differences between contractors' advice on Government functions and performance of such functions. OMB has agreed to do this.

The report also points out an interesting dichotomy. At the same time that Federal agencies are using contractor personnel for work that should be done in-house, they are using Government employees to provide commercial services that contractors could provide in many cases at a lower cost.

It has been the stated policy of the executive branch since 1955 to rely on contractors for commercial goods and services. However, agency compliance with this policy, currently contained in OMB Circular A-76, has been inconsistent and relatively ineffective. OMB information shows that as many as 400,000 Federal employees are currently operating more than 11,000 commercial or industrial activities at a cost of almost \$19 billion annually. These employees represent almost one-fourth of the total executive branch civilian work force. Janitorial and keypunching services are examples of these types of activities. OMB estimates savings of \$3.6 billion could be achieved during fiscal years 1982 through 1987, if all agencies fully implement A-76.

Circular A-76 requires agencies to inventory their commercial and industrial activities and establish schedules for comparing costs to determine the most economical source of performance--contract or in-house. About 60 percent of the cost comparisons conducted by DOD show that it is more economical to convert the in-house activity to a contract.

If additional cost comparisons show that a large percentage of the commercial and industrial activities could be provided more economically by contract, DOD could reallocate many of these existing in-house commercial positions to work that must be performed by Federal employees--Government functions--without increasing personnel ceilings.

A 1978 GAO study of A-76's basic policy of reliance on the private sector found agencies' compliance inconsistent and relatively ineffective. Different Administrations' support for the policy has vacillated and agencies have been reluctant to invest the resources necessary to fully implement the policy. To assure that agencies implement A-76 consistently, GAO recommended in 1978 that the Congress legislate a national policy of reliance on the private sector.

Since that report was issued, agencies progress to implement A-76 has been slow. On April 8, 1981, the Deputy Director, OMB, in a directive to executive branch agencies, concluded that overall implementation of A-76, with few exceptions, has been in a vacuum.

OMB also stated that the new Administration strongly supports the general policy of reliance on competitive private

enterprise to supply the products and services needed by the Government. OMB told 4 agencies to schedule over 95,000 positions for cost comparison studies by 1982 with more scheduled through 1985. The OMB directive cited DOD as a consistent leader in implementing A-76.

In view of the little progress agencies have made since 1978 to effectively carry out this policy, we believe that the Congress should act on our earlier recommendation. Such legislation would preclude unilateral shifts in the policy by different Administrations by establishing a stable national policy that could not be changed without congressional approval. Effective implementation should free up many existing commercial type positions that can then be reallocated to Government functions and thus lessen contractors' involvement in basic management functions. The Deputy Director, OMB, stated that OMB would not oppose legislation on A-76 if the legislation clearly states that the Government's general policy is to rely on competitive private enterprise for needed goods and services.

On June 22, 1981, Senator Hayakawa and Congressman Dreier introduced a joint resolution that would establish a national policy of reliance on the private sector for commercial goods and services. We believe this resolution has merit and should be favorably considered by the Congress.

We also recommended that the Congress enact legislation requiring Federal agencies to fully disclose the use of consulting services in preparing congressionally-mandated agency reports.

Normally, GAO does not support legislative remedies for problems that should be resolved administratively. However, since executive branch agencies, with few exceptions, have not acted administratively, we believe congressional action is necessary in the areas we have discussed.

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Mr. Chairman, thank you for the opportunity to give GAO's views on a very persistent problem--assuring agencies use consulting services properly as a legitimate and economical way to improve Government operations. I would be happy to answer any questions.