

Audit



Report

OFFICE OF THE INSPECTOR GENERAL

CONSULTING SERVICES

Report Number 92-010

October 30, 1991

Department of Defense

The following acronyms are used in this report.

ADP.....Automated Data Processing
AP&PI.....Acquisition Policy and Program Integration
CAAS.....Contracted Advisory and Assistance Services
DFARS.....Defense Federal Acquisition Regulation Supplement
DISA.....Defense Information Systems Agency
DLA.....Defense Logistics Agency
DLAR.....Defense Logistic Agency Regulation
DMSA.....Defense Medical Support Activity
DNA.....Defense Nuclear Agency
DTIC.....Defense Technical Information Center
FAR.....Federal Acquisition Regulation
FIRMR.....Federal Information Resources Management Regulation
FFRDC.....Federally Funded Research and Development Center
FMFIA.....Federal Managers' Financial Integrity Act
GAO.....General Accounting Office
IAC.....Information Analysis Center
OMB.....Office of Management and Budget
SAIC.....Science Applications International, Inc.



INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202-2884

October 30, 1991

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE FOR ACQUISITION
ASSISTANT SECRETARY OF DEFENSE (HEALTH AFFAIRS)
DIRECTOR, ADMINISTRATION AND MANAGEMENT
DIRECTOR, DEFENSE INFORMATION SYSTEMS AGENCY
DIRECTOR, DEFENSE LOGISTICS AGENCY
DIRECTOR, DEFENSE NUCLEAR AGENCY
DIRECTOR, JOINT STAFF

SUBJECT: Audit Report on Consulting Service
(Report No. 92-010)

This final report is provided for your information and use. This audit was performed to comply with United States Code, title 31, section 1114(b), which requires the Inspector General, DoD, to provide an annual evaluation to the Congress of DoD progress in establishing effective management controls and improving the accuracy and completeness of the information concerning contracted advisory and assistance service (CAAS) contracts. Management comments were considered in preparing this report.

Comments on a draft of this report conformed to the requirements of DoD Directive 7650.3 and there are no unresolved issues. Therefore, no additional comments are required.

The courtesies extended to the audit staff are appreciated. If you have any questions on this audit, please contact Mr. Garold E. Stephenson, Program Director at (703) 614-6275 (DSN 224-6275) or Ms. Kimberley A. Caprio, Project Manager, at (703) 614-3463 (DSN 224-3463). The planned distribution of this report is listed in Appendix H.

A handwritten signature in black ink that reads "Robert J. Lieberman".

Robert J. Lieberman
Assistant Inspector General
for Auditing

Enclosure

cc:

Director, CAAS,

Office of the Under Secretary of Defense for Acquisition

Office of the Inspector General, DoD

AUDIT REPORT NO. 92-010
Project NO. 1CH-0007

October 30, 1991

FINAL AUDIT REPORT ON CONSULTING SERVICES

EXECUTIVE SUMMARY

Introduction. The Department of Defense acquires contracted advisory and assistance services (CAAS) to support or improve agency policy development; decisionmaking; management of organizations; or operation of weapons systems, equipment, and components. CAAS includes expert consultants, studies and analyses, management support services, and engineering and technical services. U.S.C., title 31, section 1114(b) requires that the Office of the Inspector General submit to Congress, as part of the agency annual budget justification, an evaluation of agency progress in establishing effective management controls and improving the accuracy and completeness of information provided on consulting services. Because of congressional concerns over excessive Government-wide spending for CAAS, Congress imposed limits on agency spending authorities for CAAS. In FY 1990, DoD was authorized a spending ceiling of \$1.5 billion; actual reported expenditures for FY 1990 were \$1.22 billion and \$1.37 billion for FY 1989 (excluding Federally Funded Research and Development Centers). Previous DoD IG audit reports indicated that underreporting of CAAS expenditures may be much greater. DoD IG Report No. 91-041, "Contracted Advisory and Assistance Services," February 1, 1991, estimated underreporting of \$4.0 to \$9.0 billion for FY 1987.

Audit Objective. The objective of the audit was to evaluate the progress DoD had made in establishing effective management controls and improving the accuracy and completeness of the information reported on CAAS.

Audit Results. The audit determined the Defense Information Systems Agency (DISA) (formerly the Defense Communications Agency), Defense Logistics Agency (DLA), Defense Nuclear Agency (DNA), Defense Medical Support Activity (DMSA), and Joint Staff underreported CAAS expenditures by \$20.4 million for FY 1989 and by \$19.2 million for FY 1990. In addition, DLA issued 13 contract actions totaling \$2.2 million in FY 1989, and 17 contract actions totaling \$3.0 million in FY 1990, to Information Analysis Centers for CAAS, which were funded by Military Departments and other DoD Components. The underreporting was due to unclear, conflicting, and inadequate guidance, and improper interpretation and application of the CAAS definition. The improper interpretation and application of the definition occurred because of a perception that, due to congressional concerns of Government-wide CAAS overspending, the

Congress might reduce the DoD CAAS budget. As a result, data reported to DoD and to the Congress for FYs 1989 and 1990 were not reliable for oversight and policy-making purposes.

Internal Controls. The audit determined that underreporting of CAAS expenditures by the five DoD Components was due to unclear, conflicting and inadequate guidance and was not a result of weak internal controls. The audit determined that weak internal controls precluded the Defense Logistics Agency (DLA) from supporting or accurately reporting projected CAAS dollars for FY 1990, but the internal control weakness was not considered material since it impacts the reporting of projected expenditures and not actual monetary outlays. Refer to Part I, page 2 for the internal controls assessed.

Potential Benefits of Audit. We did not identify any potential monetary benefits during the audit. However, implementation of the recommendations will improve internal controls for identifying and reporting CAAS. Refer to Appendix F for details.

Summary of Recommendations. We recommended that the revised CAAS definition include clarification of the applicability of CAAS requirements to automatic data processing services, services provided by the Information Analysis Centers, and task order contracts; that a revision be made to the OSD Administrative Instruction No. 54; that DLA improve internal controls over figures reported in the PB-27 Budget Exhibit, and that each DoD Component require training on the identification and reporting of CAAS.

Management Comments. The Director, Acquisition Policy and Program Integration concurred with our recommendations that ADP, Information Analysis Centers, and task orders be specifically addressed in CAAS policy, and that engineering and technical services be included as a category in Defense Administrative Instruction No. 54. The Assistant Secretary of Defense (Health Affairs); the Director, Defense Information Systems Agency; the Deputy Comptroller, DLA; and the Director, Joint Staff supported the need for training, but generally believed DoD-wide training should be established by the DoD Director for CAAS. The Deputy Comptroller, Defense Logistics Agency nonconcurred with the need to establish internal controls to verify figures in the PB-27 Budget Exhibit, but stated that published revisions to DLA Regulation 5010.3 will preclude repetition of the one-time oversight. We consider all comments to be responsive, and no additional comments are necessary.

The full discussion of the responsiveness of management comments is included in Part II of the report, and the complete text of management comments is included in Part IV of the report.

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This report was prepared by the Contract Management Directorate, Office of the Assistant Inspector General for Auditing, DoD. Copies of the report can be obtained from the Information Officer, Audit Planning and Technical Support Directorate, (703) 693-0340 (DSN) 223-0340.

PART I - INTRODUCTION

Background

The Department of Defense uses contracted advisory and assistance services (CAAS) for a wide variety of efforts each year. Such services may take the form of:

- o individual experts and consultants;
- o studies, analyses, and evaluations;
- o management and professional support services; or
- o engineering and technical services.

United States Code, title 31, section 1114(b) requires that the Inspector General, DoD, submit to the Congress along with the agency's annual budget justification, an evaluation of its progress in establishing effective management controls and improving the accuracy and completeness of the information on CAAS contracts.

CAAS is perceived as an area vulnerable to abuse. This concern has resulted in increased management controls and requirements throughout the Federal Government to document and report costs for CAAS through budget justifications and Federal Procurement Data System reporting. In the FY 1990 Defense Appropriations Act, the Congress included a legislative ceiling of \$1.5 billion for CAAS expenditures, excluding Federally Funded Research and Development Centers (FFRDCs). DoD, in turn, identified individual CAAS spending authorities for each DoD Component. In October 1989, the Office of Management and Budget (OMB) identified CAAS as one of five high-risk areas within DoD. Also, in March 1991, the Deputy Director of OMB informed the Secretary of Defense that by September 1991, DoD should take necessary steps to ensure that managers have adequate guidance for making CAAS decisions.

Objective

The objective of the audit was to evaluate the progress that DoD had made in establishing effective management controls and improving the accuracy and completeness of the information reported on CAAS. This audit was performed as required by United States Code, title 31, section 1114(b).

Scope

This program audit evaluated the processes and internal controls for budgeting, approving, and reporting CAAS at five DoD Components. These DoD Components included the Defense Information Systems Agency (DISA) (formerly the Defense Communications Agency), Defense Logistics Agency (DLA), Defense Nuclear Agency (DNA), Defense Medical Support Activity

(DMSA), and the Joint Staff. We evaluated each DoD Component implementing regulations for adequacy of policies, procedures, and internal controls and for consistency with applicable laws, regulations and DoD guidance. As an integral part of the audit, we evaluated compliance with applicable laws and regulations.

We reconciled the DoD PB-27 Budget Exhibit for CAAS, submitted with the FY 1990 DoD appropriations request to Congress, with supporting documentation for the five DoD Components. We also followed up on corrective actions to implement recommendations made in prior audit reports (excluding the Inspector General, DoD Report No. 91-041, "Contracted Advisory and Assistance Services Contracts," since this report was issued concurrent with the completion of our fieldwork). To determine whether the DoD Components were properly reporting contract actions as CAAS, we obtained universes of contract actions for each DoD Component that reflected, at a minimum, all "service-type" contract actions for FY 1989 and FY 1990. We reviewed between 60 and 80 randomly selected contract actions from the universes obtained from each of the five DoD Components for FYs 1989 and 1990 to determine whether each contract action was appropriately excluded from CAAS reporting. Our review was limited to actions over \$25,000 in value and not reported as CAAS by DoD. We relied on DoD's computer-processed database of contract actions over \$25,000 (DD Form 350, "Individual Contract Actions Report"), where available, and on agency-generated databases when DD Form 350 data were not available. We did not establish the reliability of these data because the objective of our review was to determine whether contracts were appropriately identified as CAAS. Accordingly, our random selection of contracts for review is qualified to the extent that independent tests of the DD Form 350 and DoD Components' databases were not made. Our analysis included examination of statements of work, justification and approval documents, DD 350 forms, other applicable documentation and correspondence in the contract files, and discussions with contracting officials.

This program audit was performed from October 1990 through February 1991 in accordance with auditing standards issued by the Comptroller General of the United States as implemented by the Inspector General, DoD. Accordingly, we included such tests of the internal controls as were considered necessary. Appendix D lists the activities visited or contacted during the audit.

Internal Controls

The internal controls review included a review of the implementation of the Federal Managers' Financial Integrity Act at DISA, DLA, DMSA, DNA, and the Joint Staff. Of the five DoD Components reviewed, only the Joint Staff identified CAAS reporting separately for evaluation of internal controls. For FY 1990, the Joint Staff performed a detailed Internal Management

Control Review of CAAS and identified 10 weaknesses including the lack of Joint Staff policy regarding the roles, responsibilities and procedures for CAAS, and a need for better oversight of CAAS. The Joint Staff has begun implementing corrective actions to address identified weaknesses. As part of this audit, we examined the processes and procedures for identifying, budgeting, authorizing, and reporting CAAS at the five DoD Components reviewed, and traced a sample of contracts through that process to test the effectiveness of the internal controls.

The audit did not identify any material internal control weaknesses as defined by Public Law 97-225, Office of Management and Budget Circular A-123, and DoD Directive 5010.38. DLA did not establish internal controls to ensure that projected figures reported in the PB-27 Budget Exhibit were accurate and supportable. However, this internal control weakness is not considered material since it impacts the reporting of projected expenditures and not actual monetary outlays. Recommendation 3. in this report, if implemented, will correct the weakness. We have determined that monetary benefits will not be realized by implementing the recommendations. A copy of this report will be provided to the senior official responsible for internal controls within DLA.

Prior Audits and Other Reviews

Since October 1, 1985, 13 audit or inspection reports relating to CAAS have been issued by the General Accounting Office (GAO); the Inspector General, DoD; and the Military Department audit components (see Appendix A). These reports addressed CAAS problems with the identification and definition of CAAS, contracts justifications, the lack of contractor performance evaluations, and the lack of competition for CAAS contracts.

Office of the Inspector General, DoD, Report No. 91-041, "Contracted Advisory and Assistance Services," February 1, 1991, stated that DoD significantly underreported CAAS expenditures. The audit estimated that DoD Components did not identify and report between \$4.0 to \$9.0 billion of CAAS procurements for FY 1987 because of unclear CAAS guidance, untimely updating of implementing regulations within the Military Departments, and insufficient training. The report recommended revisions and clarifications to DoD Directive 4205.2, increased training, and better budget and accounting systems to provide detailed support to CAAS estimates in the PB-27 Budget Exhibits. The DoD established an action plan that will revise regulations, clarify definitions, and improve training to strengthen the management and reporting of CAAS.

Of the 13 audit reports issued, only 2 recommendations from the IG, DoD Report No. 88-184, "Report on the Status of Consulting Services," July 22, 1988, remain open (excluding recommendations

made in IG-DoD Report No. 91-041). The report recommended that Navy improve and revise CAAS training of employees, and that Air Force revise and update its implementing regulations. Both the Navy and Air Force are awaiting revisions to the OMB Circular A-120 and the CAAS definition before implementing the recommendations.

PART II - FINDING AND RECOMMENDATIONS

IDENTIFICATION AND REPORTING OF CAAS

The five DoD Components (DISA, DLA, DNA, DMSA, and Joint Staff) understated CAAS expenditures in reports to OSD and the Congress by \$20.4 million for FY 1989 and by \$19.2 million for FY 1990. In addition, DLA issued 13 contract actions totaling \$2.2 million in FY 1989, and 17 contract actions totaling \$3.0 million in FY 1990, to Information Analysis Centers for contracted advisory and assistance services, which were funded by Military Departments and other DoD Components. Underreporting was due to unclear, conflicting, and inadequate guidance, which prevented officials from making informed, accurate, and consistent decisions. According to officials we interviewed, DoD Components also narrowly interpreted and applied the CAAS definition because of a perception that the Congress might reduce the DoD CAAS budget due to congressional concerns of Government-wide CAAS overspending. As a result, data reported to OSD and the Congress for FYs 1989 and 1990 were not reliable for oversight and policy-making purposes.

DISCUSSION OF DETAILS

Background

The Federal Acquisition Regulation (FAR) Part 37.101, "Personal Services Contract," defines a service contract as "... a contract that directly engages the time and effort of a contractor whose primary purpose is to perform an identifiable task rather than to furnish an end item of supply. A service contract may be either a nonpersonal or personal contract." Service contracts include, maintenance, communications, research and development, and CAAS. OMB Circular A-120 and DoD Directive 4205.2 define CAAS as services acquired from nongovernmental sources to support or improve organization policy development, decisionmaking, program management and administration, or to improve the effectiveness of management processes or procedures.

OMB Circular A-120, "Guidelines for Use of Advisory and Assistance Services," provides general policy for the Executive Branch agencies in determining and controlling the appropriate use of CAAS. In January 1988, OMB revised the Circular to adopt a broader definition of CAAS. FAR subpart 37.2, "Advisory and Assistance Services," defines CAAS and prescribes policies and procedures for acquiring CAAS.

DoD Directive 4205.2, "DoD Contracted Advisory and Assistance Services," January 27, 1986, establishes policy, assigns responsibilities, and prescribes procedures for planning, managing, evaluating, and reporting CAAS. The Directive

authorized the appointment of a DoD CAAS Director within the Office of the Under Secretary of Defense for Acquisition. In coordination with the DoD Comptroller, the Director is responsible for ensuring the adequacy and consistency of procedures for classifying and reporting CAAS, for reviewing CAAS reports submitted for inclusion in the PB-27 Budget Exhibit, and for evaluating implementing regulations for consistency with OMB Circular A-120 and DoD Directive 4205.2. The Directive also requires that each DoD Component designate a CAAS Director, or focal point for CAAS. This focal point is responsible for preparing annual CAAS plans and reports, for ensuring that agency implementing instructions are consistent with the DoD Directive, and for ensuring that funds are obligated for purposes specified in the PB-27 Budget Exhibit.

In 1985, Public Law 99-145 required that DoD establish accounting procedures to collect CAAS costs. The accounting systems established are the source of the data presented in the PB-27 Budget Exhibit which portrays, for management and the Congress, the actual CAAS expenditures for the prior year and forecasts requirements for the subsequent 2 years. The DoD Comptroller develops the PB-27 Budget Exhibit, based on submissions from DoD Components on obligations, expenditures, and future requirements for the four categories identified in the definition. The FY 1991 PB-27 Budget Exhibit for DoD reported total CAAS budgets of \$1.37 billion for FY 1989 and \$1.35 billion for FY 1990. Actual reported expenditures were \$1.37 billion FY 1989 and \$1.22 billion for FY 1990. The DoD CAAS budget for FY 1991 is \$1.09 billion. These amounts exclude Federally Funded Research and Development Centers (FFRDCs).

Underreporting of CAAS

The five DoD Components reported CAAS expenditures of \$47.1 million for FY 1989 and \$26.1 million for FY 1990. However, the 5 DoD Components did not report 20 contract actions, valued at about \$20.4 million, for FY 1989, and 35 contract actions, valued at about \$19.2 million, for FY 1990. At each of the 5 DoD Components, we randomly sampled for review between 60 and 80 contract actions that reflected, at a minimum, "support services" procured during FY 1989 and FY 1990, excluding those under \$25,000 or already identified as CAAS. Details on the number and value of contracts reported as CAAS and determined to be CAAS by year and by component are shown in the schedules at Appendixes B and C.

The underreporting of CAAS was because of unclear, conflicting or inadequate guidance regarding the responsibility for making CAAS determinations, as well as decisions not to report certain

contract actions, including Automated Data Processing (ADP)-related procurements, Information Analysis Centers, and task order contracts.

ADP-Related Procurements

There were considerable ADP-related efforts that should have been reported as CAAS. We identified 23 contract actions for ADP systems analysis, engineering, or other related services not reported as CAAS. Those 23 actions accounted for \$17.1 million of the \$20.4 million not reported as CAAS in FY 1989, and \$4.7 million of the \$19.2 million not reported in FY 1990.

Both OMB Circular A-120 and FAR subpart 37.2 state that ADP/telecommunications may be excluded from CAAS requirements if such services are controlled in accordance with 41 CFR Part 201, "Federal Information Resources Management Regulation (FIRMR)." The FIRMR, however, provides only guidance for acquiring ADP-related services and does not address the applicability of CAAS requirements to such services. DoD Directive 4205.2 states that information technology/ADP is excluded from CAAS, but not ADP-related systems analysis, design, development, engineering, programming and studies. Costs incurred by DoD Components for information technology is reported to Congress annually in the PB-43A Budget Exhibit. The PB-43A identifies dollars allocated for information technology resources applied to "development and modernization" and "operations and other costs." The PB-43A Budget Exhibit, however, does not identify ADP expenditures attributed to CAAS.

CAAS officials at the five DoD Components considered ADP-related contract actions to be excluded from CAAS. Examples of ADP-related services that were not identified and reported as CAAS follow.

- o DISA tasked Honeywell Federal Systems, Inc., under modification P00010, contract DCA100-86-C-0067 to provide technical support, including system analysis and design, quality assurance, and maintenance support for the Worldwide Military Command and Control System standard ADP system. The estimated cost of this support was about \$7.8 million. The contractor was to deliver program plans; test plans; activity, status, and analysis reports; and quality assurance.

- o The Joint Staff issued Military Interdepartmental Purchase Request DJAM-0-0054 to Argonne National Laboratories for \$100,000 to perform simulation modeling, and gaming and other advanced techniques to assist in implementing database management techniques into the Tactical Warfare data model in support of the Unified and Specified Commands. Although the Department of

Energy performed the contracting for these services, we believe that the Joint Staff should have reported the contract action as CAAS.

Prior to 1990, the ADP/Telecommunications Contracting Office at DLA, considered CAAS requirements in making ADP procurements. ADP/telecommunications procurements accounted for 90 percent of the reportable CAAS incurred at DLA. However, in 1990, the DLA Budget Office determined that ADP procurements controlled by the FIRMR should not be considered CAAS. As a result, projected CAAS estimates for DLA decreased from \$28.9 million for FY 1990 to \$2.4 million for FY 1991.

In our opinion, ADP-related support services should be reported as CAAS in the PB-27 Budget Exhibit because these assistance services are as vulnerable to waste and abuse as other assistance services, and the amounts procured are material. At present, the inconsistencies among the guidance have allowed for varying interpretations and exclusion of ADP-related contracted assistance services from CAAS reporting.

Classification of Information Analysis Centers (IACs)

In addition to the 55 contract actions not reported as CAAS by the 5 DoD Components reviewed, we identified 13 contract actions for \$2.2 million issued to IACs in FY 1989, and 17 contract action for \$3.0 million in FY 1990 that should have been reported as CAAS. These contract actions were originated by other DoD Components that transferred funds to DLA to contract with the IACs. Neither the originating DoD Component nor DLA identified the contract actions as CAAS, and the originating DoD Component did not report the actions for the PB-27 Budget Exhibit.

DoD has 23 IACs, which are repositories of information on specialized technical areas such as chemical warfare, soil mechanics, and nondestructive testing. DLA manages 14 of the IACs through the Defense Technical Information Center (DTIC). The IACs, which are contractor operated, collect, review, analyze, and summarize data maintained and repackage it for interested parties in the Defense community. We found that the IACs also performed special studies for the DoD Components. The Military Departments, DoD Components, DoD contractors, and other Government agencies may obtain services from the IACs by issuing contract actions through DLA. While it is the responsibility of the originating requestor to identify and report the contract action as CAAS, the DLA contracting officer responsible for the IACs also reviews each action for CAAS applicability. Examples of special studies that should have been reported as CAAS follow.

o Under modification P00232, contract DLA900-86-C-0395, DLA tasked Booz, Allen, and Hamilton, Inc., which operates the Survivability/Vulnerability Information Analysis Center, to provide technical, programmatic, and test planning support, by conducting meetings with selected vehicle manufacturers and performing effectiveness analyses of armored combat vehicles against third-world missiles. The contract specified that Booz, Allen, and Hamilton would provide briefings on the effectiveness of individual items, and on the analyses performed. The value of this contract effort was \$200,000.

o Under modification P00098, contract DLA900-86-C-0022, DLA tasked the IIT Research Institute, which operates the Guidance and Control Information Analysis Center, to provide modeling and analysis support for the Imaging Infrared Terminally Guided Submunition effort, including developing testing criteria and identifying baseline design, performing simulations, and creating data base libraries based on test results. Deliverables were quarterly cost and performance reports, technical reports documenting conclusions and recommendations, and a user's manual and software for the simulation model. The cost of this effort was \$394,500.

These taskings were not identified and reported as CAAS by the originating Military Department or DoD Component. Further, in December 1987, DTIC issued a memorandum stating that contracts issued for work performed by the IACs should not be reported as CAAS. Headquarters, DLA (Policy and Plans) made a determination that the work performed by the IACs was "basic research," which could be excluded from CAAS requirements according to the DoD Directive 4205.2. We discussed the exclusion of the IAC with DLA Plans and Policy officials, who stated that the memorandum was intended to refer to the operation of the repositories and not the special studies. However, this distinction was not made clear in the language of the memorandum.

We also discussed the exclusion of IACs with the contracting officer at the Defense Electronics Supply Center in Dayton, Ohio, who is responsible for 11 IACs. The contracting officer interpreted the memorandum to mean that special studies as well as basic IAC operations should be excluded.

We believe that the special studies performed by IACs should be identified and reported as CAAS by the originating Military Department or DoD Component. The IACs are being used to perform functions similar to an FFRDC. Office of Federal Procurement Policy, Policy Letter 84-1 states that FFRDCs "perform, analyze, integrate, support, and manage basic research, applied research, and development under direct request of the Government through activities operated and managed by nonprofit organizations."

CAAS Determination Based on Original Statement of Work

In March 1988, the DMSA issued contract DAHC94-88-D-0005 to Science Applications International, Inc. (SAIC), in the amount of \$1.01 billion for systems and software design to develop a centralized, nationwide health care management information system for all military medical treatment facilities. The contract was a fixed-price requirements contract for services, material, and construction that covered one base year and seven option years. The contract provided that DMSA would issue delivery orders for individual requirements. DMSA considers the individual delivery orders to be integral to the accomplishment of the overall system, not separable requirements. DMSA determined that the total contract was not CAAS, and that any subsequent delivery orders issued throughout the life of the contract would not be identified and reported as CAAS. The contract is administered similar to a task order contract.

We reviewed eight delivery orders totaling \$13.2 million issued under the DMSA contract for contract services. For example:

- o Delivery Order 55-00, for \$6.3 million, required SAIC to provide the personnel and services necessary to provide system-wide functions in support of the overall Composite Health Care System program, including program management, quality assurance, subcontracting and purchasing, and other tasks as defined in the statement of work.

- o Delivery Order 50-00, for \$2.1 million, required SAIC to perform system management and maintenance, troubleshooting, analysis of site systems problems, assistance in software tool development, training and testing of teams in the effective use of resources, and assistance in solving hospital site problems.

We agreed with the assertion of DMSA officials that the services on the delivery orders reviewed were not CAAS because they were directly related to development of the health care system.

Task order contracts are commonly used by DoD Components. However, criteria for use of task order contracts as a procurement vehicle are not included in the FAR or Defense Federal Acquisition Regulation Supplement (DFARS). DoD Directive 4205.2, paragraph F.2.e., requires that all CAAS be procured only through contracts dedicated solely to CAAS purposes. It further provides that where CAAS is procured in a predominantly non-CAAS contract, the CAAS portion shall be separately identified, separately priced, and assigned a separate contract line item number. While DoD Directive 4205.2 defines the application of CAAS requirements to task order-type contracts, the application to ADP systems contracts, such as DMSAs, is unclear. Therefore, we believe that the application of CAAS

requirements to task order-type contracts, particularly for ADP-related efforts, should be clarified.

Consistency of CAAS Implementing Instructions

DLA, DISA, and DNA regulations implement the current DoD Directive 4205.2, whereas, the Joint Staff and DMSA use OSD Administrative Instruction No. 54, "Contracted Advisory and Assistance Services," July 7, 1986, which does not include "Engineering and Technical Services," as a category for reporting CAAS. Both the Joint Staff and DMSA identified expenditures in this category in their respective FY 1990 PB-27 Budget Exhibits. Although we did not find any instances where the omission of this category of CAAS resulted in contracts not being reported as CAAS in the two DoD Components, a change should be issued to Instruction No. 54 to incorporate the engineering and technical services category of CAAS to ensure consistency of implementing guidances provided to DoD Components. Also, other elements of the OSD Staff, such as the Director, Defense Research and Engineering, are contracting for efforts that may be in the engineering and technical services category.

Accuracy of Figures Reported in PB-27 Budget Exhibit

DoD Directive 4205.2 requires that each DoD Component prepare an annual CAAS plan that is reconcilable to data submitted for the annual CAAS budget exhibit, and constitutes the backup and explanatory detail for that budget exhibit. Four of the five DoD Components had a CAAS plan and support for both actual and projected figures reported in the FY 1990 PB-27 Budget Exhibit. DLA was able to provide documentation for actual expenditures, but was unable to support 2 years of projected figures included in the PB-27 Budget Exhibit.

Extent of CAAS-related Training

Contracting, comptroller, or management officials at the five DoD Components, responsible for CAAS identification and reporting, received little formal training, other than on-the-job. The budget officer at DMSA received limited training during budget seminars and a lecture conducted by the DoD CAAS Director. Also, DNA includes a segment on CAAS requirements during training of contract and management officials in a course conducted by the Acquisition Management Office. Office of the Inspector General, DoD, Report No. 91-041 recommended that the Secretaries of the Military Departments require that training on the identification and reporting of CAAS be provided to the comptroller, and to the contracting and management personnel. Similar efforts should be considered by the DoD Components reviewed that did not make CAAS-related training available at the time of this audit.

Spending Authorities

DoD allocated a spending authority to each DoD Component based on the \$1.5 billion DoD-wide statutory ceiling imposed by Congress for FY 1990 CAAS expenditures. If the contracts we identified as CAAS are added to the \$19.2 million in CAAS expenditures reported for FY 1990, two of the five DoD Components reviewed exceeded their spending authorities by \$10.2 million. Appendix E provides a comparison of the CAAS expenditures to the FY 1990 spending authority.

DoD reported total CAAS for FY 1990 in the amount of \$1.22 billion. This audit did not determine that DoD exceeded the \$1.5 billion statutory limitation for FY 1990. However, the results of this audit indicated that significant amounts of CAAS were not identified and reported, and that the actual FY 1990 CAAS spending is much higher. In addition, DoD IG Report No. 91-041 estimated that DoD Components underreported between \$4.0 to \$9.0 billion of CAAS procurements for FY 1987. Therefore, the likelihood that actual CAAS figures reported to DoD and Congress for CAAS are greatly understated is very high.

Concerns about Congressional Budget Cuts of CAAS

Officials we interviewed stated that they were concerned that the Congress might make across-the-board CAAS budget cuts based on figures reported in the PB-27 Budget Exhibit. The Congress has expressed concern about how much DoD is spending on CAAS. This concern has been manifested in the form of budget reductions and stems from congressional perceptions that DoD has grown too dependent on consultants to perform work that is more appropriately performed by DoD. While we believe that the five DoD Components are making efforts to comply with CAAS requirements, DoD Component officials responsible for making CAAS determinations cited the inclination to identify contracts as non-CAAS when there is doubt about whether CAAS requirements should apply. These officials believe that by reporting fewer CAAS expenditures, the DoD Component is subjected to smaller budget cuts. We believe that this negative incentive to report CAAS is another factor contributing to the underreporting of CAAS.

On-going Actions to Improve CAAS Management and Reporting

CAAS has been designated an area for management improvement in the Defense Management Review. CAAS is also receiving additional attention because OMB designated it as one of the five highest risk areas in DoD. In response, DoD has developed an action plan to strengthen the management and reporting of CAAS. This action plan will focus on the corrective actions to six major problem areas that concern:

- o the inconsistent policies and procedures between primary publications for acquiring CAAS; that is, OMB Circular A-120, DoD Directive 4205.2, the FAR and DFARS;

- o the unclear definition and inconsistent interpretation of what is CAAS;

- o the inconsistent reporting and accounting procedures/systems for providing reliable data for projected/obligated funding for CAAS;

- o the inconsistent applications of policies for determining when CAAS is an appropriate resource to meet mission requirements;

- o the inconsistent execution of procurement policies and procedures; and

- o the absence of a comprehensive education and training program for managing, acquiring, and using CAAS resources.

The planned actions that are identified in this plan include:

- o implementing a revised DoD Directive 4205.2 and working with OMB to revise OMB Circular A-120;

- o revising the DoD definition of CAAS so that it is consistently interpreted, easy to use, and consistent with OMB Circular A-120;

- o implementing consistent procedures for reporting CAAS requirements;

- o reviewing current policies and procedures for determining when contracting out is appropriate;

- o issuing a policy memorandum on procurement of CAAS; and

- o developing a pamphlet on CAAS acquisition and use.

Many of these actions were to be completed by September 30, 1991, by an Action Team headed by the DoD CAAS Director and comprised of representatives of various OSD staff elements.

Conclusion

The amounts of CAAS reported to DoD and Congress were understated due to unclear, conflicting and inadequate guidance; inadequate training of personnel involved in the CAAS process; weaknesses in CAAS oversight; and fear of budget cuts. As a result, OSD and the Congress received data for FYs 1989 and 1990 that were not reliable for oversight and policy-making purposes. DoD has developed an action plan to strengthen the management and reporting of CAAS.

RECOMMENDATIONS, MANAGEMENT COMMENTS, AND AUDIT RESPONSE

1. We recommend that the Under Secretary of Defense for Acquisition clarify the contracted advisory and assistance services definition, to include the applicability of its requirements to automate data processing services, services provided by the Information Analysis Centers, and individual task orders under contracts.

Under Secretary of Defense for Acquisition comments. The Director, Acquisition Policy and Program Integration (AP&PI) concurred with the recommendation, and stated that the revision to DoD Directive 4205.2, "Contracted Advisory and Assistance Services," clarifies the application of CAAS to ADP-related services. The revised Directive will state that CAAS includes all ADP services except those controlled in accordance with the Federal Information Management Resources Regulation and reported in Budget Exhibit 43a, "Report on Information Technology Systems." The Director also stated that the "Guide for Obtaining CAAS," now in development, will include guidance pertaining to Information Analysis Centers; and the revised CAAS directive, due to be finalized in October 1991, will clarify that task orders should be considered separate contract actions for CAAS identification and reporting purposes.

2. We recommend that the Director for Administration and Management revise the Office of the Secretary of Defense Administrative Instruction No. 54 to include the engineering and technical services category of contracted advisory and assistance services.

Under Secretary of Defense for Acquisition comments. The Director, AP&PI stated that Administrative Instruction 54 will be revised to include the engineering and technical services category. The target date for issuance of the revision is about January 1992.

3. We recommend that the Director, Defense Logistics Agency establish internal controls to verify that projected figures reported in the PB-27 Budget Exhibit are accurate and supportable.

Deputy Comptroller, Defense Logistics Agency comments. The Deputy Comptroller nonconcurred with the recommendation stating that although figures reported in the second year of the 2-year budget submission were derived from historical CAAS usage, and a data call was not made, this method was a one-time aberration and will not be repeated because the revised DLA Regulation 5010.3, dated July 18, 1991, includes monitor and verification procedures to ensure that CAAS projects in the data call are accurate and supportable.

Audit response. We maintain that while DLA may have had an internal control mechanism that required an annual data call for CAAS Budget Exhibit PB-27, no data call was made and no documentation exists to support the FY 1990 PB-27 Budget Exhibit. However, revisions included in Defense Logistic Agency Regulation (DLAR) 5010.3 that require the Assistant Director, Office of Policy and Plans (DLA-L) to issue a data call in June each year, and submit the requirements to the Director, DLA, for approval, are consistent with the intent of our recommendation. We consider the revisions to be responsive, and no further comments are necessary.

4. We recommend that the Assistant Secretary of Defense (Health Affairs); the Director, Defense Information Systems Agency; the Director, Defense Logistics Agency; and the Director, Joint Staff, require that training on the identification and reporting of contracted and advisory and assistance services be provided to comptroller, contracting, and management personnel.

Assistant Secretary of Defense (Health Affairs) comments. The Assistant Secretary concurred with the recommendation and stated that, as part of its Internal Management Control Program, the DMSA will obtain and provide CAAS training to the comptroller, contracting officials, and appropriate management personnel during the first quarter of FY 1992.

Director, Defense Information Systems Agency comments. The Comptroller partially concurred with the recommendation, stating that once a clear definition of CAAS is developed, training will be established within 90 days to ensure that Comptroller, contracting and management personnel understand the definition of CAAS.

Deputy Comptroller, Defense Logistics Agency comments. The Deputy Comptroller partially concurred with the recommendation, and stated that while CAAS training is needed, it is not appropriate for DLA to initiate the action. Under Defense Management Review Decision 905, the OSD Director for CAAS has been assigned the responsibility to promulgate strengthened DoD-wide CAAS policies and procedures, including a plan for uniform and comprehensive guidance/training.

Director, Joint Staff comments. The Deputy Director for Technical Operations, J-8, partially concurred that training on CAAS procedures and definitions would be useful, but stated that training should be conditional on revised CAAS definitions and procedures. The Director also suggested that more consistent management standards and practices could be better ensured if training were implemented at the DoD-wide level rather than within each separate agency.

Audit response. Based on the ongoing efforts to improve CAAS policies and procedures, including the establishment of training, and the Defense Management Review Decision 905, we consider the comments of the Director, Defense Information Systems Agency; the Deputy Comptroller, Defense Logistics Agency; and the Director, Joint Staff, to be responsive.

PART III - ADDITIONAL INFORMATION

- APPENDIX A - Prior Audits and Inspections
of CAAS Since 1986
- APPENDIX B - Analysis of Contract Actions
Reviewed for FY 1989 and FY 1990
- APPENDIX C - Analysis of Unreported CAAS Actions
for FY 1989 and FY 1990
- APPENDIX D - List of Contracts Determined
to be CAAS
- APPENDIX E - Comparison of Components' CAAS
Expenditures to FY 1990 Spending
Authorities
- APPENDIX F - Summary of Potential Benefits
Resulting from Audit
- APPENDIX G - Activities Visited or Contacted
- APPENDIX H - Report Distribution

APPENDIX A: PRIOR AUDITS AND INSPECTIONS OF CAAS SINCE 1986

<u>Agency</u>	<u>Report No.</u>	<u>Date</u>	<u>Title</u>
NAS <u>1/</u>	A40045L	Oct. 7, 1985	Contract Administration, Procurement, Program and Budget, Information Technology, Property, Internal Control Program, and Other Selected Functions at the Navy Management Systems Support Office, Norfolk, VA
GAO <u>2/</u>	NSIAD 86-5	Nov. 22, 1985	Actions to Gain Management Control Over DoD's Contract Support Services
OAIG-AUD <u>3/</u>	86-093	May 23, 1986	Report on the Audit of Consulting Service Contracts as of March 31, 1985
AFAA <u>4/</u>	6066415	Nov. 12, 1986	Followup Audit--Service Engineering Contracts at the Air Logistics Centers
OAIG-AUD	87-127	Apr. 17, 1987	Report on the Audit of the Status of Consulting Services
OAIG-AUD	88-146	May 21, 1987	Report on the Audit of the Hazardous Material Technical Center
OAIG-AUD	88-184	July 22, 1988	Report on the Status of Consulting Services
OAIG-INS <u>5/</u>	88-02 1989	March 24, 1988	Inspection of Strategic Defense Initiative Organization
AAA <u>6/</u>	HQ 89-1	April 28, 1989	Contracted Advisory and Assistance Services, Study Program Management Agency
GAO	GAO/ NSIAD-89- 221	September 13, 1990	DoD REVOLVING DOOR: Processes Have Improved But Post-DoD Employment Reporting Still Low.

See footnotes at end of table.

APPENDIX A: PRIOR AUDITS AND INSPECTIONS OF CAAS SINCE 1986
(Continued)

<u>Agency</u>	<u>Report No.</u>	<u>Date</u>	<u>Title</u>
GAO	GAO/ NSIAD-90- 103	February 27, 1990	DoD REVOLVING DOOR: Few Are Restricted From Post-DoD Employment and Reporting Has Some Gaps
GAO	GAO/ NSIAD-90- 119	August 20, 1990	Consulting Services: Role and Use in Acquiring Three Weapon Systems
OAIG-AUD	91-041	February 1, 1991	Contracted Advisory and Assistance Services Contracts

- 1/ Naval Audit Service
- 2/ General Accounting Office
- 3/ Office of the Assistant Inspector General for Auditing
- 4/ Air Force Audit Agency
- 5/ Office of the Assistant Inspector General for Inspections
- 6/ Army Audit Agency

APPENDIX B - ANALYSIS OF CONTRACT ACTIONS REVIEWED FOR FY 1989 AND FY 1990

AGENCY	VALUE OF CONTRACT ACTIONS IN UNIVERSE		TOTAL NUMBER OF CONTRACT ACTIONS IN UNIVERSE		DOLLAR VALUE OF ACTIONS IN SAMPLE		TOTAL CONTRACT ACTIONS REVIEWED		PERCENT OF UNIVERSE VALUE INCLUDED REVIEW		PERCENT OF UNIVERSE ACTIONS REVIEWED	
	1989	1990	1989	1990	1989	1990	1989	1990	1989	1990	1989	1990
DISA	\$194.6	\$199.2	420	525	\$30.2	\$20.8	29	44	15.50	10.40	6.90	8.40
DLA	69.6	60.2	204	271	8.8	12.4	32	48	12.70	20.60	15.70	17.70
DNA	445.9	460.8	1,266	1,241	12.9	5.4	30	30	2.90	1.20	2.40	2.40
DMSA	155.8	137.2	427	361	23.7	23.2	44	32	15.20	16.90	10.30	8.90
JS	<u>73.8</u>	<u>84.8</u>	<u>358</u>	<u>308</u>	<u>8.4</u>	<u>10.4</u>	<u>26</u>	<u>41</u>	<u>11.40</u>	<u>12.30</u>	<u>7.30</u>	<u>13.30</u>
TOTAL	<u>\$939.7</u>	<u>\$942.2</u>	<u>2,675</u>	<u>2,706</u>	<u>\$84.0</u>	<u>\$72.2</u>	<u>161</u>	<u>195</u>				

Note: Databases used for "Value of contract actions in universe" may include contract actions issued by the five DoD Components for other Military Departments or DoD Components.

APPENDIX C: ANALYSIS OF UNREPORTED CAAS ACTIONS FOR FY 1989 AND FY 1990

<u>Agency</u>	Total of Unreported CAAS Identified in Review		Number of Actions not Properly Identified As CAAS	
	<u>(in thousands)</u>			
	<u>1989</u>	<u>1990</u>	<u>1989</u>	<u>1990</u>
DISA	\$16,378	\$12,032	6	8
DLA	45	270	2	1
DNA	1,182	1,029	7	6
DMSA	1,371	1,832	3	5
Joint Staff	<u>1,377</u>	<u>4,073</u>	<u>2</u>	<u>16</u>
TOTAL	<u>\$20,353</u>	<u>\$19,236</u>	<u>20</u>	<u>35</u>

APPENDIX D: LIST OF CONTRACT ACTIONS DETERMINED TO BE CAAS

Defense Information Systems Agency (FY 1989)

<u>Contract/Modification Number</u>	<u>Amount</u>	<u>Contractor</u>
DCA100-87-C-0032 (P00011)	\$ 2,950,399	Data Systems Analysts, Inc.
DCA100-87-C-0155 (P00009)	1,033,485	GTE Governmental Systems Corp.
DCA100-87-C-0101 (P00004)	110,725	C-Cubed Corp.
DCA100-87-C-0101 (P00006)	74,683	C-Cubed Corp.
DCA100-86-C-0067 (P00010)	7,822,884	Honeywell Federal Systems
DCAH00-88-C-0034	<u>4,385,396</u>	Unisys Corp.
FY 1989 Subtotal	<u>\$16,377,572</u>	

Defense Information Systems Agency (FY 1990)

<u>Contract/Modification Number</u>	<u>Amount</u>	<u>Contractor</u>
DCA100-90-C-0083 (PZ0001)	\$ 127,348	Information Management Consultants, Inc.
DCA100-90-C-0030	680,482	Sprint International Communications Corp.
DCA100-89-C-0066 (P00011)	174,304	Government Systems Corp.
DCA100-89-C-0041	996,117	Computer Science Corp.
DCA100-86-C-0111 (P00026)	200,000	Booz, Allen & Hamilton
DCA100-90-C-0134	168,435	SAIC
DCAH00-90-C-0057 (P00003)	8,548,737	Electrospac Systems Inc.
DCAH00-86-C-0112	1,136,355	Electrospac Systems Inc.
FY 1990 Subtotal	<u>\$12,031,778</u>	
Total for FYs 1989 and 1990	<u>\$28,409,350</u>	

APPENDIX D: LIST OF CONTRACT ACTIONS DETERMINED TO BE CAAS
(Continued)

Defense Logistics Agency (FY 1989)

<u>Contract/Modification Number</u>	<u>Amount</u>	<u>Contractor</u>
DLAH00-88-D-0004 (P00001 D.O. 0003)	\$ (66,883)	Wilson Hill Associates
DLAHO0-88-D-0004	111,594	Wilson Hill Associates
	<hr/>	
FY 1989 Subtotal	\$ <u>44,711</u>	

Defense Logistics Agency (FY 1990)

<u>Contract/Modification Number</u>	<u>Amount</u>	<u>Contractor</u>
DLAH00-89-D-0010 (P00005 D.O. 0006)	\$270,000	Network Solutions Inc.
	<hr/>	
FY 1990 Subtotal	\$ <u>270,000</u>	
Total for FYs 1989 and 1990	<u>\$314,711</u>	

APPENDIX D: LIST OF CONTRACT ACTIONS DETERMINED TO BE CAAS
(Continued)

Contract Actions Originated by Other DoD Components for CAAS
Effort at Defense Logistics Agency-Sponsored Information
Analysis Centers (FY 1989)

<u>Contract/Modification Number</u>	<u>Amount</u>	<u>Contractor</u> ^{1/}
DLA900-86-C-0022 (P00088)	163,722	IIT Research Institute
DLA900-83-C-1744 (P00166)	114,047	Battelle Memorial Institute
DLA900-84-C-0910 (P00108)	50,000	Southwest Research Institute
DLA900-86-C-2045 (P00095)	60,000	Battelle Memorial Institute
DLA900-85-C-4100 (P00028)	136,525	Kamen Tempo, Inc.
DLA900-86-C-0022 (P00098)	394,500	IIT Research Institute
DLA900-86-C-2045 (P00117)	462,200	Battelle Memorial Institute
DLA900-85-C-0395 (P00200)	58,000	Booz, Allen & Hamilton
DLA900-85-C-0395 (P00165)	92,960	Booz, Allen & Hamilton
DLA900-86-C-0022 (P00086)	330,000	IIT Research Institute
DLA900-85-C-0395 (P00176)	50,000	Booz, Allen & Hamilton
DLA900-85-C-0395 (P00190)	210,000	Booz, Allen & Hamilton
DLA900-84-0910 (P00120)	80,000	Southwest Research Institute
FY 1989 Subtotal	<u>\$2,201,954</u>	

See footnotes on last page.

APPENDIX D: LIST OF CONTRACT ACTIONS DETERMINED TO BE CAAS
(Continued)

Contract Actions Originated by Other DoD Components for CAAS
Effort at Defense Logistics Agency-Sponsored Information
Analysis Centers (FY 1990)

<u>Contract/Modification Number</u>	<u>Amount</u>	<u>Contractor</u> <u>1/</u>
DLA900-86-C-0022 (P00115)	186,200	IIT Research Institute
DLA900-83-C-1744 (P00184)	34,400	Battelle Memorial Institute
DLA900-86-C-2045 (P00121)	95,000	Battelle Memorial Institute
DLA900-85-C-0395 (P00221)	98,000	Booz, Allen & Hamilton
DLA900-86-C-2045 (P00133)	98,737	Battelle Memorial Institute
DLA900-85-C-0395 (P00217)	524,936	Booz, Allen & Hamilton
DLA900-86-C-0022 (P00137)	225,000	IIT Research Institute
DLA900-85-C-4100 (P00033)	175,000	Kamen Tempo, Inc.
DLA900-85-C-0395 (P00227)	180,978	Booz, Allen & Hamilton
DLA900-85-C-0395 (P00213)	625,000	Booz, Allen & Hamilton
DLA900-86-C-2045 (P00169)	93,647	Battelle Memorial Institute
DLA900-86-C-2045 (P00149)	129,000	Battelle Memorial Institute
DLA900-86-C-0022 (P00126)	50,000	IIT Research Institute
DLA900-85-C-0395 (P00238)	99,000	Booz, Allen & Hamilton

APPENDIX D: LIST OF CONTRACT ACTIONS DETERMINED TO BE CAAS
 (Continued)

Contract Actions Originated by Other DoD Components for CAAS
Effort at Defense Logistics Agency-Sponsored Information
Analysis Centers (FY 1990)

<u>Contract/Modification</u> <u>Number</u>	<u>Amount</u>	<u>Contractor</u> ^{1/}
DLA900-83-C-1744 (P00176)	100,000	Battelle Memorial Institute
DLA900-85-C-0395 (P00215)	37,817	Booz, Allen & Hamilton
DLA900-85-C-0395 (P00232)	200,000	Booz, Allen & Hamilton
FY 1990 Subtotal	<u>\$2,952,715</u>	
Total for FYs 1989 and 1990	<u>\$5,154,669</u>	

APPENDIX D: LIST OF CONTRACT ACTIONS DETERMINED TO BE CAAS
 (Continued)

Defense Nuclear Agency (FY 1989)

<u>Contract/Modification Number</u>	<u>Amount</u>	<u>Contractor</u>
DNA-001-89-C-0171	200,000	SRI International
DNA-001-88-C-0245	91,000	Molzen-Corbin & Associates
DNA-001-84-C-0027	62,000	Tech Reps Inc.
DNA-001-89-C-0013	100,000	SAIC
DNA-001-88-C-0056 (P0007)	100,000	BDM Corp.
IACRO-89-857	240,000	Jet Propulsion Lab
DNA-001-87-C-0103	<u>389,000</u>	Jaycor
FY 1989 Subtotal	<u>\$1,182,000</u>	

Defense Nuclear Agency (FY 1990)

<u>Contract/Modification Number</u>	<u>Amount</u>	<u>Contractor</u>
HD1102-0-J45I05	\$100,000	Sandia National Labs through Department of Energy (DOE)
HD1102-0-J24A03	95,000	Sandia National Labs through DOE
DNA-001-88-C-0198	513,000	SAIC
DNA-001-90-C-0107	49,943	K-tech Corp.
DNA-001-90-C-0164	140,000	ARES Corp.
DNA-001-88-C-0121 (P00002)	<u>131,500</u>	Sachs Freeman Associates
FY 1990 Subtotal	<u>\$1,085,443</u>	
Total for FYs 1989 and 1990		<u>\$2,211,443</u>

APPENDIX D: LIST OF CONTRACT ACTIONS DETERMINED TO BE CAAS
(Continued)

Joint Staff (FY 1989)

<u>Contract/Modification Number</u>	<u>Amount</u>	<u>Contractor</u>
MDA903-89-C-0272 (P00001)	\$1,293,451	Logicon, Inc.
MDA903-85-D-0150	<u>83,503</u>	Wang Labs
FY 1989 Subtotal	<u>\$1,376,954</u>	

Joint Staff (FY 1990)

<u>Contract/Modification Number</u>	<u>Amount</u>	<u>Contractor</u> <u>2/</u>
DJAM-0-0086	\$ 207,000	Argonne National Labs
DJAM-0-0085	75,000	Argonne National Labs
DJAM-0-0071	134,000	Argonne National Labs
DJAM-0-0054	100,000	Argonne National Labs
DJAM-0-0050	32,000	Argonne National Labs
DJAM-0-0049	230,000	Argonne National Labs
DJAM-0-0042	109,000	Argonne National Labs
DJAM-0-0023	1,800,000	Argonne National Labs
DJAM-0-0023 (A-1)	50,000	Argonne National Labs
DJAM-0-0023 (A-2)	462,000	Argonne National Labs

APPENDIX D: LIST OF CONTRACT ACTIONS DETERMINED TO BE CAAS
(Continued)

Joint Staff (FY 1990)

<u>Contract/Modification Number</u>	<u>Amount</u>	<u>Contractor</u>
DJAM-0-0023 (A-3)	85,238	Argonne National Labs <u>2/</u>
DJAM-0-0037	79,000	MIPR to Defense Communications Agency <u>3/</u>
DJAM-0-0014	485,000	DISA
DJAM-0-0001	1,000,000	DISA
DJAM-0-0001 (A-1)	(500,000)	DISA
DJAM-0-0001 (A-3)	<u>(275,000)</u>	DISA
FY 1990 Subtotal	<u>\$4,073,238</u>	
Total for FYs 1989 and 1990	<u>\$5,450,192</u>	

1/ Work performed by contractors that maintain Information Analysis Centers.

2/ Argonne National Labs is an FFRDC, but the dollars identified were not reported in the PB-27 Budget Exhibit as either CAAS or FFRDC expenditures.

3/ DISA did not report as CAAS.

APPENDIX D: LIST OF CONTRACT ACTIONS DETERMINED TO BE CAAS
 (Continued)

Defense Medical Support Activity (FY 1989)

<u>Contract/Modification Number</u>	<u>Amount</u>	<u>Contractor</u>
MDA903-88-C-0071 (P00003)	\$ 100,000	Birch and Davis Associates, Inc.
MDA903-83-C-0149 (P00019)	788,640	Electronic Data Systems, Inc.
MDA903-87-C-0605 (P00004)	<u>482,151</u>	Mitchell Systems, Inc., through SBA
FY 1989 Subtotal	<u>\$1,370,791</u>	

Defense Medical Support Activity (FY 1990)

<u>Contract/Modification Number</u>	<u>Amount</u>	<u>Contractor</u>
MDA903-88-C-0068 (P00005)	\$ 499,993	Mitre Corp.
MDA903-89-C-0023 (P00004)	823,787	Irving Burton Associates through SBA
MDA903-89-C-0073 (P00005)	158,311	Mitchell Systems, Inc., through SBA
MDA903-89-C-0042 (P00003)	<u>349,877</u>	KAJAX Engineering
FY 1990 Subtotal	<u>\$1,831,968</u>	

Total for FY 1989 and FY 1990 \$3,202,759

Annual totals for the five DoD Components

- o FY 1989 \$20,352,028 (excluding IACs)
\$22,553,982 (including IACs)
- o FY 1990 \$19,236,407 (excluding IACs)
\$22,189,122 (including IACs)

**APPENDIX E: COMPARISON OF THE DOD COMPONENT'S CAAS EXPENDITURES TO
FY 1990 SPENDING AUTHORITIES**

<u>AGENCY</u>	<u>CAAS EXPENDITURES</u>	<u>IDENTIFIED BY OIG</u>	<u>TOTAL</u>	<u>SPENDING AUTHORITY</u>	<u>UNDER/ OVERSPENDING</u>
(dollars in thousands)					
DISA	\$ 185	\$12,032	\$12,217	\$4,406	\$7,811 over
DLA	2,351	270 ^{1/}	2,621	9,592	6,971 under
DNA	10,067 ^{2/}	1,029	11,096	11,443	347 under
DMS	9,673	1,832	11,505	11,559	54 under
JOINT STAFF	3,875 ^{2/}	4,073	7,948	5,537	2,411 over
	<u>\$26,151</u>	<u>\$19,236</u>	<u>\$45,387</u>	<u>\$42,537</u>	<u>\$2,850</u>

^{1/} Excludes \$2.95 million identified as CAAS which was contracted for by DLA using funds provided from other DoD Components.

^{2/} Excludes FFRDCs

**APPENDIX F: SCHEDULE OF POTENTIAL MONETARY AND OTHER BENEFITS
RESULTING FROM AUDIT**

<u>Recommendation Reference</u>	<u>Description of Benefit</u>	<u>Amount and Type of Benefit</u>
1.	Internal Control. Revise DoD Directive 4205.2 to improve reporting and management of CAAS.	Nonmonetary.
	Program Results. Clarify application of CAAS requirements to Information Analysis Centers.	Nonmonetary.
	Program Results. Clarify application of CAAS requirements to individual task orders.	Nonmonetary.
2.	Program Results. Ensure consistency of implementing guidances among DoD Components.	Nonmonetary.
3.	Internal Control. Require DLA to report supportable figures in PB-27 Budget Exhibit.	Nonmonetary.
4.	Program Results. Increase knowledge of CAAS officials through training.	Nonmonetary.

APPENDIX G: ACTIVITIES VISITED OR CONTACTED

Office of the Secretary of Defense

Assistant Secretary of Defense (Health Affairs), Washington, DC
Director, DoD Contracted Advisory and Assistance Services,
Office of the Under Secretary of Defense (Acquisition),
Washington, DC

Defense Agencies

Headquarters, Defense Information Systems Agency, Arlington, VA
Headquarters, Defense Logistics Agency, Alexandria, VA
Defense Electronics Supply Center, Dayton, OH
Defense Medical Support Activity, Falls Church, VA
Headquarters, Defense Nuclear Agency, Alexandria, VA
Defense Nuclear Agency, Test Directorate, Kirtland Air Force
Base, Albuquerque, NM
Defense Nuclear Agency, Field Command, Kirtland Air Force Base,
Albuquerque, NM
Joint Staff, Washington, DC

APPENDIX H: REPORT DISTRIBUTION

Office of the Secretary of Defense

Under Secretary of Defense for Acquisition
Assistant Secretary of Defense (Health Affairs)
Deputy Assistant Secretary of Defense (Procurement)
Director for Defense Procurement
Director, Defense Research and Engineering
Director of Contracted Advisory and Assistance Services

Other Defense Activities

Director, Defense Information Systems Agency
Director, Defense Logistics Agency
Director, Defense Nuclear Agency
Director, Joint Staff

Non-DoD

Office of Management and Budget
U.S. General Accounting Office, NSIAD Technical Information
Center

Congressional Committees:

Senate Subcommittee on Defense, Committee on Appropriations
Senate Committee on Armed Services
Senate Ranking Minority Member, Committee on Armed Services
Senate Committee on Governmental Affairs
Senate Subcommittee on Federal Services, Post Office and Civil
Service, Committee on Governmental Affairs
House Committee on Appropriations
House Subcommittee on Defense, Committee on Appropriations
House Ranking Minority Member, Committee on Appropriations
House Committee on Armed Services
House Committee on Government Operations
House Subcommittee on Legislation and National Security,
Committee on Government Operations

PART IV - MANAGEMENT COMMENTS

Director, Acquisition Policy and Program Integration, Office of
the Under Secretary of Defense

Assistant Secretary of Defense (Health Affairs)

Defense Information Systems Agency

Defense Logistics Agency

Defense Nuclear Agency

The Joint Staff

**MANAGEMENT COMMENTS: DIRECTOR, ACQUISITION POLICY AND PROGRAM
INTEGRATION, OFFICE OF THE UNDER SECRETARY OF DEFENSE**



ACQUISITION
(AP&PI)

OFFICE OF THE UNDER SECRETARY OF DEFENSE
WASHINGTON DC 20301

22 August 1991

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MEMORANDUM FOR INSPECTOR GENERAL, DEPARTMENT OF DEFENSE

SUBJECT: Draft Audit Report on Consulting Services (Project No. 1CH-0007)

This memorandum responds to your request for comments on subject draft report.

We agree that if underreporting of CAAS did occur in the five audited components that it was due to unclear and conflicting guidance on what is or is not CAAS. However, the goal of developing a clear and easy to apply definition may not be feasible. This is borne out by the results of the GAO Office of Federal Procurement Policy (OFPP) test to identify those areas within the OMB Circular No. A-120, "Guidelines for the Use of Advisory and Assistance Services," definition that caused interpretational problems. The test showed that the definition could be improved but there were certain inherent factors causing agency officials to classify work statements differently, (for example, variation of experiences of those responsible for classification, the realistic possibility that accurate reporting of CAAS resources could result in funding for essential support being reduced without specific rationale, and poorly written performance work statements from which to make a determination). Therefore, it became apparent that trying to develop a definition of advisory and assistance services that could be used uniformly and consistently probably was not feasible or practicable. Rather, a growing number of OMB senior officials have come to the conclusion that a comprehensive approach that focuses on managing and controlling the use of services contracting in general would help in better understanding existing requirements and costs. The DoD agrees with this conclusion and is working closely with OFPP to develop better policies and procedures for the management, acquisition and use of contractor support.

Meanwhile, we are responding to your audit recommendations.

Recommendation 1. We recommend that the Under Secretary of Defense for Acquisition clarify the contracted advisory and assistance services definition, to include the applicability of CAAS requirements to automatic data processing services, services provided by the Information Analysis Centers, and individual task orders under contracts.

Concise. The revision to DoD Directive 4205.2, Contracted Advisory and Assistance Services (CAAS), contains an improved and easier to apply definition of CAAS. It clarifies application of the directive to automatic data processing (ADP) services by including all ADP services except those that are controlled in accordance with the Federal Information Management Resources Regulation (FIRMR, 41 CFR 201) and reported in Budget Exhibit 43a, "Report on Information Technology Systems." Services provided by the Information Analysis Centers (IAC) could be considered CAAS if the special studies, analytical or technical tasks

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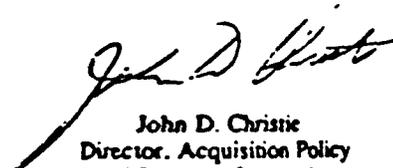
**MANAGEMENT COMMENTS: DIRECTOR, ACQUISITION POLICY AND PROGRAM
INTEGRATION, OFFICE OF THE UNDER SECRETARY OF DEFENSE**
(Continued)

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they are requested to do meet the revised CAAS definition on a task-by-task basis. Additional guidance pertaining to IAC or IAC-like activities will be included in the now-being developed "Guide for Obtaining CAAS." In the revised CAAS directive, individual task orders are specifically defined as a "contract action." Within the section of the new directive that discusses the identification and reporting of CAAS, all "contract actions" will be evaluated separately to determine if the service required meets the CAAS definition. The revised CAAS directive and the "Guide for Obtaining CAAS" are expected to be finalized by October 1991.

Recommendation 2. We recommend that the Director for Administration and Management revise the Office of the Secretary of Defense Administrative Instruction No. 54 to include the engineering and technical services category of contracted advisory and assistance services.

Concise: Administrative Instruction No. 54 will be revised and will include the engineering and technical services category of CAAS. The target date for the revised AI is 90 days after the DoD CAAS Directive is in effect (about October 1991). Actual preparation of the revision will be done by the OSD Studies Coordinator, a function assigned to the Office of the Director, Defense Research and Engineering.


John D. Christie
Director, Acquisition Policy
and Program Integration

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MANAGEMENT COMMENTS: ASSISTANT SECRETARY OF DEFENSE
(HEALTH AFFAIRS)



HEALTH AFFAIRS

THE ASSISTANT SECRETARY OF DEFENSE

WASHINGTON DC 20301 1200

4 SEP 91

MEMORANDUM FOR INSPECTOR GENERAL, DEPARTMENT OF DEFENSE

**SUBJECT: Draft Audit Report on Consulting Services
(Project No. ICH-0007)**

In reference to your memorandum dated, 11 June 1991, attached are Health Affairs comments on the subject report. Each finding and recommendation applicable to the Defense Medical Support Activity (DMSA) contained in the report is addressed in the attachments. Where the DMSA concurs with a recommendation finding, corrective actions taken or planned are provided. Where DMSA nonconcur, specific reasons are provided. DMSA will be initiating new procedures in budgeting for and reporting of consulting services once the Department of Defense issues guidance in accordance with recommendations made in the report.

Overall, DMSA found the inspection to be useful and informative. As a result of the preliminary findings, management's attention has been strengthened in areas where valid needs were evident. DMSA looks forward to continued assistance from your office as refinements are made in our management program.


Enrique Mendez, Jr., M.D.

Attachments:

1. DMSA response to, Draft DoDIG
Audit Report on Consulting Services
2. Comments on DoDIG Draft Audit Report,
APPENDIX B

MANAGEMENT COMMENTS: ASSISTANT SECRETARY OF DEFENSE
(HEALTH AFFAIRS) (Continued)

**DMSA Response to
Draft DoDIG Audit Report on Consulting Services**

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1. **Issue:** Internal Control Weakness
(Refer to Draft Report page(s): 4,5)

Finding: Of the five DoD Components reviewed, only the Joint Staff identified CAAS reporting separately for evaluation of internal controls. The audit did not identify any material internal control weaknesses as defined by Public Law 97-225, Office of Management and Budget Circular A-123, and DoD Directive 5010.38.

Response: Concur. This office agrees that CAAS should be separately identified for evaluation of related internal controls. The list of Assessable Units (AU) in the DMSA Internal Management Control (IMC) Program is being amended to include CAAS as an AU. This will result in the conduct of periodic Risk Assessments as specified in IMC policy directives. In view of the DoDIG findings, conduct of a CAAS Risk Assessment will be given priority over other planned risk assessments.

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MANAGEMENT COMMENTS: ASSISTANT SECRETARY OF DEFENSE
(HEALTH AFFAIRS) (Continued)

DMSA Response to
Draft DoDIG Audit Report on Consulting Services

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2. **Issue:** Identification and Reporting of CAAS
(Refer to Draft Report page(s): 9)

Finding: The five DoD Components...understated CAAS expenditures in reports to OSD and the Congress... Underreporting was due to unclear, conflicting, and inadequate guidance, which prevented officials from making informed, accurate, and consistent decisions.

Response: Partially concur. The Draft Report is correct that reporting guidance available to DoD Components is unclear and conflicting, specifically relating to the development, operation or support of automated information technology systems. It is also noted that DoD guidance is two years out-of-date from the most recent OMB Circular A-120 revision. As a result, CAAS expenditures may have been, but were not necessarily, understated.

The Study's review of contract actions for determination of CAAS applicability is a case in point of how difficult CAAS determination and reporting can be. The DMSA has reviewed in detail the DoDIG CAAS determinations contained in Appendix D (page 47) of the Draft Report. In some instances, the contracts in question clearly qualify as an exclusion specified in OMB Circular A-120. In other instances, CAAS applicability appears to be valid. At Attachment 2, the DMSA presents details of its review of DoDIG CAAS determinations.

The DMSA agrees that greater specificity and a more stringent interpretation of CAAS qualification is called for in future PB 27 Budget Exhibit reports. It is noted in the Draft Report (pages 24-26) that the DoD CAAS Director has an OSD action team at work to clarify guidance deficiencies, with revised guidance to be promulgated on or about September 30, 1991. It would therefore be premature for the DMSA to act at this time to independently pursue a corrective action.

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MANAGEMENT COMMENTS: ASSISTANT SECRETARY OF DEFENSE
(HEALTH AFFAIRS) (Continued)

**DMSA Response to
Draft DoDIG Audit Report on Consulting Services**

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**3. Issue: ADP-related Support Services as CAAS
(Refer to Draft Report page(s): 15)**

Finding: ADP-related support services should be reported as CAAS in the PB-27 Budget Exhibit because these assistance services are as vulnerable to waste and abuse as other assistance services, and the amounts procured are material.

Response: Nonconcur. There are various control mechanisms available to managers to lessen vulnerability to waste and abuse, of which CAAS reporting in the PB-27 Budget Exhibit is only one.

In addition to the PB-27 Budget Exhibit, ADP-related support services fall under one or more required control mechanisms to prevent fraud, waste, abuse and mismanagement. For example, under the FIRMR (41 CFR 201) Components must follow certain prescribed procedures regarding ADP/Telecommunications-related products and services which may result in General Services Administration control of the procurement. Also, under DoD Directive 7920.1, "Life Cycle Management of Automated Information Systems," DoD Components are charged to conduct periodic reviews of non-major systems, which includes cost and performance appraisals of associated ADP support services. Furthermore, under the Federal Managers Financial Integrity Act and the Internal Management Control Program, Component managers have the responsibility and means to identify and reduce the vulnerability cited in the finding.

Finally, the Draft Report finding appears to conflict with OMB Circular No. A-11 guidance on preparation and inclusion of information technology data in the PB 43 Budget Exhibit. As directed in A-11, DMSA PB-43 data includes all life cycle costs associated with an information technology system, including system development-related support which the finding suggests should be in the PB-27 Budget Exhibit. By virtue of its inclusion in the PB-43 exhibit, the data receives the scrutiny implied in the finding, within the more meaningful aggregation of system life cycle cost.

Together, these alternatives to the Audit Report finding that all ADP-related support services should be reported in the PB-27 exhibit offer reasonable assurance that the concern expressed in the finding is adequately addressed and controlled.

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MANAGEMENT COMMENTS: ASSISTANT SECRETARY OF DEFENSE
(HEALTH AFFAIRS) (Continued)

DMSA Response to
Draft DoDIG Audit Report on Consulting Services

4. ISSUE: SAIC Delivery Order Contract is not CAAS
(Refer to Draft Report page(s): 20)

FINDING: We agreed with the assertion of DMSA officials that the services on delivery orders reviewed (from the SAIC contract) were not CAAS because they were directly related to development of the health care system.

RESPONSE: Concur.

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**MANAGEMENT COMMENTS: ASSISTANT SECRETARY OF DEFENSE
(HEALTH AFFAIRS) (Continued)**

**DMSA Response to
Draft DoDIG Audit Report on Consulting Services**

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5. **ISSUE:** Extent of CAAS-related Training
(Refer to Draft Report page(s): 22, 27)

Recommendation: The Director, Defense Communications Agency; the Director, Defense Logistics Agency; the Director, Joint Staff; and the Assistant Secretary of Defense (Health Affairs) require training on the identification and reporting of contracted advisory and assistance services to be provided to comptroller, contracting, and management personnel.

Response: Concur. The DMSA, as part of its Internal Management Control (IMC) Program, will obtain and provide CAAS training to its comptroller, contracting, and appropriate management personnel. This training will be completed in the first quarter of Fiscal Year 1992, and will be documented and reported as appropriate for IMC Program matters.

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MANAGEMENT COMMENTS: ASSISTANT SECRETARY OF DEFENSE
(HEALTH AFFAIRS) (Continued)

Attachment 2

Final Report
Page No.

COMMENTS ON DoDIG DRAFT AUDIT REPORT
APPENDIX D
"LIST OF CONTRACT ACTIONS DETERMINED TO BE CAAS"

Defense Medical Support Activity (FY 1989)

Contract/Modification

DMSA Comment

Birch and Davis Assoc.
MDA903-88-C-0071
(P00003)
\$100,000

This modification provided funds to continue work on Task Areas 2 & 4, Military Health Services System (MHSS) information architecture development and a Medical Logistics (MedLog) Survey in Europe. These tasks appear to fall under CAAS.

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Elec. Data Systems, Inc.
MDA903-83-C-0149
(P00019)
\$788,640

This modification provided funds for retroactive adjustments to overhead and general and administrative costs for an expired Defense Enrollment Eligibility Reporting System (DEERS) development and operations contract. It can be argued that the original statement of work categorizes the contract as a system development contract and as such it is not CAAS.

Mitchell Systems, Inc.
MDA903-87-C-0605
(P00004)
\$482,151

This modification provided funds for continuing operations of the OASD(HA) office automation network. It can be argued that this contract falls under an exclusion in OMB Circular No. A-120, specifically, the exclusion of "day-to-day operation of facilities... (e.g. ADP operations...)." Therefore it can be argued this contract is not CAAS.

Defense Medical Support Activity (FY 1990)

Mitre Corp.
MDA903-88-C-0068
(P00005)
\$499,993

This modification provided funds for a feasibility study regarding patient level cost accounting within the MHSS. This tasking appears to fall under CAAS.

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**MANAGEMENT COMMENTS: ASSISTANT SECRETARY OF DEFENSE
(HEALTH AFFAIRS) (Continued)**

Irving Burton Assoc.
MDA903-C-0023
(P00004)
\$823,787

The modification exercised an Option Year of this technical and administrative support contract. It appears to fall under CAAS.

Mitchell Systems Inc.
MDA903-89-C-0073
(P00005)
\$158,311

This modification increased the first Option Year level-of-effort for the DMSSC Automated Resource Management Information System (DARMIS) operations and training contract. It can be argued that this contract falls under one or more exclusion statements in A-120. Specifically, the exclusion of "day-to-day operation of facilities... (e.g. ADP operations...)" applies. Also, A-120 paragraph 5.A.(3)c. excludes "training which maintains skills necessary for normal operations." The contract Statement of Work appears to satisfy both these exclusions to the extent that this contract is not CAAS.

KAJAX Engineering
MDA903-89-C-0042
(P00003)
\$349,877

This modification exercised the first Option Year of a Composite Health Care System (CHCS) Test and Evaluation support contract. Since the nature of the support was generally administrative versus technical, this contract appears to fall under CAAS.

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MANAGEMENT COMMENTS: DEFENSE INFORMATION SYSTEMS AGENCY
(FORMERLY THE DEFENSE COMMUNICATIONS AGENCY)



IN REPLY
REFER TO CEA

DEFENSE COMMUNICATIONS AGENCY

WASHINGTON DC 20305 2000

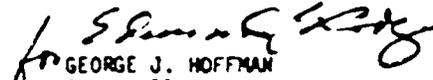
MEMORANDUM FOR ASSISTANT INSPECTOR GENERAL FOR AUDITING, DEPARTMENT OF DEFENSE

SUBJECT: Draft Audit Report on Consulting Services (Project No. ICH-007)

The Defense Information Systems Agency's response to the subject audit report is enclosed. Questions or comments may be directed to Ms. Audrey Moore, 692-4524.

FOR THE DIRECTOR:

1 Enclosure a/s

for 
GEORGE J. HOFFMAN
Comptroller

0001 132 91

Effective 25 June 1991, DCA was redesignated the Defense Information Systems Agency (DISA)

MANAGEMENT COMMENTS: DEFENSE INFORMATION SYSTEMS AGENCY
(FORMERLY THE DEFENSE COMMUNICATIONS AGENCY)
(Continued)

DRAFT REPORT ON CONSULTING SERVICES
RECOMMENDATIONS

Recommendation 1 - Concur with IG finding that the definition of CAAS requires clarification. The purported difference between the DoDIG perception of what is CAAS versus what DISA defines as CAAS demonstrates that clearer guidance is necessary. DISA understands that revised policy is being developed by OSD and will alleviate this problem.

a) We do not concur with the example cited as "DISA underreported of CAAS," specifically, the example cited of Honeywell Federal Systems, Inc. (DCA100-86-C-0067), P00010) is not CAAS. This modification is part of a contract for testing and correction of the WWMCCS Information Systems Local Area Network software versions 1.7 and 1.8. While software support sometimes involves the vendor providing advice on alternative approaches to maintenance, the primary purpose is not advisory services. A valid analogy would be treating a car mechanic as CAAS because he provides advice on how to maintain your car. His primary purpose is to fix a car, not provide advice.

b) The statement made in the report regarding agencies not having an incentive to report CAAS, while true, is not germane to the issue. Without a definitive explanation of what CAAS is, management can hardly be criticized for taking what it considers to be a logical interpretation. The examples shown in the audit report include services that could hardly be called advisory in nature, yet do have elements of advice in them. Taking a broad approach, such as in the audit, it is doubtful that any service provided could be excluded from CAAS. For example, development of a model or a system is primarily an acquisition effort, yet a well designed contract would have the vendor propose changes to ensure that the contractor doesn't build a product that he knows would be inferior to what he could build. This is the same logic that permits any service vendor to provide a product of better quality than asked for. Considering contract types, such as CAAS, would result in major weapons systems purchases being classified as CAAS, given that they often permit engineering change proposals. CAAS would also include hardware acquisitions that would permit an equivalent product, because we permit the vendor to exercise judgement (provide advice). Clearly, this is not what was intended by the Congress in the CAAS legislation. A logical definition would include, as CAAS, only those contracts where the primary product was advice. We fully agree with the DoDIG that whatever the intent, the definition should be clear to permit management and auditors to perform evaluations that do not result in varied and inconsistent interpretations.

Recommendation 4 - Concur in part. Upon a clear definition from OSD, within 90 days, DISA will establish a training program to ensure that Comptroller, contracting and management personnel understand the definition of CAAS.

Enclosure

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MANAGEMENT COMMENTS: DEFENSE LOGISTICS AGENCY



DEFENSE LOGISTICS AGENCY
HEADQUARTERS
CAMERON STATION
ALEXANDRIA VIRGINIA 22304-6100



DLA-CI

14 Aug 91

MEMORANDUM FOR DEPUTY ASSISTANT INSPECTOR GENERAL FOR AUDITING
DEPARTMENT OF DEFENSE

SUBJECT: Draft Report on Consulting Services (Project No
:CH-0007)

Enclosed is a response to your memorandum dated 12 Jul 91. The
attached positions have been approved by Ms Helen T. McCoy,
Deputy Comptroller, Defense Logistics Agency

3 Encs


JACQUELINE G. BRYANT
Chief, Internal Review Division
Office of Comptroller

MANAGEMENT COMMENTS: DEFENSE LOGISTICS AGENCY (Continued)

TYPE OF REPORT: AUDIT

DATE OF POSITION: 13 Aug 91

PURPOSE OF INPUT: INITIAL POSITION

AUDIT TITLE AND NO : Draft Report on Consulting Services (Project No. ICH-0007)

RECOMMENDATION 3: We recommend that the Director, Defense Logistics Agency (DLA), establish internal controls to verify that projected figures reported in the PB-27 Budget Exhibit are accurate and supportable.

DLA COMMENTS: Nonconcur. DLA all ready has an internal control mechanism as implemented by DLA Regulation (DLAR) 5010.3 that requires an annual data call for CAAS Budget Exhibit PB-27. The PB-27 is prepared from information given by all DLA field activities and headquarters elements, then the approved inflation factors are applied to the amounts produced from this data call, and finally adjustments are made in the OSD budget review process to incorporate relevant Defense Management Review and Program Budget Decisions. Although in the second year of the two year budget submission, the data call was not made and instead, the revised figures were derived based on historical CAAS usage. This produced a one-time aberration that will not be repeated because DLA has included a CAAS data call (for implementation in June of each year) in its revised CAAS DLAR 5010.3, dated 18 July 91. Both the current and revised CAAS DLARs have monitor and verification procedures to ensure that the CAAS projects submitted in the data call are accurate and supportable.

DISPOSITION:

- () Action is ongoing; Final Estimated Completion Date
- (x) Action is considered complete.

INTERNAL MANAGEMENT CONTROL WEAKNESS:

- (x) Nonconcur; for the above reasons.

MONETARY BENEFITS: NONE

DLA COMMENTS: See above.
ESTIMATED REALIZATION DATE: NA
AMOUNT REALIZED: NA
DATE BENEFITS REALIZED: NA

ACTION OFFICER: Dick Higginbotham, DLA-PPP, x47936, 28 JUL 91

PSE APPROVAL: B.B. Williams, Chief, Contracts Division,
Contracting, 28 JUL 91

DLA APPROVAL: Helen T. McCoy, Deputy Comptroller

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MANAGEMENT COMMENTS: DEFENSE LOGISTICS AGENCY (Continued)

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TYPE OF REPORT: AUDIT

DATE OF POSITION 13 Aug 91

PURPOSE OF INPUT: INITIAL POSITION

AUDIT TITLE AND NO : Draft Report on Consulting Services (Project No. ICH-00C7).

RECOMMENDATION 4: We recommend that the Director, Defense Communications Agency, the Director, Defense Logistics Agency, the Director Joint Staff, and the Assistant Secretary of Defense (Health Affairs) require training on the identification and reporting of contracted advisory and assistance services be provided to comptroller, contracting, and management personnel.

DLA COMMENTS: Partially Concur. While we believe that DoD-wide training in the identification and reporting of CAAS is needed and would be beneficial, we do not believe it is appropriate for DLA to initiate this action. Under Defense Management Review Decision 905, the Assistant Secretary of Defense has assigned responsibility to the OSD Director for CAAS to promulgate strengthened DoD-wide CAAS policies and procedures, including a management plan that provides for uniform and comprehensive guidance/training. One initiative now underway is the development of a CAAS informational pamphlet describing the application of appropriate policies and procedures for DoD-wide management, acquisition and use of CAAS resources. Upon distribution of the pamphlet and OSD revised policies and procedures for CAAS, DLA will promulgate the issuances to all CAAS management principals.

DISPOSITION:

- () Action is ongoing; Final Estimated Completion Date
- (x) Action is considered complete.

INTERNAL MANAGEMENT CONTROL WEAKNESS:

- (X) Concur; however, weakness is not considered material.

MONETARY BENEFITS: NONE

DLA COMMENTS: Partially Concur. See above.

ESTIMATED REALIZATION DATE: NA

AMOUNT REALIZED: NA

DATE BENEFITS REALIZED: NA

ACTION OFFICER: Dick Higgintotham, DLA-PPP, x47936, 28 JUL 91

PSE APPROVAL: B.B. Williams, Chief, Contracts Division,
Contracting, 28 JUL 91

DLA APPROVAL: Helen T. McCoy, Deputy Comptroller

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MANAGEMENT COMMENTS: DEFENSE LOGISTICS AGENCY (Continued)

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TYPE OF REPORT: AUDIT DATE OF POSITION 13 Aug 9.

PURPOSE OF INPUT: INITIAL POSITION

AUDIT TITLE AND NO : Draft Report on Consulting Services (Project
No. ICH-0007)

FINDING: IDENTIFICATION AND REPORTING OF CAAS

The five DoD Components (DCA, DLA, DNA, DMSA, and Joint Staff) understated CAAS expenditures in reports to OSD and the Congress by \$20.4 million for FY 89 and by \$19.2 million for FY 90. In addition, DLA issued 13 contract actions totaling \$2.2 million in FY 89, and 17 contract actions totaling \$3.0 million in FY 90 to Information Analysis Centers for contracted advisory and assistance services, which were funded by Military Departments and other DoD Components. Underreporting was due to unclear, conflicting, and inadequate guidance, which prevented officials from making informed, accurate, and consistent decisions. According to officials we interviewed, DoD Components also narrowly interpreted and applied the CAAS definition because of a perception that the Congress might reduce the DoD CAAS budget due to congressional concerns of Government-wide CAAS overspending. As a result, data reported to OSD and the Congress for FY's 89 and 90 were not reliable for oversight and policy-making purposes.

DLA COMMENTS: Nonconcur. The underreporting cited by the report should not be attributed to DLA, because the 13 and 17 contract actions for FY 89 and 90, respectively, resulted from Military Interdepartmental Purchase Requests (MIPRs) which were received from Military Services. The Military Services are the activity benefiting from the CAAS products, and are responsible for CAAS identification, budgeting, funding and reporting of CAAS obligations in their respective accounting systems.

INTERNAL MANAGEMENT CONTROL WEAKNESS:

(x) Nonconcur: for the above reasons.

MONETARY BENEFITS: NONE
DLA COMMENTS: See Above
ESTIMATED REALIZATION DATE: NA
AMOUNT REALIZED: NA
DATE BENEFITS REALIZED: NA

ACTION OFFICER: Dick Higginbotham, DLA-PPP, x47232, 28 JUL 9;
PSE APPROVAL: S.B. Williams, Chief, Contracts Division,
Contracting, 28 JUL 91

DLA APPROVAL: Helen T. McCoy, Deputy Comptroller

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MANAGEMENT COMMENTS: DEFENSE NUCLEAR AGENCY

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Page No.



Defense Nuclear Agency
600 Telegraph Road
Alexandria, Virginia 22304-3399



COS

AUG 7 1991

MEMORANDUM FOR DEPARTMENT OF DEFENSE INSPECTOR GENERAL

SUBJECT: Defense Nuclear Agency (DNA) Comments on Draft
Report on Consulting Services (Project No.
1CX-0007)

Reference your memorandum dated 11 June 1991 concerning
the draft audit report on consulting services.

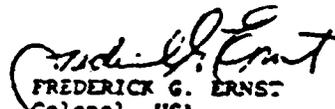
Our evaluation and comments regarding the subject
report are provided as requested. Overall, DNA concurs with
the basic facts supporting the findings and concurs with the
recommendations.

We concur with the finding that the existing guidance
and definitions are unclear and we welcome more objective
criteria. The ambiguity of the existing guidance and
definitions promotes an inconsistent application of
standards between DoD components. We believe that our
implementation of the existing definition is reasonable and
responsible though we recognize that some underreporting is
possible due to the lack of standardization.

Although DNA was not specifically mentioned in any of
the recommendations, your audit has provided a focus on the
need to improve training and review internal controls.

We appreciate the very professional efforts of your
staff. Should you have any questions or comments, please do
not hesitate to call.

FOR THE DIRECTOR:


FREDERICK G. ERNST
Colonel, USA
Acting Chief of Staff

5

MANAGEMENT COMMENTS: THE JOINT STAFF



THE JOINT STAFF
WASHINGTON, DC

Final Report
Page No.

Reply ZIP Code:
20318-8000

J-8 2479/332-GC
8 August 1991

MEMORANDUM FOR THE INSPECTOR GENERAL

Subject: Draft Audit Report on the Audit of Consulting
Services (Project No. ICH-0007)

1. I concur with the report's recommendations. There is a need for a revised, clear definition of CAAS and following that, a need to train CAAS managers.
2. The strength of the draft report might be enhanced by reconsidering and rewording certain sections. For example:
 - a. Page 15, second paragraph. The rationale is not very convincing. Many activities are subject to potential waste fraud and abuse; that does not motivate classifying them as CAAS. 8
 - b. Page 20, second and third paragraphs. The report's conclusion that these management services, systems analyses, ADP software development activities, and assistance in solving hospital site problems are not CAAS appears to contradict the report's main theme that these activities ARE CAAS and that the Defense Agencies have under reported their CAAS expenditures by failing to report them. The report's explanation that these activities were not CAAS because they were directly related to development of the health care system is not very compelling; most activities of this nature support the development or operation of some definable system. 10
3. The report's assertion that the inspected agencies had under reported CAAS might convey more understanding if it were expressed conditionally; CAAS was under reported IF the definition of CAAS includes ADP system software development and maintenance activities. From the example cited on page 20 of the report, software development as well as several types of consulting and management study activities may NOT be CAAS. Until CAAS is precisely defined, it is difficult to say that these agencies are truants. Again, I agree that a clearer definition of CAAS is needed.

MANAGEMENT COMMENTS: THE JOINT STAFF
(Continued)

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4. As an aside, it might be worth revisiting with the Congress, GAO, and the DOD Comptroller their current desires for reporting contract support expenditures and the resulting, implied revisions needed to a definition of CAAS. Definitions of CAAS in the current collection of DOD policy, guidance, and regulations were articulated at different times to address different management perspectives. A revised DOD definition of CAAS and expenditure reporting requirements should stem from the current interests and intent of the Congress and DOD leadership, rather than from a consolidation and leveling of potentially outdated interests and procedures.

5. Any response to the report's recommendation that CAAS managers receive training on procedures and definitions for CAAS must be answered conditioned on the publication of definitions and procedural guidance from a DOD CAAS authority. Conditioning the report's "training" recommendation on the availability of revised definitions and procedures may provide the affected agencies with a more workable recommendation. It might also be more effective to charge the DOD CAAS authority with implementing the needed training program rather than tasking the training function to each separate agency. That might help ensure more consistent CAAS management standards and practices.

6. I appreciate very much the report's acknowledgement of the Joint Staff CAAS management procedures and our rigorous Internal Controls Program. We have made a very deliberate and vigorous effort over the last three years to establish and practice strong resource management. Our resource management and Internal Controls programs covers fiscal, personnel, contract management, CAAS, information processing and all other types of resources. Our program is based on peer and senior level visibility into all resource management activities from requirement validation to completion and on periodic, independent inspection of each program for compliance with all DOD and Joint Staff regulations and guidance. The Joint Staff will certainly comply thoroughly and promptly with any revisions to the definitions and procedures for managing CAAS resources.


VINCENT P. ROSKE, JR., SES
Deputy Director for Technical
Operations, J-8

LIST OF AUDIT TEAM MEMBERS

David K. Steensma, Director, Contract Management Directorate
Garold E. Stephenson, Program Director
Kimberley A. Caprio, Project Manager
Lawrence Zaletel, Team Leader
Katherine E. Newman, Auditor
Bradley A. Beckerman, Auditor
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