Audit Report

OFFICE OF THE INSPECTOR GENERAL

DOD REPORTING AND CONTROLS FOR CONTRACTED SUPPORT SERVICES

Report No. 95-295 August 21, 1995

Department of Defense

Additional Copies

To obtain additional copies of this report, contact the Secondary Reports Distribution Unit, Audit Planning and Technical Support Directorate, at (703) 604-8937 (DSN 664-8937) or FAX (703) 604-8932.

Suggestions for Future Audits

To suggest ideas for or to request future audits, contact the Planning and Coordination Branch, Audit Planning and Technical Support Directorate, at (703) 604-8939 (DSN 664-8939) or FAX (703) 604-8932. Ideas and requests can also be mailed to:

Inspector General, Department of Defense
OAIG-AUD (ATTN: APTS Audit Suggestions)
400 Army Navy Drive (Room 801)
Arlington, Virginia 22202-2884

Defense Hotline

To report fraud, waste, or abuse, contact the Defense Hotline by calling (800) 424-9098; by sending an electronic message to Hotline@DoDIG.OSD.MIL; or by writing to the Defense Hotline, The Pentagon, Washington, D.C. 20301-1900. The identity of each writer and caller is fully protected.

Acronyms

CAAS	Contracted Advisory and Assistance Services
CECOM	Communications-Electronics Command
ESC	Electronic Systems Center
FPDS	Federal Procurement Data System
MICOM	Missile Command
NAVSEA	Naval Sea Systems Command

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

August 21, 1995

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE FOR ACQUISITION AND TECHNOLOGY
DIRECTOR, DEFENSE PROCUREMENT
ASSISTANT SECRETARY OF THE NAVY (FINANCIAL MANAGEMENT AND COMPTROLLER)
ASSISTANT SECRETARY OF THE AIR FORCE (FINANCIAL MANAGEMENT AND COMPTROLLER)
AUDITOR GENERAL, DEPARTMENT OF THE ARMY

SUBJECT: Audit Report on DoD Reporting and Controls for Contracted Support Services (Report No. 95-295)

We are providing this audit report for your review and comment. This report is one in a series of reports prepared in response to the statutory requirement to annually audit contracted advisory and assistance services.

DoD Directive 7650.3 requires that all audit recommendations be resolved promptly. Comments from the Army, the Navy, and the Air Force on a draft of this report were considered in preparing the final report. The Under Secretary of Defense for Acquisition and Technology; the Director, Defense Procurement; and the DoD Director of Contracted Support Services did not comment on a draft of this report. Recommendation B.3 to the Director of Contracted Support Services was redirected in this final report to the Under Secretary of Defense for Acquisition and Technology as Recommendation B.1.b. Part of Recommendation B.2.b. to the Director, Defense Procurement, was redirected to the Under Secretary of Defense for Personnel and Readiness as Recommendation B.3. We request that the Under Secretary of Defense for Acquisition and Technology, the Under Secretary of Defense for Personnel and Readiness, and the Director, Defense Procurement, provide comments on the final report. We also request that the Army provide additional comments on completion dates for planned corrective actions. Requirements for comments are at the end of each finding. Comments should be received by October 23, 1995.

We appreciate the courtesies extended to the audit staff. Questions on this audit should be directed to Ms. Kimberley A. Caprio, Audit Program Director, at (703) 604-9248 (DSN 664-9248). See Appendix H for the report distribution. The audit team members are listed inside the back cover.

David K. Steensma

David K. Steensma
Deputy Assistant Inspector General
for Auditing

Office of the Inspector General, DoD

Report No. 95-295 **August 21, 1995**
(Project No. 2CH-3003.01)

DoD Reporting and Controls For Contracted Support Services

Executive Summary

Introduction. DoD acquires contracted support services to support or improve agency policy development, decisionmaking, management, and operations. Title 31, United States Code, section 1114(b), required that the Office of the Inspector General, DoD, submit to Congress, as part of the annual budget justification, an evaluation of progress that DoD has made in establishing effective management controls and improving the accuracy and completeness of information provided on contracted support services. The reporting requirement was rescinded in November 1994. This report is one in a series of reports on audits done before and during 1994 in response to the statutory requirement to annually audit contracted advisory and assistance services. In FY 1994, DoD reported expenditures for consulting services, which included contracted support services, totaling $2.6 billion. The six DoD organizations included in this audit reported $777 million of contracted support services for FY 1994.

Audit Objectives. The primary audit objectives were to evaluate:

o the progress that DoD has made in establishing effective management controls and in improving the accuracy and completeness of the information reported on contracted support services and

o the extent to which contracted support services are being used by the Military Departments to compensate for DoD staffing reductions.

This report addresses the first objective. Inspector General, DoD, Report No. 94-112, "Procurement of Support Services by the Air Force Electronic Systems Center, Hanscom Air Force Base, Massachusetts," May 27, 1994, addresses the second objective as it relates to the Air Force Electronic Systems Center. Inspector General, DoD, Report No. 95-063, "Cost-Effectiveness of Contracting for Services," December 30, 1994, addresses the second objective as it relates to the Army and the Navy.

Audit Results. The six DoD organizations reviewed overreported, underreported, and did not adequately support contracted support services. Also, management controls over contracted support services were not adequate within the six DoD organizations reviewed.

o For the $241 million in contracted support services reviewed, the six DoD organizations reviewed overreported contracted support services by $38.5 million, underreported contracted support services by $0.8 million, and did not adequately support $64.7 million of contracted support services in the Schedule of Consulting Services FY 1994 Budget Exhibit. The six organizations overreported contracted support services by $41.3 million and underreported contracted support services by $137.8 million in the Federal Procurement Data System for FY 1992. A variance of $38.2 million existed between amounts reported in the budget exhibit and in the FPDS

for FY 1992 obligations for contracted support services. As a result, data on contracted support services reported to senior DoD officials and Congress may not have been consistent or reliable for policy and decisionmaking purposes (Finding A).

o Management controls over contracted support services were not adequate within the six DoD organizations reviewed. As a result, the Government could not be assured that contracted support services policies and procedures were followed or that Government resources were used in the most efficient and cost-effective manner (Finding B).

Summary of Recommendations. We recommend that the Director, Defense Procurement, establish DoD-wide training on requirements for reporting on contracted support services and revise DoD Directive 4205.2, "Acquiring and Managing Contracted Advisory and Assistance Services," February 10, 1992; establish procedures to verify compliance with DoD Directive 4205.2, including procedures for comparing costs of contracting out services versus doing work in-house. We recommend that the Under Secretary of Defense for Personnel and Readiness establish a system to track the impact of workforce reductions. We also recommend that the Under Secretary of Defense for Acquisition and Technology fill the vacant position of Director of Contracted Support Services. The draft report recommended the DoD Director of Contracted Support Services perform annual assessments of contracted support services policies. Because that position is vacant, we redirected the recommendation to the Under Secretary of Defense for Acquisition and Technology as a requirement to be fulfilled when the position is filled. We also recommend that the Army, the Navy, and the Air Force designate contracted support services as a management control assessable unit at the six DoD organizations reviewed and that they include the results as a performance measurement for the organizations.

Management Comments. The Army, the Navy, and the Air Force concurred with the recommendation to include contracted support services through a management control assessable unit and include the results of the assessment as a performance measurement for the organizations. The Under Secretary of Defense for Acquisition and Technology; the Director, Defense Procurement; and the DoD Director of Contracted Support Services did not provide comments to a draft of this report.

Audit Response. The actions taken by the Army, the Navy, and the Air Force are generally responsive to the intent of the recommendations. Additional comments are not required from the Navy. We request that the Army provide completion dates for implementation of planned corrective actions. We request that the Under Secretary of Defense for Acquisition and Technology, the Under Secretary of Defense for Personnel and Readiness, and the Director, Defense Procurement, provide comments on the final report by October 23, 1995.

Table of Contents

Executive Summary i

Part I - Audit Results

Audit Background 2
Audit Objectives 4
Finding A. Accuracy of DoD Reporting of Contracted Support Services 5
Finding B. Management Controls Over Contracted Support Services 20

Part II - Additional Information

Appendix A. Scope and Methodology
Scope and Sample Selection 32
Methodology 32
Management Control Program 33
Appendix B. Summary of Prior Audits and Other Reviews 35
Appendix C. Variations in DoD Organizations' Reporting of Contracted Support Services in the FY 1994 Budget Exhibit 41
Appendix D. Variations in DoD Organizations' Reporting of Contracted Support Services in the Federal Procurement Data System 43
Appendix E. Director, Defense Procurement, Memorandum 45
Appendix F. Summary of Potential Benefits Resulting From Audit 46
Appendix G. Organizations Visited or Contacted 48
Appendix H. Report Distribution 50

Part III - Management Comments

Department of the Army Comments 54
Department of the Navy Comments 63
Department of the Air Force Comments 71

Part I - Audit Results

Audit Background

Contracted Advisory and Assistance Services. Contracted advisory and assistance services (CAAS) are services acquired from non-Government sources by contract to support or improve agency policy development, decisionmaking, management, and administration or to support or improve the operation of management systems. CAAS include advice, opinions, analyses, evaluations, recommendations, information, training, and technical support. CAAS are to be used only when necessary or cost-effective to meet mission requirements.

Reporting Requirements. United States Code, title 31, Section 1114(b) (31 U.S.C. 1114[b]) required that the Office of the Inspector General, DoD, submit to Congress, along with the agency annual budget justification, an evaluation of DoD progress in establishing effective management controls and improving the accuracy and completeness of information reported on CAAS contracts. (The Federal Acquisition Streamlining Act of 1994 rescinded the Inspector General reporting requirement.) This report is one in a series of reports prepared in response to the statutory requirement to annually audit CAAS.

Expenditures for Contract Support Services. In FY 1993, the Federal Government reported a total of $103 billion in service contracts. DoD reported $61 billion of the $103 billion. Of the $61 billion, DoD reported consulting services expenditures totaling $2.7 billion.

Table 1 shows that in FYs 1992 through 1994, contracted support services totaled $8.3 billion.

Table 1. Contracted Support Services Reported by DoD in FYs 1992 through 1994

FY	Reported Amount (billions)
1992	$3.0
1993	2.7
1994	2.6
Total	**$8.3**

Source: Schedule of Consulting Services FY 1994 Budget Exhibit

Change to Reporting Requirements to Include Consulting Services. In October 1992, the Office of Management and Budget revised guidance for CAAS reporting requirements and included CAAS in the definition of consulting services in the Office of Management and Budget Circular No. A-11,

"Preparation and Submission of Budget Estimates," July 1992. Consulting services now include CAAS as well as services that were previously exempt from CAAS reporting. The change occurred to comply with Public Law 102-394, title V, section 5(b), "Department of Labor, Health and Human Services, and Education, and Related Agencies, Appropriations Act," October 6, 1992 (31 U.S.C. 1105 note), which requires that obligations for consulting services be submitted to Congress annually under a separate accounting object class. For purposes of this report, we will refer to CAAS or consulting services as "contracted support services."

Related Guidance. Other Guidance related to the audit includes the following.

Policy Letter. The Office of Management and Budget also issued Office of Federal Procurement Policy Letter No. 93-1, "Management Oversight of Service Contracting," November 19, 1993, which establishes guidance for managing the acquisition and use of contracted support services. Policy Letter No. 93-1 rescinded the Office of Management and Budget Circular No. A-120, "Contracted Advisory and Assistance Services," January 4, 1988, which was the previous Government-wide guidance on CAAS.

DoD Directive 4205.2. DoD Directive 4205.2, "Acquiring and Managing Contracted Advisory and Assistance Services," February 10, 1992, serves as the current guidance within DoD for the identification, management, and reporting of contracted support services.

Concerns Over Contracted Support Services. Since the 1970s, Congress, the General Accounting Office, and Inspectors General have voiced concerns regarding the acquisition, management, and use of contracted support services by Government agencies. Prior Inspector General, DoD, audit reports state that contracted support services were underreported to Congress by as much as $4 billion to $9 billion per year. The concerns focus on the perception that a higher risk for fraud, waste, and abuse occurs when contracting for services, particularly contracted support services. Specifically, contracted support services may be acquired at costs of 25 percent to 40 percent more than similar services using in-house DoD personnel. Contracting out may be the only viable alternative to compensate for personnel shortages resulting from DoD downsizing. Through FY 1992, Congress statutorily placed a ceiling on DoD expenditures for contracted support services. However, because of downsizing, ceiling limitations were eliminated for FYs 1993 through 1995.

Recent Legislation Related to Contracted Support Services. Congress enacted legislation in FYs 1994 and 1995 that addresses the procurement of contracted support services versus the use of in-house DoD resources. The legislation includes Public Law 103-226, "Federal Workforce Restructuring Act of 1994," March 30, 1994, and section 363 of Public Law No. 103-337, "National Defense Authorization Act for FY 1995," October 5, 1994.

Federal Workforce Restructuring Act. The Federal Workforce Restructuring Act of 1994 prohibits the conversion of work formerly performed by civilian employees to contracted support services to compensate for personnel reductions. If the need to contract for services (including contracted

support services) results from the conversion of a function from in-house to contractor because of a reduction in personnel under the Act, then the Act requires that a cost comparison be performed. The guidance states that, where cost comparisons may be appropriate, agencies should rely on the cost comparison requirements of Office of Management and Budget Circular No. A-76, "Performance of Commercial Activities," August 4, 1983, or develop alternative cost comparison approaches. In addition, the Act requires that agencies maintain current information on workforce reductions; efforts to convert work from in-house to contracted support services and vice versa, including the number of contracts awarded; the impact on the number of full-time equivalents; and the related dollar savings.

National Defense Authorization Act. The National Defense Authorization Act for FY 1995 requires that if the capability to perform support services exists in-house, a cost comparison study shall be performed before any contract may be awarded in excess of $100,000.

Audit Objectives

The primary audit objectives of the audit were to evaluate the:

o progress that DoD has made in establishing effective management controls and in improving the accuracy and completeness of the information reported on contracted support services and

o extent to which contracted support services contracts are being used by the Military Departments to compensate for DoD staffing reductions.

This report addresses the first objective. Inspector General, DoD, Report No. 94-112, "Procurement of Support Services by the Air Force Electronic Systems Center, Hanscom Air Force Base, Massachusetts," May 27, 1994, addresses the second objective as it relates to the Air Force Electronic Systems Center. Inspector General, DoD, Report No. 95-063, "Cost-Effectiveness of Contracting for Services," December 30, 1994, addresses the second objective as it relates to the Army and the Navy.

Finding A. Accuracy of DoD Reporting of Contracted Support Services

Six DoD organizations reviewed, which were all Military Department organizations, did not accurately report contracted support services in the FY 1994 budget exhibit to Congress or in the Federal Procurement Data System (FPDS). Specifically, the six DoD organizations:

o overreported contracted support services by $38.5 million, underreported contracted support services by $0.8 million, and did not adequately support $64.7 million of the sampled $241 million contracted support services reported in the FY 1994 budget exhibit and

o overreported contracted support services by $41.3 million and underreported contracted support services by $137.8 million of the sampled $1.27 billion in contract actions reported in the FPDS for FY 1992.

In addition, the DoD organizations reviewed had a variance of $38.2 million between actual obligations for contracted support services reported for FY 1992 in the FY 1994 budget exhibit and actual obligations reported in the FPDS.

The inaccurate reporting of contracted support services occurred because of:

o continued limited guidance and training,

o continued difficulty in interpreting available guidance,

o timing of reporting by the DoD organizations, and

o limited support for reported amounts.

The variations between amounts reported in the two documents occurred because the channels used to accumulate and report data to each system were different, and because the data required to be reported to each system were different.

As a result, data on contracted support services reported to senior DoD officials and Congress may not be sufficiently consistent or reliable for oversight and policy-making purposes and may not allow for informed, accurate, and consistent decisionmaking.

Contracted Support Services Reporting Mechanisms

DoD organizations report information on the procurement of contracted support services in two documents: the budget exhibit submitted annually to Congress with the annual appropriations request and the FPDS.

Annual Reporting Requirement to Congress. Section 2212 of Public Law 100-370, "Codification of Military Laws," and 31 U.S.C. 1114 (a), "Budget Information on Consulting Services," require DoD to identify contracted support services obligations by appropriation in an annual budget exhibit to Congress. The budget exhibit should identify, by appropriation:

o actual obligations for contracted support services for the prior year,

o actual and planned obligations for contracted services for the current year, and

o projected obligations for contracted support services for 1 year beyond the current year.

31 U.S.C. 1114(b) required that the Inspector General, DoD, annually evaluate the accuracy and completeness of amounts reported to the FPDS. The law did not require that the Inspector General, DoD, verify the accuracy of information included in the budget exhibit. The Federal Acquisition Streamlining Act of 1994 rescinded the requirement for Inspectors General evaluations.

For purposes of this audit, to determine the accuracy of all contracted support services reported, we conducted analyses of amounts reported in both the FY 1994 budget exhibit and in the FPDS.

FPDS Reporting. The FPDS serves as a central repository for statistical data on Federal contracts. DoD contracting officers input information into FPDS when funds are obligated on a contract. The input is based on information identified on DD Forms 350, "Individual Contracting Action Report," and 1057, "Monthly Summary of Actions $25,000 or Less." The DD Form 350 requires that the contracting officer identify whether the contract action is or is not CAAS, as well as designate an appropriate Federal supply code. (As of December 1994, FPDS reporting requirements on the DD Form 350 have not been revised to require the designation of contracted support services.) The DD Form 1057 does not require identification of contract actions as CAAS.

Amounts Reported in FY 1994 Budget Exhibit

Accuracy of Amounts Reported in FY 1994 Budget Exhibit. The FY 1994 budget exhibit showed that the six DoD organizations overreported contracted support services by $38.5 million, underreported contracted support services

by $0.8 million, and did not adequately support $64.7 million of contracted support services for FYs 1992 through 1994.

Table 2 identifies the reporting variances identified. Appendix C lists variations identified by fiscal year.

Table 2. Variations Identified in Contracted Support Services Reported in the FY 1994 Budget Exhibit
(in millions)

DoD Organization	Total Amount Reviewed	Reporting Variances		
		Over	Under	Unsupported
CECOM	$ 14.5	$ 1.7	$0.2	$ 0
MICOM	20.6	4.5	0*	2.5
NAVSEA	117.2	1.5	0.6	62.2
ESC	47.1	4.6	0	0
San Antonio Air Logistics Center	22.2	25.2	0	0
Space and Missile Systems Center	19.8	1.0	0	0
Total	**$241.4**	**$38.5**	**$0.8**	**$64.7**

CECOM Communications-Electronics Command
ESC Electronic Systems Center
MICOM Missile Command
NAVSEA Naval Sea Systems Command

*Less than $0.05 million.

Methodology Used to Evaluate Amounts Reported in FY 1994 Budget Exhibit. To evaluate the accuracy of amounts reported by the Military Departments in the FY 1994 budget exhibit, we judgmentally selected 43 entries to the FY 1994 budget exhibit that identified $241 million in contracted support services for FYs 1992 through 1994. The value of the contract actions reported in the FY 1994 budget exhibit by the six organizations totaled $777 million. We reviewed supporting documentation to verify that the requirements included in the FY 1994 budget exhibit were correctly identified as contracted support services and that the correct amount was reported in the FY 1994 budget exhibit.

Amounts Reported in the FPDS

Accuracy of Reported Amounts in the FPDS. For the six organizations reviewed, we determined that 233 contract actions, totaling $137.8 million, should have been reported as contracted support services in the FPDS, but were not reported. In addition, 55 contract actions, totaling $41.3 million, were incorrectly identified as contracted support services in the FPDS.

Table 3 identifies the reporting variations identified. Appendix D lists variations identified by contract.

Table 3. Variations in Contracted Support Services Reported in the FPDS for FY 1992
(in millions)

DoD Organization	Dollar Amount[1] Sampled	Amount Reported in Sample	Reporting Variance in Sample Over	Reporting Variance in Sample Under
CECOM	$ 108.8	$ 26.3	$22.2	$ 29.7
MICOM	648.0	8.0	0	27.6
NAVSEA	191.4	116.1	11.6	4.5
San Antonio Air Logistics Center	56.5	1.0	2.5	3.3
Space and Missile Systems Center	188.1	19.4	2.7	39.5
ESC	77.0	2.8	2.3	33.2
Total	**$1,269.8**	**$173.6**	**$41.3[2]**	**$137.8**

[1]Includes both those reported and not reported as contracted support services.
[2]Rounded.

Methodology Used to Evaluate Amounts Reported in the FPDS. To evaluate the accuracy of contracted support services reported in the FPDS for the six organizations reviewed, we examined two samples of data. First, we evaluated a judgmental sample of FY 1992 contract actions totaling $173.6 million, identified in the FPDS as contracted support services, to determine whether the contract actions were correctly reported as contracted support services. We also reviewed a judgmental sample of FY 1992 contract actions, totaling $1.1 billion, that were reported as service contracts--but not identified as contracted support services--in the FPDS, to determine whether the contract actions should have been reported as contracted support services requirements.

Prior Reported Findings on Accuracy of the FPDS. The Inspector General, DoD, has cited inaccuracies in reporting on contracted support services in reports issued since 1983. Most recently, in Inspector General, DoD, Report No. 91-041, "Contracted Advisory and Assistance Services Contracts," February 1, 1991, we reported that the Army, the Navy, and the Air Force did not identify or report between $4 billion and $9 billion of contracted support services in the FPDS for FY 1987. While we are also identifying reporting discrepancies in this report, we did not use a statistical sample, as was done in Report No. 91-041, and, therefore, can not project the results.

Reasons for Reporting Inaccuracies

Limited Guidance and Training. Inspector General, DoD, Report No. 91-041, states that the Military Departments were not timely in providing updated guidance to their commands and field organizations. Specifically, the Military Departments did not update regulations to implement the 1986 revision to DoD Directive 4205.2, did not disseminate information to the field organizations, and did not provide training to headquarters or field organization staff on the identification and reporting of contracted support services. To correct those weaknesses, the report recommended that the Under Secretary of Defense for Acquisition and Technology (then the Under Secretary of Defense [Acquisition]) publish supplemental guidance to DoD Directive 4205.2. The report also recommended that the Military Departments implement current guidance and provide training to comptroller, contracting, and management personnel.

Efforts to Improve Guidance and Training. In response to Inspector General, DoD, Report No. 91-041, the Office of the Under Secretary of Defense for Acquisition and Technology and the Military Departments took steps to improve guidance and training on contracted support services. However, problems that were previously identified continue, and steps taken have not adequately resolved the weaknesses identified.

Handbook Issued as Supplemental Guidance. In April 1992, the Office of the Under Secretary of Defense for Acquisition and Technology issued the handbook, "Guide to Contracted Advisory and Assistance Services," in response to our recommendation in Inspector General, DoD, Report No. 91-041. The purpose of the handbook was to provide managers and contracting officers with additional information on the processes, procedures, roles, and responsibilities for acquiring contracted support services. We determined that the handbook was distributed to CAAS directors within the Military Departments.

Timeliness of Implementing Guidance. Inspector General, DoD, Report No. 91-041 states that the Military Departments were not timely in issuing implementing guidance to the 1986 revision to DoD Directive 4205.2. Specifically, the Air Force issued guidance 10 months after the new DoD Directive was issued, the Navy issued guidance 20 months after the new DoD Directive, and the Army did not revise its guidance until January 1991.

DoD Directive 4205.2 was revised again in February 1992 and specifically required that the Military Departments issue timely implementing guidance. However, the Military Departments did not issue revisions to their implementing guidance until 11 to 21 months later.

Table 4 identifies the issue dates of the revised DoD Directive 4505.2 and guidance for each Military Department to implement it.

Table 4. Issue Dates of Guidance to Implement DoD Directive 4205.2 February 1992 Revision

Guidance	Date Issued
DoD Directive 4205.2 "Acquiring and Managing Contracted Advisory and Assistance Services"	February 10, 1992
Army Regulation 5-14 "Management of Contracted Advisory and Assistance Services"	January 15, 1993
Navy Instruction 4200.31C "Acquiring and Managing Consulting Services"	June 22, 1993
Air Force Policy Directive 63-4 "Contracted Advisory and Assistance Services"	September 7, 1993
Air Force Instruction 63-401 "Contracted Advisory and Assistance Services"	November 1, 1993

According to an official in the Office of the Director, Defense Procurement, DoD Directive 4205.2 is being revised again. When that guidance is issued, timeframes should be established to require that implementing guidance be issued by the Military Departments in a more timely manner.

Guidance Used. Until each of the Military Departments issued revised implementing guidance, field organizations relied on varying sources for guidance. For example, until revised Army Regulation 5-14 was issued in January 1993, the Army directed its commands to use DoD Directive 4205.2 (February 1992 version). However, the Army did not ensure dissemination of that information to all responsible parties. Of 20 officials responsible for identifying and reporting on contracted support services at the two Army locations visited, 16 did not receive the February 10, 1992, directive or the direction to follow it. The Navy and the Air Force also did not ensure that adequate guidance was available to their commands. More than 17 months had passed before both the Navy and the Air Force provided implementing guidance to their commands. Instead, the personnel responsible for identifying and reporting on contracted support services at the Navy and the Air Force organizations stated that they relied on the 1986 version of DoD Directive 4205.2 and Office of Management and Budget Circular No. A-120.

Extent of Training. In response to Inspector General, DoD, Report No. 91-041, the Principal Deputy Assistant Secretary of Defense (Production and Logistics).[1] The Army, and the Air Force agreed to establish training on

[1]Now, Assistant Secretary of Defense (Economic Security).

contracted support services. The Navy did not agree to establish training. To date, no training has been initiated at the DoD-wide level, or within the Navy or the Air Force. The Army conducted a video teleconference in October 1992 that included presentations by the DoD Director of CAAS; the Army CAAS Coordinator; the Deputy Under Secretary of the Army (Operations Research), who is the Army Director of CAAS; and the Army Materiel Command (MICOM) CAAS Coordinator. All major Army commands were invited to participate in the teleconference, which provided detailed information and allowed each participating organization to interactively ask questions. The Army also provided transcripts of the teleconference to participants. We believe that the video teleconference was an excellent means of disseminating consistent information to relevant parties. However, during our visits to Army Communications-Electronics Command (CECOM) and MICOM, we learned that the personnel actually responsible for making decisions about contracted support services were not included in the teleconference, did not receive the transcripts, and did not receive additional training on contracted support services.

Impact of Limited Guidance and Training. When personnel responsible for identifying, acquiring, and reporting on contracted support services do not have current and accurate guidance or training, the likelihood increases for inaccuracies both in complying with requirements and in reporting amounts for contracted support services. We believe that the lack of guidance and training significantly contributed to the reporting inaccuracies in both the FY 1994 budget exhibit and the FPDS, as the following examples demonstrate.

Navy Examples. The Navy Advanced Surface Machinery Systems Program Office, Naval Sea Systems Command (NAVSEA), Arlington, Virginia, reported $3.8 million in the FY 1994 budget exhibit for actual and planned contracted support services for FYs 1992 through 1994, to provide cost analyses, logistics, and financial analysis support to the program office. However, $0.3 million of the $3.8 million was for upgrading automated data processing equipment and software, providing feedback on existing ships and ships in the design stage, and providing engineering feedback on continuing developmental efforts, all of which are services related to automated data processing. Services related to automatic data processing became exempt from reporting requirements in DoD Directive 4205.2 (1992 version). Therefore, the Navy overreported $0.3 million. Navy program officials responsible for reporting stated that the error occurred because they relied on the financial office to identify contracted support services based on the object class requirement. Therefore, the program officials, did not separately identify contracted support services before forwarding a procurement request package to the financial office.

The Undersea Systems Contract Division, NAVSEA, Arlington, Virginia, reported $1.7 million as contracted support services in the FPDS for FY 1992. However, $0.4 million of the contract actions reported were for foreign military sales, which were specifically exempt from contracted support services reporting requirements, according to the latest DoD Directive 4205.2. Such actions are generally funded by the foreign Government requesting the services and, therefore, do not directly impact the DoD budget. The contracting officer

stated that the entire $0.4 million was reported as contracted support services because NAVSEA requires that, if any part of a contract is contracted support services, the whole contract is to be reported as contracted support services.

Air Force Examples. A contracting officer at Space and Missile Systems Center did not report $12 million in acquisition support services as contracted support services to the FPDS. The contracting officer stated that he was unfamiliar with reporting requirements for contracted support services, that he received no guidance or training, and that, therefore, he relied on the requesting program office to identify any contract actions as contracted support services before submitting the request to the contracting officer.

We sampled 30 contract actions at the Electronic Systems Center (ESC) for technical management and engineering services, totaling $32.1 million. All the contract actions should have been reported as contracted support services; however, ESC reported only $0.2 million to the FPDS. The contracting officer responsible for the contract actions stated that he was unfamiliar with contracted support services requirements and that he had received no training in the area. He further stated that he believed that identification of a contract action as contracted support services was the responsibility of the requiring organization, but did not know how the requiring organization would inform him. According to program officials, contracted support services are coded as such on the purchase request form.

Need for Additional Training and Timely Guidance. The inaccuracies demonstrate a need for additional training. We believe that the Director, Defense Procurement, should establish DoD-wide training on the identification, reporting, and acquisition of contracted support services. Also, the Director, Defense Procurement, should establish acceptable timeframes for issuing implementing guidance by the Military Departments.

Interpreting the Definition for Contracted Support Services. Officials responsible for identifying and reporting on contracted support services at the six organizations stated that, because they lacked adequate guidance and training, they relied on their best judgment and their interpretation of available guidance to identify which contract actions should be reported as contracted support services. However, the officials also stated that they had difficulty in applying DoD Directive 4205.2 because the definitions were unclear and subject to varying interpretations. In Inspector General, DoD, Report No. 91-041, we also reported that DoD Directive 4205.2, the 1986 version, had ambiguous provisions and that definitions were not clear.

The Integrated Logistics Support Program Office, San Antonio Air Logistics Center, Kelly Air Force Base, included $24.9 million in the FY 1994 budget exhibit for FYs 1992 through 1994 to provide program management and logistics and technical support to maintain F100 engines. The support services, which were acquired to increase the design performance capabilities of a major system component, are exempt from the reporting requirement in DoD Directive 4205.2, the 1992 version. The program officials stated that the error occurred because of difficulty in determining what constituted engineering and technical services, according to DoD Directive 4205.2, the 1992 version.

Timing of Reporting of Contracted Support Services. The Comptroller of the Department of Defense[2] requested that information to be included in the FY 1994 budget exhibit be forwarded to the Comptroller by September 15, 1992. To accumulate the necessary information, the Military Departments requested that subordinate commands and organizations provide the data. However, some dates for information to be submitted to the Military Departments meant some data were not accurate as submitted for the budget exhibit and some data were not included at all. The variations in submission dates resulted in inaccuracies and inconsistencies in data reported for use in the budget exhibit.

Army Example. The FY 1994 budget exhibit was intended to reflect actual obligations for FY 1992. The Army Materiel Command, the parent organization of CECOM and MICOM, requested that actual obligations for FY 1992 be forwarded to the Army Materiel Command by May 8, 1992. The request for information 5 months before the end of the fiscal year required MICOM and CECOM to project "actual" expenditures for contracted support services for 5 months of FY 1992. In May 1992, the Logistics and Maintenance Directorate at CECOM reported $2 million for contracted support services for FY 1992 to the Army Materiel Command, based on planned obligations through FY 1992. However, actual obligations by the Logistics and Maintenance Directorate totaled only about $800,000 through the end of FY 1992. Therefore, the amount included in the FY 1994 budget exhibit was overreported by $1.2 million.

Navy Example. The Navy Comptroller[3] requested input data for the FY 1994 budget exhibit in February 1993, which was 5 months after the end of the 1992 fiscal year. During that period, the Office of Management and Budget revised the reporting requirements on the FY 1994 budget exhibits from CAAS to consulting services, and extended the submission date for the FY 1994 budget exhibit to April 1993. The revised definition of consulting services covers a broader range of services than just CAAS. For example, the revised definition includes contracted support services acquired for research and development for reporting purposes, whereas the old definition does not.

By comparison, the Army and the Air Force continued to report only CAAS in the FY 1994 budget exhibit. Therefore, NAVSEA included contract actions in its report that would not have been included had the requirement been limited to CAAS. Because the Navy approach was inconsistent with that of the other Military Departments, the FY 1994 budget exhibit submissions for the three Military Departments were not comparable.

Potential for Future Occurrences. We believe that the timing variations in reporting on contracted support services were a one-time

[2]Now, Under Secretary of Defense (Comptroller).

[3]Now, Assistant Secretary of the Navy (Financial Management and Comptroller).

occurrence because of the changes to reporting regulations imposed by the Office of Management and Budget. Therefore, no recommendations are being made in this area.

Impact of Timing Variations. Amounts reported as contracted support services need to be accumulated for reporting purposes as close to the end of a fiscal year as possible, to accurately reflect obligations and more precisely project expenditures. Further, the accumulation of such data should be based on the same definition throughout the DoD, or the data reported to DoD management and Congress will not be accurate or consistent for comparison purposes.

Adequacy of Support for Amounts Reported as Contracted Support Services. Some amounts identified in the FY 1994 budget exhibit for contracted support services were not adequately supported.

Navy Example. The Operations Division, NAVSEA, reported planned contracted support services of $49.3 million for FY 1994 for support services related to the construction of the LHD 6 Class ship, an amphibious assault ship. The program director did not have detailed estimates or calculations to support the estimated $49.3 million. He stated that the estimates were based on his knowledge and expertise of the LHD 5 Class ship and on historical costs for services for the LHD 5 Class ship. He further stated that a true cost comparison between the two ships would be difficult because funding regulations for the two ships were not the same.

Army Example. The Non-Line of Sight Program Office, MICOM, reported contracted support services, totaling $7.7 million, for FY 1992. Supporting documentation was an expiring contract for $3.6 million. Program officials stated that only $3.7 million should have been reported. The overreporting of an additional $4 million resulted from erroneous duplicate reporting of the $3.7 million requirement and an additional $0.3 million that was added for additional services to be required in the last month of the fiscal year.

Requirements for Support. The current DoD Directive 4205.2 requires that each contracted support services requirement be supported by detailed information including, for example:

- the type of contracted support services being procured,
- estimated cost and level of effort,
- a clear statement of work,
- certification that the services have been reviewed for the most cost-effective or efficient means of accomplishment, and
- properly chargeable funds certified by the cognizant budget office.

If Congress and DoD managers are to rely on information provided to them in the budget exhibit to make decisions on funds provided for contracted support services, they need accurate and well-supported information. Adequate support indicates that effort and forethought are behind the estimates. If information provided is not well-supported and well-planned, DoD organizations may not obtain the right amount of needed contracted support services funding.

Variations Between Amounts Reported in the FY 1994 Budget Exhibit and FPDS

U.S.C., title 31, sections 1114(a) and (b), required that DoD report to Congress amounts requested for contracted support services and that the Inspector General, DoD, attest to the accuracy of amounts for contracted support services reported to the FPDS. While the requirement for Inspectors General to validate amounts reported in the FPDS has been rescinded, the inaccuracies identified in amounts reported as contracted support services to both systems are significant.

Variations in Amounts Reported in FY 1994 Budget Exhibit Versus FPDS. Not only were amounts reported as contracted support services in the FY 1994 budget exhibit and for entry in the FPDS inaccurate, but amounts reported to one system were not consistent with amounts reported to the other system. Based on an evaluation of obligations reported by the six organizations reviewed, we identified a variance of more than $38.2 million in contracted support services reported in the FY 1994 budget exhibit versus amounts reported for entry in the FPDS. Specifically, the six DoD organizations reported $239.7 million in obligations for contracted support services for FY 1992 in the FY 1994 budget exhibit and $277.9 million in the FPDS for FY 1992.

Reasons for Variations Between Reporting Systems. We identified reasons that precluded the two systems from reporting consistent information. Specifically, the variations between amounts reported in the two systems occurred because the channels used to accumulate and report data to each system are different and because the data required to be reported to each system are different. Therefore, amounts reported in the two systems were not comparable and could not be reconciled for decisionmaking purposes by Congress or DoD management. Further, because the two systems are not consistent, our evaluation of the accuracy of amounts reported in the FPDS cannot validate that amounts reported to Congress and DoD management in the annual budget exhibits are also accurate.

Variations Between Processes for Reporting in the Annual Budget Exhibit and FPDS. DoD Directive 4205.2, the 1992 version, states that the requiring organization has primary responsibility for identifying contracted support services and reporting the information to the functional area responsible

for compiling the annual budget exhibits. The DoD directive does not designate responsibility for reporting contracted support services to the FPDS or even indicate that contracted support services need to be reported to the FPDS.

Annual Budget Exhibit Reporting. During the period of this audit, information for the FY 1994 budget exhibit was accumulated when the functional area within each Military Department responsible for putting the budget exhibit together requested input for the exhibit. Information was passed forward identifying amounts for prior, current, and budgeted years, and identifying which of the three categories of contracted support services applied.

Revision to the Annual Budget Exhibit Reporting Requirement. The Office of Management and Budget revised the reporting requirements for the annual budget exhibits in October 1992 in Office of Management and Budget Circular No. A-11. The circular states that requirements for contracted support services must be identified when the funds are certified as available by the budget area and identified for funding purposes. Specifically, contracted support services such as advice, opinions, analyses, and training in support of improved management and administration are to be identified under object class 25.1, "consulting services." All other contracted support services not included under object class 25.1 are to be reported under object class 25.2, "other services." The revised reporting requirement is intended to facilitate assimilating the annual budget exhibit directly from the accounting system. The amounts reported under object class 25.1 are to include amounts for the prior, current, and budgeted years. Annual budget exhibits are then to be drawn from information maintained in the object class reporting system.

FPDS Reporting. The 1986 version of DoD Directive 4205.2 required the requesting organization to identify in the procurement request *both* the category of contracted support services for the purpose of the annual budget exhibit *and* the appropriate Federal supply code. At present, the only requirements for input into the FPDS are the Federal Acquisition Regulation 4.6, "Contract Reporting," and the Defense Federal Acquisition Regulation Supplement 253.204-70, "DD Form 350, Individual Contracting Action Report," section (e)(1). The supplement requires that the contracting officer complete a DD Form 350 for each contract action over $25,000 to input the data into the FPDS. The DD Form 350 provides for the identification of CAAS in section (e)(1) of the form. According to an official in the Office of the Director, Defense Procurement, the requirement to identify a Federal supply code was deleted from the 1992 version of DoD Directive 4205.2 because FPDS was not considered a sufficiently reliable tracking system; therefore, identification of CAAS in the FPDS was not worthwhile.

Variations in Requirements for Data Reported in the Annual Budget Exhibit and FPDS. In addition to variations in the processes, variations exist between the requirements for data to be reported in the budget exhibit and FPDS.

o DoD Directive 4205.2, the 1992 version, states that the requiring organization should identify contracted support services for the budget

exhibit under one of three categories: studies, analyses, and evaluations; management and professional support services; or engineering and technical services.

By comparison, the DD Form 350, for inputting information into the FPDS, provides for a "yes" or "no" response to indicate whether or not a contract action is contracted support services. The DD Form 350 requires the identification of a Federal supply code. (We identified more than 100 service codes that may be considered contracted support services.) DoD Directive 4205.2 does not clarify how the Federal supply codes fit into the three contracted support services categories within the annual budget exhibit reporting mechanism.

o According to Office of Management and Budget Circular No. A-11, all requirements for contracted support services should now be reported, for accounting purposes and for the annual budget exhibit, in object classes 25.1 or 25.2. The amounts to be reported in the object classes should include prior year, current year, and budgeted year amounts.

By comparison, the FPDS reports only actual obligations of contracted support services of more than $25,000. The FPDS does not include budgeted amounts for future years.

o DoD Directive 4205.2, the 1992 version, requires that interdepartmental transfers of funds using, for example, military interdepartmental purchase requests or interagency cost reimbursable orders to procure contracted support services, should be reported in the annual budget exhibit.

The FPDS does not require that interdepartmental transfers of funds be reported.

o DoD Directive 4205.2, the 1992 version, requires that each proposed contract action be evaluated separately and procured through a separate contract action. Further, when contracted support services are a portion of a contract action, they should be separately identified in the FPDS. We determined that contracting officers either rely on the requesting organizations to separately identify contracted support services or they independently make the determination whether a procurement request is or is not contracted support services for FPDS reporting purposes. Their independent evaluation may not be consistent with the determination reported by the requesting DoD organization for the annual budget exhibit. As a result, the amount reported in the FPDS may be overreported or underreported compared with amounts reported in the annual budget exhibit or the amount of actual contracted support services. By comparison, DoD Directive 4205.2 does not specify applicability of the described requirement to FPDS reporting.

Navy Example. The contracting officer for the Plans, Programs, and Financial Management Division, NAVSEA, reported $1.8 million, the total amount of the contract, as non-contracted support services to the FPDS.

However, a contract modification for $0.7 million, included in the $1.8 million, was for contracted support services. The $0.7 million was included in the FY 1994 budget exhibit, but was not reported to the FPDS for FY 1992.

The Undersea Warfare Systems Integration Program of NAVSEA reported two contract actions, totaling $0.9 million, as contracted support services in the FPDS; however, $0.8 million should not have been reported as contracted support services. The contracting officer stated that the total amount was reported because NAVSEA policy is to report the whole contract or contract action if any portion of it is contracted support services.

Need for Clarification. The Federal Acquisition Streamlining Act of 1994 rescinded the requirement that Inspectors General evaluate the accuracy and completeness of amounts reported as contracted support services based upon amounts reported in the FPDS. However, it is not clear whether contracted support services still are required to be reported in the FPDS. If the FPDS reporting requirement remains, because amounts reported as contracted support services in annual budget exhibits cannot be reconciled with amounts reported in the FPDS, clarification is needed on requirements for reporting contracted support services to both systems

Conclusion

DoD managers and Congress rely on reported amounts of contracted support services for decisionmaking purposes and, therefore, need information that is accurate and consistent among reporting organizations. DoD personnel responsible for identifying and reporting on contracted support services need adequate guidance and training to ensure the accuracy and consistency of reported amounts. In Inspector General, DoD, Report No. 91-041, we reported that lack of guidance and training were major contributors to inaccurate reporting of contracted support services. The DoD and the Military Departments did not adequately comply with recommendations in Inspector General, DoD, Report No. 91-041 because inadequate guidance and training continue to be major contributing factors to inaccurate reporting. In addition, amounts reported as contracted support services need to be reported as close to the fiscal yearend as possible to accurately reflect obligations and projections. Therefore, the timing of reporting of contracted support services is also important.

Further, clarification is needed on the delegation of responsibilities for identification and reporting of CAAS among program, budget, and contracting officials; dissemination of available guidance and training to those with the delegated responsibility for making the CAAS determinations; and consistency in reporting requirements to allow for tracking. Otherwise, the annual budget exhibit and information on CAAS provided to DoD management and Congress may not accurately reflect CAAS actual and planned use for decisionmaking purposes. DoD Directive 4205.2 presently states that the requiring organization has the primary responsibility for the identification and reporting of contracted

support services. However, the directive does not specify how the requiring organization should identify the action as contracted support services to ensure that contracting and budget officials are properly aware of the requirement for budgetary, reporting, and administrative purposes. DoD Directive 4205.2 should be revised to specify how contracted support services should be identified.

Recommendations and Management Comments

Deleted and Renumbered Recommendations. As a result of the Federal Acquisition Streamlining Act of 1994 (Public Law 103-355) rescinding 31 U.S.C. sections 1114(a) and (b), we deleted draft Recommendation A.2. Draft Recommendation A.3. has been renumbered as Recommendation A.2.

A. We recommend that the Director, Defense Procurement:

1. Establish DoD-wide training on identifying, reporting, and acquiring contracted support services.

2. Revise DoD Directive 4205.2, "Acquiring and Managing Contracted Advisory and Assistance Services," February 10, 1992, to:

a. Clarify responsibilities among program, budget, and contracting officials for identifying and reporting contracted support services.

b. Establish acceptable timeframes for issuance of implementing guidance by the Military Departments.

Management Comments. The Director, Defense Procurement, did not provide comments on a draft of this report. Therefore, we request the Director, Defense Procurement, provide comments on the final report.

Finding B. Management Controls Over Contracted Support Services

Management controls over contracted support services, as specified in DoD Directive 4205.2, were not consistently present at the Office of the Secretary of Defense level, within the Military Departments, or at the six DoD organizations visited. Specific examples follow.

o The Under Secretary of Defense for Acquisition and Technology, the Military Departments, and the six DoD organizations visited did not provide adequate guidance or training, as discussed in Finding A.

o Certifications were not made by ESC, CECOM, MICOM, and NAVSEA that requirements for contracted support services were reviewed for the most cost-effective or efficient means of accomplishment. Also, those four DoD organizations did not review contracted support services procured for more than 5 years to determine whether the services could be performed more economically using in-house resources.

o The organizations reviewed did not identify or evaluate contracted support services as an assessable unit as part of the DoD Management Control Program.

o The position of DoD Director of CAAS was vacant within the Office of the Under Secretary of Defense for Acquisition and Technology.

o A DoD Director of CAAS did not perform annual assessments of the implementation of contracted support services policies.

Management controls were not adequate because DoD management did not place enough emphasis on compliance with guidance on contracted support services. As a result, the Government could not be assured that procedures and policies related to contracted support services were followed or that Government resources were adequately accounted for and used in the most cost-effective and efficient manner.

Background

Importance of Management Controls. Management controls are essential to ensure that:

o Government programs are carried out in accordance with applicable laws and management policy;

o Government assets are safeguarded against waste, loss, unauthorized use, and misappropriation; and

o revenues and expenditures are recorded and accounted for properly so that financial and statistical reports are reliable and accurate.

DoD Guidance on Management Controls Over Contracted Support Services. DoD Directive 5010.38, "Internal Management Control Program," April 14, 1987, establishes policies and procedures for implementing a comprehensive system of management controls within DoD organizations to provide reasonable assurance that assets are used properly and programs are effectively and efficiently managed. DoD Directive 4205.2 identifies a series of management controls for the acquisition, management, use, and reporting of contracted support services.

Adequacy of Management Controls

The audit examined the adequacy of management controls over contracted support services in the Office of the Under Secretary of Defense for Acquisition and Technology, the Military Departments, and the six DoD organizations visited. It determined that adequate management controls were not consistently present. Specifically, management controls were not adequate over:

o guidance and training,

o cost-effectiveness evaluation and certification,

o evaluation of contracted support services during management control reviews,

o appointment of contracted support services directors, and

o annual reporting of the implementation of contracted support services policies to the Under Secretary of Defense for Acquisition and Technology.

Guidance and Training

DoD Directive 4205.2 requires that implementing guidance be issued in a timely manner and that training be provided on the identification, acquisition, management, and use of contracted support services. Guidance and training serve as management controls by ensuring that officials responsible for identifying, acquiring, and managing contracted support services have criteria and guidelines to follow and are familiar with the requirements. Those controls, when in place, help ensure that the officials comply with applicable laws and regulations. However, as discussed in Finding A of this report, the

Military Departments were not timely in issuing their implementing guidance. Also, no DoD-wide training had been established on contracted support services, and the Navy and the Air Force had not provided training on contracted support services. The lack of those management controls contributed to inaccurate reporting on funds expended for contracted support services to DoD management and Congress. See Finding A for recommendations to improve DoD guidance and training for the use of contracted support services.

Cost-Effectiveness Certification

DoD Directive 4205.2 states that the requiring organization must certify that the requirement for contracted support services has been reviewed for the most cost-effective or efficient means of accomplishment. Further, if the requirement is considered long-term and could be more cost-effective if done by in-house resources, the requiring organization must include in the purchase request package a statement citing action taken to hire additional resources or an explanation of why contracting out is necessary. Without an analysis of the cost-effectiveness of contracting for needed services, the Government cannot be assured that long-term requirements are being procured in the most advantageous means for the Government.

Examples For Which Cost Comparisons Could Have Been Used. ESC, CECOM, MICOM, and NAVSEA did not perform reviews of requirements for services for the most cost-effective or efficient means of accomplishment. We issued two reports earlier in conjunction with this audit that specifically address the cost-effectiveness of long-term contracting for services. In both reports, we identified examples where potential cost reductions would have resulted to the Government had cost comparisons been performed for long-term contracted support services.

Report on the Air Force. In Inspector General, DoD, Report No. 94-112, we reported that ESC procured contracted support services that were not as cost-effective as using in-house DoD personnel. ESC did not perform a cost comparison before awarding $371 million in contracts for the continuation of services. We estimated a cost reduction of up to $39 million over 5 years if work currently contracted is performed by in-house DoD personnel. The Air Force generally concurred with the need for cost comparisons and for converting contractor positions to in-house when demonstrated to be more cost-effective and efficient. However, the Air Force stressed that barriers will need to be lifted, including a hiring-freeze exemption, relief from high-grade restrictions, and authority to use program funds for DoD civilian pay. Appendix B gives more information about that report.

Report on the Army and Navy. In Inspector General, DoD, Report No. 95-063, "Cost-Effectiveness of Contracting for Services," December 30, 1994, we reported on a judgmental sample of four following contracts that extended requirements for the same contracted support services. For each of the four contracts, the Army and Navy did not perform cost comparisons to

determine whether using in-house personnel or contracting out was the most efficient means of performance. In addition, the requiring organization for each of the four following contracts did not certify that the requirement had been reviewed for the most cost-effective or efficient means of accomplishment or include a statement citing actions being taken to hire additional resources or containing an explanation of why contracting out was necessary. We performed cost comparisons for the four following contracts and determined that the Army could have realized a cost reduction of up to $6.3 million Appendix B gives further details.

Legislation and Guidance Regarding Cost Comparisons. DoD Directive 4205.2 addresses the requirement for performing cost comparisons before contracting for services. The issues have also been addressed recently in the Federal Workforce Restructuring Act of 1994 and in the National Defense Authorization Act for FY 1995.

Federal Workforce Restructuring Act. The Federal Workforce Restructuring Act of 1994 prohibits the conversion of work formerly performed by civilian employees to contracted support services to compensate for personnel reductions. The Act requires that a cost comparison be performed if the need to contract for services, including contracted support services, is a result of the conversion of a function from in-house to contractor because of a reduction in personnel under the Act.

National Defense Authorization Act. Section 363 of Public Law No. 103-337, "National Defense Authorization Act for FY 1995," October 5, 1994, states that before any contract for contracted support services may be awarded in excess of $100,000, the Secretary of Defense must determine whether DoD personnel have the capability to perform the services. If the capability exists in-house, then the Secretary of Defense is required to conduct a cost comparison study. The National Defense Authorization Act also requires that the Secretary of Defense prescribe procedures for carrying out a cost comparison.

Director, Defense Procurement Memorandum. In October 1994, the Director, Defense Procurement, issued a memorandum that states that DoD organizations were not complying with certification and approval requirements for cost comparisons included in DoD Directive 4205.2 (see Appendix E). The memorandum reiterates the need for compliance and also recommended that compliance be included as a special interest item for future Procurement Management Reviews.

Impact of Legislation and Guidance. The Director, Defense Procurement, memorandum was useful in reinforcing compliance with DoD Directive 4205.2. However, as of January 1995, DoD had not identified procedures for carrying out cost comparisons as required by the National Defense Authorization Act, or established a system to track current information on workforce reductions as required by the Federal Workforce Restructuring Act. We believe that the Director, Defense Procurement, should establish procedures to verify annually the requirements defined in DoD Directive 4205.2 that the requiring organization:

o certify that the required services have been reviewed for the most cost-effective or efficient means of accomplishment and

o perform an analysis if the requirement is long term to determine whether using in-house personnel or contracting out is the most efficient means of performance.

In addition, we believe that the Director, Defense Procurement, should comply with the Federal Workforce Restructuring Act by establishing a system to track current information on workforce reductions, and with the National Defense Authorization Act by prescribing procedures for carrying out cost comparisons.

Contracted Support Services as an Assessable Unit

Within the DoD, DoD Directive 5010.38 addresses requirements for the assessment of management controls. In addition, DoD Directive 4205.2 requires that the head of each DoD Component identify contracted support services as part of a management control assessable unit. We determined, however, that in 1992, contracted support services were not included as an assessable unit for evaluation during the management control reviews at the six organizations visited.

Contracted Support Services as a High-Risk Area. Since FY 1990, both the DoD and the Military Departments have identified contracted support services as a high-risk area. In 1989, the Office of Management and Budget identified contracted support services as one of five high-risk areas facing the DoD and one that posed serious problems if appropriate management controls were not instituted. The Office of Management and Budget continued to consider contracted support services a high-risk area in DoD through FY 1993 because of a lack of adequate management controls to strengthen management, reporting, and oversight of contracted support services.

In FY 1994, the Office of Management and Budget deleted contracted support services from the high-risk list. The Office of Management and Budget justified the deletion based on the results of an Office of Management and Budget-requested review completed by the DoD in June 1993. The review found no major problems related to contracted support services and validated that previously recommended corrective actions were taken.

The review stated that new procedures were implemented to:

o strengthen management controls and procedures for contracted support services,

o better define contracted support services for identification and reporting purposes,

o require an annual assessment of component management controls,

o require component contracted support services training, and

o require annual assessments of component implementation of contracted support services policies and procedures.

Further, the justification stated that the DoD had also distributed a "Guide to CAAS," April 3, 1992, to help users of contracted support services better understand the procedures for acquiring and using contracted support services.

Current Potential of Contracted Support Services as a High-Risk Area. As discussed in Finding A, guidance and training continued to be limited, the reporting of contracted support services continued to be inaccurate, distribution of the "Guide to CAAS" was limited, and no annual assessments had been performed. We do not believe that the actions taken have corrected previously identified weaknesses related to contracted support services. The Inspector General, DoD, provided comments to the Office of the Under Secretary of Defense for Acquisition and Technology, to be included in response to the Office of Management and Budget-requested review.

Performance Measurements. Public Law 103-62, "Government Performance and Results Act of 1993," was enacted to improve the confidence of the American people in the Federal Government by improving the management of the Government through goal setting and the measurement of performance against those goals. As part of an overall plan, the Act says each agency shall establish performance indicators to be used in measuring or assessing the outputs or outcomes of each program organization. Contracted support services are, and will continue to be, a major segment of the DoD procurement efforts. Therefore, because of the repeated and continuing weaknesses identified in this report, we believe that the six organizations visited should include an examination of the management controls over contracted support services as an assessable unit as a measurement of program effectiveness and efficiency. In addition, the results of the management control review should be included as a performance measurement by the organizations reviewed to judge the success of improvements made over contracted support services.

DoD Director of Contracted Support Services

DoD Directive 4205.2 Requirements for the DoD Director of Contracted Support Services. DoD Directive 4205.2, the 1992 version, delegates responsibility for compliance with the directive and the implementation of management controls to the DoD Director of Contracted Support Services, within the Office of the Under Secretary of Defense for Acquisition and Technology. Specifically, the DoD Director of Contracted Support Services, shall:

o provide general policy and guidance;

o review implementing guidance for DoD Components;

o coordinate with the Under Secretary of Defense (Comptroller) to ensure implementation procedures to identify obligations for contracted support services; and

o provide an annual assessment on the implementation of policies for the identification, acquisition, and management of contracted support services.

The directive also requires that the head of each DoD Component designate a Director of Contracted Support Services. The Director should be at the flag or general officer or senior executive service level.

Presence of DoD Director of Contracted Support Services. The Office of the Under Secretary of Defense for Acquisition and Technology designated a senior official as the Acting DoD Director of Contracted Support Services to oversee and coordinate related efforts through 1993. However, since the end of 1993, the position of DoD Director of Contracted Support Services has remained unfilled. Rather, the responsibilities have been performed, in addition to other tasks, by a staff member in the Office of the Under Secretary of Defense for Acquisition and Technology. The Office of the Under Secretary of Defense for Acquisition and Technology was not able to provide an explanation for why the position was never formally filled. The position should be filled to demonstrate management's commitment to ensuring the adequacy of management controls over contracted support services.

The procurement of services, as a proportion of the DoD procurement budget, continues to grow. It is important that the Under Secretary be committed to coordinating and overseeing management controls over contracted support services by filling the position of DoD Director of Contracted Support Services. We believe this position as a management control, is particularly important, given the continued growth in the procurement of contracted support services, the issues identified in Finding A, and the continued congressional interest regarding contracted support services.

Annual Assessment Report on Contracted Support Services

DoD Directive 4205.2, the 1992 version, requires that the DoD Director of Contracted Support Services provide to the Under Secretary of Defense for Acquisition and Technology an annual assessment on the implementation of policies by DoD Components for the identification, acquisition, and management of contracted support services. The former acting director stated that he would perform the first annual assessment in February 1993. The Office of the Under Secretary of Defense for Acquisition and Technology was unable to provide any evidence that an annual assessment of contracted support services was ever performed. The Office of Management and Budget-requested review,

as previously noted, was performed in June 1993. The DoD Director of Contracted Support Services should resume the performance of the annual assessments.

Emphasis on Management Controls by DoD Management

The General Accounting Office; the Inspector General, DoD; and Office of Management and Budget have voiced concerns regarding the lack of adequate management controls over contracted support services within DoD. Contracted support services continue to be an area of controversy. The lack of adequate management controls is attributable to a lack of emphasis placed on compliance with guidance on contracted support services by management at both the DoD-wide level and at the organizational level at the six organizations visited. Without a strong emphasis by DoD management to eliminate the weaknesses identified in this report, problems will continue. Improvements in controls over contracted support services are still needed to improve the accuracy of reporting and the management and use of contracted support services. As a result, the Government could not be assured that procedures and policies related to contracted support services were followed or that Government resources were adequately accounted for and used in the most cost-effective and efficient manner.

Recommendations, Management Comments, and Audit Response

Redirected and Renumbered Recommendations. Because no DoD Director of Contracted Support Services is in place, the B.3. draft report Recommendation to that office has been redirected to the Under Secretary of Defense for Acquisition and Technology as Recommendation B.1.b. Draft Recommendation B.1. is now B.1.a. We redirected part of draft Recommendation B.2.b. to the Under Secretary of Defense for Personnel and Readiness as Recommendation B.3.

B.1. We recommend that the Under Secretary of Defense for Acquisition and Technology:

a. Appoint a DoD Director of Contracted Support Services, as required by DoD Directive 4205.2, "Acquiring and Managing Contracted Advisory and Assistance Services," February 10, 1992.

b. Require the DoD Director of Contracted Support Services to perform annual assessments on implementation of contracted support services policies and report to the Under Secretary of Defense

for Acquisition and Technology, as required by DoD Directive 4205.2, "Acquiring and Managing Contracted Advisory and Assistance Services," February 10, 1992.

Management Comments. The Under Secretary of Defense for Acquisition and Technology did not provide comments on a draft of this report on Recommendation B.1. Therefore, we request that the Under Secretary provide comments on the final report Recommendation B.1.a, as well as on redirected Recommendation B.1.b.

B.2. We recommend that the Under Secretary of Defense for Personnel and Readiness comply with the Federal Workforce Restructuring Act by establishing a system to track current information on contracting for support services as a result of workforce reductions.

B.3. We recommend that the Director, Defense Procurement:

a. Establish procedures to verify annually the requirements defined in DoD Directive 4205.2, "Acquiring and Managing Contracted Advisory and Assistance Services," February 10, 1992, that the requiring organization:

(1) Certify that the required services have been reviewed for the most cost-effective or efficient means of accomplishment.

(2) Perform an analysis if the requirement is for more than 5 years to determine whether in-house or contracting out is the most efficient means of performance.

b. Comply with the DoD Authorization Act by prescribing procedures for carrying out a cost comparison.

Management Comments. The Director, Defense Procurement did not provide comments on a draft of this report. Therefore, we request that the Director, Defense Procurement, provide comments on the final report.

B.4. We recommend that the Commanders of the Army Communications-Electronics Command, the Army Missile Command, the Naval Sea Systems Command, the Air Force Materiel Command Electronic Systems Center, the San Antonio Air Logistics Center, and the Air Force Materiel Command Space and Missile Systems Center:

a. Require compliance with DoD Directive 5010.38, "Internal Management Control Program," April 14, 1987, reference (h), to cover contracted support services through a management control assessable unit as required by DoD Directive 4205.2, "Use of Contracted Advisory and Assistance Services," February 10, 1992.

b. Include the results of the assessment of management controls over contracted support services as a performance measurement for the organizations to judge the success of improvements made over contracted support services.

Army Comments. The Army concurred with the recommendations, stating that the U.S. Army Missile Command has completed a checklist to ensure that adequate controls are in place and will publish guidance on the use of management controls for contracted support services as a performance measurement by July 1995. The Army stated that the U.S. Army Communications-Electronics Command will develop corrective actions and an implementation schedule after the September 1995 planned completion of studies by the Army Audit Agency and Internal Review and Audit Compliance Office.

Navy Comments. The Navy concurred with the recommendations, stating that the Naval Sea Systems Command has included contracted support services as an assessable unit since April 1989 in the "Management Control Program User Guide," that the Naval Sea Systems Command will incorporate the requirement into the "Consulting Services Operating Plan" by August 31, 1995, and that program offices will be required to specify that they have conducted a management control program review of consulting services and provide the results of their assessments.

Air Force Comments. The Deputy Assistant Secretary of the Air Force (Management Policy and Program Integration) concurred with the recommendations, stating that the Air Force will issue direction to field activities to include contracted support services as an assessable unit and include the results of the assessments as a performance measurement. The Air Force planned to complete the actions by April 30, 1996.

Audit Response. The actions taken by the Army, the Navy, and the Air Force on the recommendations now numbered 3.a. and 3.b. are responsive to the intent of the recommendations. We request that the U.S. Army Communications-Electronics Command provide milestones for implementation of the corrective actions in comments to the final report.

Part II - Additional Information

Appendix A. Scope and Methodology

Scope and Sample Selection

We evaluated the policies, processes, and management controls for identifying, reporting, and managing contracted support services at the headquarters for each Military Department and at the following six organizations within the Military Departments:

o Army Communications-Electronics Command (CECOM), Fort Monmouth, New Jersey;

o Army Missile Command (MICOM), Redstone Arsenal, Alabama;

o Naval Sea Systems Command (NAVSEA), Arlington, Virginia;

o Air Force Materiel Command Electronic Systems Center (ESC), Hanscom Air Force Base, Massachusetts;

o San Antonio Air Logistics Center, Kelly Air Force Base, Texas; and

o Air Force Materiel Command Space and Missile Systems Center, Los Angeles, California.

Methodology

To evaluate the accuracy of the reporting of contracted support services, we reviewed a judgmental sample of 43 entries selected from the Schedule of Consulting Services budget exhibit for FY 1994 (the FY 1994 budget exhibit) for the six organizations visited. The universe of entries to the FY 1994 budget exhibit for the six organizations totaled $777 million, and the sample of FY 1994 budget exhibit entries reviewed totaled $241 million.

During the period December 1992 through November 1993, we also reviewed two judgmental samples of FY 1992 contract actions selected from the Federal Procurement Data System (FPDS) for the six organizations. The first sample included contract actions that were identified as contracted support services when input into the FPDS. We also reviewed a sample of contract actions that were not identified as contracted support services to determine whether each was appropriately not reported. The universe of all FPDS contract actions for the six organizations was 3,778, totaling $7.85 billion. We reviewed a sample of 849 contract actions, totaling $1.27 billion.

We interviewed officials for contracted support services, program, contracting, and budget at each of the six organizations; directors and coordinators for

contracted support services in each Military Department; the former and the current acting DoD Directors of CAAS; officials within the Offices of the Under Secretaries of Defense for Acquisition and Technology, Comptroller, and Personnel and Readiness; and officials within the Office of the Deputy Under Secretary of Defense (Environmental Security).

Use of Computer-Processed Data. We relied on computer-processed data from the FPDS to determine the DoD organizations to visit and audit sample selection. Although we did not perform a formal reliability assessment, we determined that contract actions, contract action numbers, and dollars obligated on the contracts reviewed generally agreed with information in the computer-processed data. Further, we did not find any errors that would preclude use of the computer-processed data to meet audit objectives or that would change the conclusions of the report.

Audit Period and Standards. We performed this economy and efficiency audit from December 1992 through November 1994. The audit was performed in accordance with auditing standards issued by the Comptroller General of the United States, as implemented by the Inspector General, DoD. Accordingly, we included tests of management controls considered necessary. The DoD organizations visited or contacted are listed in Appendix F.

Management Control Program

DoD Directive 5010.38, "Internal Management Control Program," April 14, 1987, requires DoD organizations to implement a comprehensive system of management controls that provides reasonable assurance that programs are operating as intended and to evaluate the adequacy of the controls.

Scope of Review of the Management Control Programs. We evaluated management controls for identifying and reporting contracted support services within DoD, each of the Military Departments, and at the six DoD organizations reviewed. We also reviewed management's self-evaluation of management controls applicable to the audit objectives.

Adequacy of Management Controls. The audit identified the following material management control weaknesses as defined by DoD Directive 5010.38, "Internal Management Control Program," April 14, 1987, in the Military Departments or at the six organizations visited. Specifically, the DoD organizations did not have adequate management controls to verify that contracted support services were:

- correctly identified and reported,
- adequately supported,
- reviewed for cost-effectiveness as part of procurement requests, and

o assessed annually for adequacy of the implementation of contracted support services policies.

If implemented, all recommendations identified in this report, except Recommendation A.2.b., will correct the management control weaknesses. Implementation of all recommendations will improve management controls over the identification, reporting, and management of contracted support services. Appendix F summarizes the potential benefits resulting from the audit. A copy of the report will be provided to senior officials responsible for management controls within DoD, each of the Military Departments, and at each of the six organizations reviewed.

Adequacy of DoD Components' Self-Evaluation of Applicable Management Controls. The management control program in the organizations reviewed failed to prevent or detect the management control weaknesses because the assessable units for procurement did not include an evaluation of management controls over the identification and reporting of contracted support services. We believe that the weaknesses also existed because of a lack of emphasis placed on contracted support services by DoD management.

Appendix B. Summary of Prior Audits and Other Reviews

The General Accounting Office; the Inspector General, DoD; the Air Force Audit Agency; and the Office of Management and Budget have issued a series of reports since 1989 that discuss the use of contracted support services and the adequacy of management controls over contracted support services.

General Accounting Office

Report No. GAO/GGD-94-95 (OSD Case No. 96-12), "Government Contractors: Measuring Costs of Service Contractors Versus Federal Employees," March 1994. The subject report states that cost comparisons can be a useful tool in determining how to acquire services, as shown by Inspectors General of the Departments of Energy and Defense. In addition to looking at the costs, agencies should be required to look at factors such as whether the services are long or short term, recurrent in nature, of high quality and timely, and whether Federal employees are available to do the work.

The report recommends that the Office of Management and Budget extend Office of Management and Budget Circular No. A-76, "Performance of Commercial Activities," to include CAAS and to consider non-cost factors. Additionally, the Office of Management and Budget should work with Congress to accomplish the objective of the administration to downsize, while providing agencies with sufficient authority and flexibility to accomplish the Government's work in the most efficient and effective manner. The Departments of Energy and Defense generally agreed with the presentation of the studies and provided suggestions that were incorporated into the report when appropriate. The Office of Management and Budget generally agreed with the findings.

Inspector General, DoD

Report No. 95-063, "Cost-Effectiveness of Contracting for Services," December 30, 1994. The subject report states that the Army and the Navy did not perform cost comparisons to determine whether performing work in-house or contracting out is the most efficient way to obtain needed services, as required by DoD Directive 4205.2. Without cost comparisons, the Government cannot be assured that long-term needs for services are being satisfied most advantageously. The Army can realize a potential monetary benefit of $6.3 million through FY 1998 if planned work under a CECOM contract, valued at $36.9 million, is performed by in-house personnel. The Army and the

Navy did not have adequate management controls to verify that cost comparisons were performed when contracting for the long-term services received, as required by DoD Directive 4205.2.

DoD managers are under significant pressure and constraints to enable DoD to meet the reductions mandated by the Federal Workforce Restructuring Act of 1994. As a result, no recommendations were made. We reserved the right to revisit the issue in the future.

Report No. 94-112, "Procurement of Support Services by the Air Force Electronic Systems Center, Hanscom Air Force Base, Massachusetts," May 27, 1994. The subject report states that ESC procured support services that were not as cost-effective as using DoD personnel, that had characteristics of personal services, and that placed contractor personnel in the position of potentially performing inherently governmental functions. ESC could realize a cost reduction of up to $39 million over 5 years if work currently contracted for is performed by in-house DoD personnel. Also, ESC could realize a cost reduction of up to $26.4 million if contractor rates are adjusted to reflect the occasions when Government-furnished facilities are provided for contractor use.

The report recommended that:

o the Under Secretary of Defense for Acquisition and Technology establish procedures to verify compliance with DoD requirements to perform cost comparisons before contracting for CAAS;

o the Under Secretary of Defense (Comptroller), make funds available for expanded in-house support when more cost-effective than contracts;

o the Under Secretary of Defense for Personnel and Readiness establish a program to manage the DoD civilian workforce that allows for increases to the civilian workforce when it is more cost-effective; and

o the Under Secretary of the Air Force convert previously authorized contractor positions to in-house and evaluate support contracts for cost-effectiveness.

The Under Secretary of Defense for Acquisition and Technology stated that DoD Directive 4205.2 already includes appropriate verification and certification procedures. The Under Secretary of Defense (Comptroller) stated that funds may be used for in-house or contractor support. The Under Secretary of Defense for Personnel and Readiness did not agree with the need to establish a program to manage the downsizing of the DoD civilian workforce. The Air Force concurred with the recommendations to conduct cost analyses, but nonconcurred with recommendations to lift the suspension on previously approved conversions for contractor positions.

Because the Federal Workforce Restructuring Act of 1994 requires reductions to the Federal workforce, we believe that opportunities to retain or increase in-house capabilities when shown to be more effective or cost-efficient are limited. Because Congress and the Office of the Secretary of Defense have not

specified criteria for making in-house personnel adjustments when determined to be more efficient or cost effective, we did not pursue the issue or request additional comments.

Report No. 94-077, "'Super' Scientific, Engineering, and Technical Assistance Contracts at the Ballistic Missile Defense Organization," April 8, 1994. The subject report states that services acquired through super scientific, engineering, and technical assistance contracts are more costly than using in-house DoD civilian and military employees. The report further states that the Ballistic Missile Defense Organization could reduce costs by about $46 million for FYs 1995 through 1999 by gradually reducing super scientific, engineering, and technical assistance contract support by 275 staff years. The report recommended that the Ballistic Missile Defense Organization reduce contracted services and use more DoD civilian personnel to accomplish its mission, use completion and fixed-price-type contracts, establish additional contract management and cost control procedures, and perform cost realism analyses. Management generally agreed with the recommendations.

Report No. 92-128, "Selected Service Contracts at Wright-Patterson Air Force Base," August 17, 1992. The subject report states that the Air Force Logistics Management Systems Center issued contracts for program technical and administrative support services that had characteristics of personal service contracts and were not as cost-effective as using in-house DoD personnel. Program officials contracted to obtain personnel support because the necessary expertise was not available in-house and personnel freezes prohibited the hiring of DoD civilian employees. The audit estimated that, in FY 1990, the Air Force paid an additional $4.7 million for contractor work and could save up to $6.2 million if the work performed under the remaining option years of existing service support contracts was accomplished through DoD civilian resources.

The report recommended that the Air Force eliminate personnel ceilings and require managers to justify the most cost-effective mix of in-house or contractor personnel resources for program requirements, evaluate support service contracts for cost-effectiveness, make budget adjustments to shift funds from contracts to civilian staff, and terminate a contract with the IMPACT Corporation.

The Deputy Chief of Staff of the Air Force (Logistics) concurred with recommendations on performing cost analyses for determining the most cost-effective mix of contractor and in-house DoD civilian personnel for contracts. The Air Force did not agree to terminate the option for the IMPACT Corporation contract and did not agree with the potential monetary benefits. In followup to the report, the Air Force agreed to take actions to comply with the recommendations.

Report No. 92-010, "Consulting Services," October 30, 1991. The subject report states that in FYs 1989 and 1990, DoD Components underreported consulting services by $20.4 million and $19.2 million, respectively. The errors occurred because DoD Components used insufficient and ambiguous guidance in making CAAS determinations. Additionally, DoD Components

narrowly interpreted and applied the CAAS definition and, therefore, reported conservative data to avoid potential budget cuts by Congress.

Recommendations included a revision of the CAAS definition to include clarification on the reporting of automated data processing and task order contracts, and training DoD Component program managers on the identification and reporting of CAAS. Management generally agreed with all recommendations.

Report No. 91-115, "Consulting Services Contracts for Operational and Test Evaluation," August 22, 1991. The subject report states that the operational test and evaluation agencies of the Military Departments frequently used the same service contractors to support operational tests for major Defense acquisition systems that participated in the development of the systems. Further, the Military Departments spent more than $44 million annually for contractor assistance that was not as cost-effective as developing a DoD in-house capability. The report recommended implementation of additional procedures, legislative changes, management controls, and replacement of service contractors with in-house civilian employees.

The Director, Operational Test and Evaluation, agreed with all recommendations except for a need for legislation that would allow Military Departments to obtain waivers to use the same service contractors to support operational tests. The Army, the Navy, and the Air Force concurred with the recommendation to insert conflict of interest clauses in service contracts and to direct contracting officers to enforce the provisions. The Director, the Assistant Secretary of Defense (Force Management and Personnel), and the Navy nonconcurred with hiring additional DoD civilian personnel, thus reducing their reliance on services contractors.

The recommendations to replace services contractors with DoD civilian personnel were referred to the Deputy Secretary of Defense for resolution. In an April 1992 memorandum, the Deputy Secretary of Defense directed that the Assistant Secretary of Defense (Force Management and Personnel) perform a review of the use of civilian employees and contractor support in DoD and provide recommendations by July 1, 1992. The review was never completed and recommendations were not provided to the Deputy Secretary of Defense.

Report No. 91-041, "Contracted Advisory and Assistance Services Contracts," February 1, 1991. The subject report states that management controls over CAAS needed improvement. Although the acquisition of CAAS through sole-source contracts or unsolicited proposals was generally justified, contract modifications more than doubled the cost from the original estimate on 22 percent of the contracts. Further, in FY 1987, DoD did not identify and report an estimated $4 billion to $9 billion of CAAS procurements. Those DoD organizations imposed personnel ceiling constraints that lead to contracting for services that should have been performed in-house. Further, Military Departments neither complied with personnel staffing requirements nor determined the cost-effectiveness of continued contractor support.

The report recommended that guidance be issued to define inherently governmental functions that should be performed by DoD employees; that requests for CAAS only be approved after completion of cost comparisons that demonstrate that contracting for services is more economical; and that a zero-base review be performed on all CAAS contracts to determine whether it would be more cost-effective to perform the requirements in-house or through a contract.

The Principal Deputy Assistant Secretary of Defense (Production and Logistics) generally agreed with the overall conclusion, but took exception to the method of projecting the CAAS underreporting, reviewing long-term CAAS reliance for compliance with policy, and eliminating CAAS procurements with indefinite-quantity contracts. The Assistant Secretary of Defense (Force Management and Personnel) disagreed with personnel issues and proposed corrective actions. The Deputy Under Secretary of the Army (Operations Research) disagreed with the use of contractor personnel and the manner in which contractor support was acquired. The Assistant Secretary of the Navy (Research, Development, and Acquisition) did not agree to discontinue using ordering officers for authorizing CAAS work. The Deputy Assistant Secretary of the Air Force (Acquisition) disagreed with issues concerning contracting procedures used for acquisition of CAAS.

Air Force Audit Agency

Project No. 94064002, "Cost-Effectiveness of Contracted Advisory and Assistance Services at Space and Missile Systems Center," June 9, 1994. The subject report states that the Space and Missile Systems Center was planning to renew three contracts in June 1994, with an estimated value of $93 million over 5 years. However, Government personnel could perform the same work at a $42 million savings. The report recommended that the Air Force replace contractor personnel with Government employees to accomplish the work in-house. Management agreed with the conclusions and recommendations. However, management was unable to implement immediate corrective action because of the current downsizing initiatives.

Project No. 91064041, "Contracting for Advisory and Assistance Services," June 4, 1992. The subject report states that contracting officers did not obtain required certified cost and pricing data for 17 of 20 contracts reviewed; did not perform market research before awarding sole-source contracts for 11 of the 20 contracts; restricted competition on 12 contracts; did not require competitive selection of subcontractors for 10 contracts; and did not identify 15 contracts as CAAS.

The report recommended that the major command obtain cost and pricing data when negotiating CAAS orders; perform market evaluations before exercising options on CAAS contracts; prohibit the use of indefinite-delivery, indefinite-quantity contracts for CAAS; comply with the Federal Acquisition Regulation requirement for subcontracting; provide a clear definition of

inherently governmental functions; and provide training on CAAS requirements. Management disagreed with the report regarding the application of Federal Acquisition Regulation provisions to CAAS, but agreed to consider the use of indefinite-delivery, indefinite-quantity contracts. Air Force Audit Agency considered management actions taken or planned to be responsive.

Report No. 325-9-22, "Contracting for Engineering Services to Support Air Force Systems Command Weapon Systems Acquisitions, Electronic Systems Division, Hanscom Air Force Base, Massachusetts," July 27, 1989. The subject report states that engineering service contracts had the characteristics of personal service contracts and that contractor personnel worked in Government program offices using Government equipment and facilities. The employees interfaced daily with Government employees to accomplish the program office mission, while the Government's program office maintained time and attendance records for both Government and contractor personnel. The arrangement gave the appearance that contractor employees were performing services as Government employees in support of Government programs. The report also states that the Air Force could realize a potential recoupment of as much as $1.56 million if costs are recovered when contractor personnel use Government-furnished facilities. The report made no recommendations regarding the use of personal services. Management agreed to recoup costs when contractor personnel used Government-furnished facilities.

Office of Management and Budget

Office of Management and Budget, Office of Federal Procurement Policy, "Summary Report of Agencies' Service Contracting Practices," January 1994. The subject report summarizes the findings of 17 Government agencies. The purpose of the review was to determine whether service contracts were accomplishing what was intended, whether service contracts were cost-effective, and whether inherently governmental functions were being performed. Many agencies found that improvements were needed to ensure that the Government was getting its money's worth from service contractors. The Office of Management and Budget attributed the problems to factors such as the requirement for Government to do more with less staff, the performance of contract administration functions by untrained personnel, a cumbersome contracting process, and agencies not performing independent cost estimates. Also, cost analyses are not being performed because the assumption was that additional Government personnel would not be authorized, and statements of work were being written broadly, thus causing limited competition and an inability to assess contractor performance. As a result of the report, the Office of Federal Procurement Policy issued a best practices guide on contract administration in October 1994 and convened a committee on contract audit issues. As of August 1995, the Office of Federal Procurement Policy has not addressed findings in the area of cost estimating.

Appendix C. Variations in DoD Organizations' Reporting of Contracted Support Services in the FY 1994 Budget Exhibit

Organization	Fiscal Year	Overreported	Underreported	Unsupported
Army				
CECOM	1992	$ 1,227,599	$ 98,513	0
	1993	362,626	75,000	0
	1994	88,805	0	0
Subtotal		**$ 1,679,030**	**$173,513**	**0**
MICOM	1992	$ 4,177,210	$ 3,000	$ 423,000
	1993	150,000	3,000	990,000
	1994	150,000	2,000	1,035,000
Subtotal		**$ 4,477,210**	**$ 8,000**	**$ 2,448,000**
Army Total		**$ 6,156,240**	**$181,513**	**$ 2,448,000**
Navy				
NAVSEA	1992	$ 514,000	$275,000	$ 375,000
	1993	705,000	347,000	12,360,000
	1994	250,000	0	49,480,000
Navy Total		**$ 1,469,000**	**$622,000**	**$62,215,000**
Air Force				
ESC	1992	$ 843,000	0	0
	1993	2,631,000	0	0
	1994	1,107,000	0	0
Subtotal		**$ 4,581,000**	**0**	**0**
San Antonio Air Logistics Center	1992	$ 60,000	0	0
	1993	12,784,000	0	0
	1994	12,400,000	0	0
Subtotal		**$25,244,000**	**0**	**0**

Appendix C. Variations in DoD Organizations' Reporting of Contracted Support Services in the FY 1994 Budget Exhibit

Organization	Fiscal Year	Overreported	Underreported	Unsupported
Air Force (cont'd)				
Space and Missile Systems Center	1992	0	0	0
	1993	0	0	0
	1994	$ 1,000,000	0	0
Subtotal		**$ 1,000,000**	**0**	**0**
Air Force Total		**$30,825,000**	**0**	**0**
Total All Military Departments		**$38,450,240**	**$803,513**	**$64,663,000**

Appendix D. Variations in DoD Organizations' Reporting of Contracted Support Services in the Federal Procurement Data System

Organization	Contract	Overreported	Underreported
Army			
CECOM	DAAB07-89-D-B913		$ 245,000
	DAAB07-90-D-T016		1,670,272
	DAAB07-91-D-F009	$ 828,921	
	DAAB07-89-D-M024	2,017,264	
	DAAB07-89-C-B907	19,325,119	
	DAAB07-90-D-B801		516,139
	DAAB07-91-D-J268		3,977,256
	DAAB07-90-D-A055		6,168,330
	DAAB07-90-D-D105		7,737,465
	DAAB07-88-D-L803		3,952,905
	DAAB07-91-C-E020		5,448,464
Subtotal		**$22,171,304**	**$29,715,831**
MICOM	DAAH01-90-C-0064		$ 997,664
	DAAH01-88-C-0716		19,450,000
	DAAH01-88-C-A019		7,124,282
Subtotal		**$ 0**	**$27,571,946**
Army Total		**$22,171,304**	**$57,287,777**
Navy			
NAVSEA	N00024-90-C-3416		$ 861,867
	N00024-87-C-6203	$ 894,000	
	N00024-89-C-5162		3,200,834
	N00024-88-C-4021	1,654,000	
	N00024-91-C-5625	6,160,754	
	N00024-87-C-6022	807,941	
	N00024-87-C-6081		485,000
	N00024-92-C-5622	1,720,621	
	N00024-89-C-3407	319,515	
Subtotal		**$11,556,831**	**$ 4,547,701**
Navy Total		**$11,556,831**	**$ 4,547,701**

Appendix D. Variations in DoD Organizations' Reporting of Contracted Support Services in Federal Procurement Data System

Organization	Contract	Overreported	Underreported
Air Force			
ESC	F19628-89-D-0004		$ 3,582,550
	F19628-89-D-0007		10,234,310
	F19628-89-D-0008		5,577,826
	F19628-89-D-0011		6,601,851
	F19628-89-D-0034		1,849,409
	F19628-90-D-0001		2,707,481
	F19628-87-D-0016		2,800,000
	F19628-92-C-0103	$ 2,325,000	
Subtotal		**$ 2,325,000**	**$ 33,353,427**
San Antonio Air Logistics Center	F41608-90-D-0875		$ 1,511,000
	F34601-91-G-0008	$ 82,730	
	N00383-91-G-M108	(62,546)*	
	F41650-92-C-3009	136,000	
	F41650-92-C-3013	84,490	
	F41608-90-D-1905		1,751,360
	F41601-91-G-0020	2,263,083	
Subtotal		**$ 2,503,757**	**$ 3,262,360**
Space and Missile Systems Center	F04701-91-D-0096		$ 3,600,252
	F04701-91-D-0094		6,303,350
	F04701-90-C-0004		3,136,376
	F04701-92-C-0009		9,099,354
	F04701-89-C-0086		10,738,042
	F04701-90-C-0080	$ 2,685,343	
	F04701-91-D-0092		2,090,446
	F04701-90-D-0001		3,812,887
	F04701-90-D-0002		733,042
Subtotal		**$ 2,685,343**	**$ 39,513,749**
Air Force Total		**$ 7,514,100**	**$ 76,129,536**
Total All Military Departments		**$ 41,242,235**	**$137,965,014**

*This overreported amount was a deobligation of funds.

Appendix E. Director, Defense Procurement, Memorandum

OFFICE OF THE UNDER SECRETARY OF DEFENSE

3000 DEFENSE PENTAGON
WASHINGTON DC 20301-3000

ACQUISITION AND TECHNOLOGY

OCT 27 1994

DP/CPA

MEMORANDUM FOR DIRECTORS OF DEFENSE AGENCIES
DEPUTY FOR ACQUISITION POLICY, INTEGRITY, AND ACCOUNTABILITY, ASN(RD&A)/API&A
DEPUTY ASSISTANT SECRETARY OF THE AIR FORCE (CONTRACTING), SAF/AQC
DIRECTOR, PROCUREMENT POLICY, ASA(RD&A)/SARD-PP
DEPUTY DIRECTOR (ACQUISITION), DEFENSE LOGISTICS AGENCY

SUBJECT: Certification and Approval of the Acquisition of Certain Services

A recent report of the Inspector General of the Department of Defense (No. 94-112) disclosed that certifications and approvals for contracted advisory and assistance services, required in paragraphs F.3.b,c and d of Department of Defense Directive 4205.2, "Acquiring and Managing Contracted Advisory and Assistance Services," are not being obtained in all appropriate cases. I am concerned about any lack of diligence in complying with our regulations. I urge you to make sure that all those involved in contracting for advisory and assistance services are aware of these requirements, and that the proper certifications and approvals are obtained. I also request that you make this issue a special interest item for future Procurement Management Reviews.

Eleanor R. Spector
Director of Defense Procurement

Appendix F. Summary of Potential Benefits Resulting From Audit

Recommendation Reference	Description of Benefit	Type of Benefit
A.1.	Management Controls. Establishes contracted support services training.	Nonmonetary.
A.2.a.	Management Controls. Clarifies responsibilities for identifying and reporting contracted support services.	Nonmonetary.
A.2.b.	Compliance. Establishes timeframes for issuance of implementing guidance.	Nonmonetary.
B.1.a.	Management Controls. Designates a DoD Director of Contracted Support Services.	Nonmonetary.
B.1.b.	Management Controls. Requires performance of annual assessments of contracted support services policies.	Nonmonetary.
B.2.	Compliance and Management Controls. Establishes a system to track current information on workforce reductions.	Nonmonetary.
B.3.a.	Management Controls. Verifies requirements identified in DoD Directive 4205.2.	Nonmonetary.
B.3.b.	Compliance and Management Controls. Prescribes procedures for carrying out cost comparisons.	Nonmonetary.

Recommendation Reference	Description of Benefit	Type of Benefit
B.4.a.	Management Controls. Requires the Commanders of CECOM, MICOM, NAVSEA, ESC, San Antonio Air Logistics Center, and Space and Missile Systems Center to include contracted support services as an assessable unit during management control reviews.	Nonmonetary.
B.4.b.	Management Controls. Requires the Commanders of CECOM, MICOM, NAVSEA, ESC, San Antonio Air Logistics Center, and Space and Missile Systems Center to include the results of the assessments as performance measures.	Nonmonetary.

Appendix G. Organizations Visited or Contacted

Office of the Secretary of Defense

Under Secretary of Defense for Acquisition and Technology, Washington, DC
  Director, DoD Contracted Advisory and Assistance Services, Washington, DC
Under Secretary of Defense (Comptroller), Washington, DC
Under Secretary of Defense for Personnel and Readiness, Washington, DC
Assistant Secretary of Defense (Economic Security), Washington, DC
Deputy Under Secretary of Defense (Environmental Security), Washington, DC

Department of the Army

Assistant Secretary of the Army (Research, Development, and Acquisition), Washington, DC
Deputy Under Secretary of the Army (Operations Research), Washington, DC
  Army Model Improvement and Study Management Agency, Arlington, VA
Deputy Chief of Staff for Personnel, Washington, DC
Army Materiel Command, Alexandria, VA
  Army Communications-Electronics Command, Fort Monmouth, NJ
  Army Missile Command, Redstone Arsenal, AL
Total Army Personnel Command, Alexandria, VA

Department of the Navy

Comptroller of the Navy, Washington, DC*
Assistant Secretary of the Navy (Research, Development, and Acquisition), Washington, DC
Deputy Chief of Naval Operations (Manpower and Personnel), Arlington, VA
Naval Sea Systems Command, Arlington, VA
Human Resources Office Crystal City, Arlington, VA

Department of the Air Force

Assistant Secretary of the Air Force (Financial Management and Comptroller), Washington, DC
Assistant Secretary of the Air Force (Manpower, Reserve Affairs, Installations, and Environment), Washington, DC
Deputy Assistant Secretary of the Air Force (Contracting), Arlington, VA

---

*Now, Assistant Secretary of the Navy (Financial Management and Comptroller).

Department of the Air Force (cont'd)

San Antonio Air Logistics Center, Kelly Air Force Base, TX
Area Audit Office, Air Force Audit Agency, Bedford, MA
Air Force Materiel Command, Wright-Patterson Air Force Base, OH
Electronic Systems Center, Hanscom Air Force Base, MA
Space and Missile Systems Center, Los Angeles, CA

Other Defense Organizations

Defense Contract Audit Agency, Alexandria, VA
Regional Office, Burlington, MA
Defense Contract Management Area Operations Boston, Defense Contract Management Command, Boston, MA

Non-Defense Federal Organizations

General Accounting Office, Washington, DC
Office of Management and Budget, Washington, DC

Non-Government Organization

Professional Services Council, Vienna, VA

Appendix H. Report Distribution

Office of the Secretary of Defense

Under Secretary of Defense for Acquisition and Technology
  Director, Defense Logistics Studies Information Exchange
Under Secretary of Defense (Comptroller)
  Deputy Chief Financial Officer
  Deputy Comptroller (Program/Budget)
Deputy Under Secretary of Defense (Acquisition Reform)
Assistant to the Secretary of Defense (Public Affairs)
Under Secretary of Defense for Personnel and Readiness
Assistant Secretary of Defense (Economic Security)
Deputy Under Secretary of Defense (Environmental Security)
Director, Defense Procurement
  Acting Director, DoD Contracted Advisory and Assistance Services

Department of the Army

Assistant Secretary of the Army (Financial Management)
Assistant Secretary of the Army (Research, Development, and Acquisition)
Deputy Under Secretary of the Army (Operations Research)
  Army Model Improvement and Study Management Agency
Deputy Chief of Staff for Personnel
Commander, Army Materiel Command
  Commander, Army Communications-Electronics Command
  Commander, Army Missile Command
Commander, Total Army Personnel Command
Auditor General, Department of the Army

Department of the Navy

Assistant Secretary of the Navy (Financial Management and Comptroller)
Assistant Secretary of the Navy (Research, Development, and Acquisition)
Deputy Chief of Naval Operations (Manpower and Personnel)
Commander, Naval Sea Systems Command
  Director, Human Resources Office Crystal City
Auditor General, Department of the Navy

Department of the Air Force

Assistant Secretary of the Air Force (Financial Management and Comptroller)
Assistant Secretary of the Air Force (Manpower, Reserve Affairs, Installations, and Environment)
Deputy Assistant Secretary of the Air Force (Contracting)
Commander, Air Force Materiel Command
Commander, Air Force Materiel Command Electronic Systems Center
Commander, San Antonio Air Logistics Center
Commander, Air Force Materiel Command Space and Missile Systems Center
Auditor General, Department of the Air Force

Other Defense Organizations

Director, Defense Contract Audit Agency
Director, Defense Logistics Agency
Director, National Security Agency
Inspector General, National Security Agency

Non-Defense Federal Organizations and Individuals

Office of Management and Budget
Technical Information Center, National Security and International Affairs Division, General Accounting Office

Chairman and ranking minority member of each of the following congressional committees and subcommittees:

Senate Committee on Appropriations
Senate Subcommittee on Defense, Committee on Appropriations
Senate Committee on Armed Services
Senate Committee on Governmental Affairs
House Committee on Appropriations
House Subcommittee on National Security, Committee on Appropriations
House Committee on Government Reform and Oversight
House Subcommittee on National Security, International Affairs, and Criminal Justice, Committee on Government Reform and Oversight
House Committee on National Security

Honorable David Pryor, U.S. Senate

Part III - Management Comments

Department of the Army Comments

DEPARTMENT OF THE ARMY
PROGRAM EXECUTIVE OFFICE, TACTICAL MISSILES
REDSTONE ARSENAL, ALABAMA 35898-8000

REPLY TO ATTENTION OF

SFAE-MSL

28 Apr 95

5/17/95

MEMORANDUM THRU Headquarters, Department of the Army, Office of Assistant Secretary for Research, Development and Acquisition, ATTN: SARD-SM, Washington, D.C. 20310-0103

FOR Department of Defense, Office of the Inspector General, ATTN: AUD-CM (Ms. Kimberley A. Caprio), Room 200, 400 Army Navy Drive, Arlington, VA 22202-2884

SUBJECT: DODIG Draft Report, DOD Reporting and Controls for Contracted Support Services, Project No. 2CH-3003.01

The Program Executive Office Tactical Missiles comments to the subject draft report are enclosed.

Encl

BILLY R. BENTLEY
Deputy, Programs
Program Executive Office,
Tactical Missiles

COMMAND COMMENTS

DODIG Draft Report, DOD Reporting and Controls of Contracted Support Services, Project No. 2CH-3003.01

The Program Executive Office, Tactical Missiles submits the following comments to subject draft report:

1. Reference Part I, Page 5, Internal Controls.

Response: Non-Line of Sight (NLOS) acquisitions are processed in accordance with DOD and local regulations through Resource Management and MICOM functional elements to ascertain if the effort can be performed in-house. This is also true of the exercise of options annually which are already in place in contractual instruments. They are adequately supported and reviewed for cost-effectiveness.

2. Reference Part II, Page 17, Army Example.

Response: The confusion over apparent NLOS over-reporting of contracted support services possibly resulted because the submitted Schedule 10's reflected multiple year funds within particular fiscal years which may have distorted actual contracted expenditures. The over-reporting could have also resulted because NLOS reported to the PEO-Air Defense then transitioned to MICOM during 1992.

3. Reference Part II, Page 27, Army and Navy Report.

Response: Since the NLOS Project Office uses the MICOM Acquisition Center, MICOM Resource Management Office, and MICOM support facilities, compliance with pertinent Contract Advisory and Assistance Services (CAAS) regulations is part of the internal control process during the contract requirements package preparation in accordance with MICOM 715-25.

DEPARTMENT OF THE ARMY
HEADQUARTERS, U.S. ARMY MATERIEL COMMAND
5001 EISENHOWER AVENUE, ALEXANDRIA, VA 22333-0001

REPLY TO ATTENTION OF
AMCIR-A (36-2b)

MEMORANDUM FOR MS. RACHEL LILLEY, OFFICE OF THE ASSISTANT SECRETARY, DEPARTMENT OF THE ARMY, U.S. ARMY CONTRACT SUPPORT AGENCY, FALLS CHURCH, VA 22041-3201

SUBJECT: Department of Defense Inspector General Draft Report, DOD Reporting and Controls for Contracted Support Services (AMC No. D9302-B)

1. We are forwarding our position on subject report IAW AR 36-2. Response to recommendation addressed to the Commander, U.S. Army Missile Command is at Enclosure 1. Response to recommendation addressed to the Commander, U.S. Army Communications-Electronics Command is at Enclosure 2.

2. Point of contact for this action is Mr. Robert Kurzer, (703) 274-9025.

3. AMC -- America's Arsenal for the Brave.

RAY E. McCOY
Major General, USA
Chief of Staff

Encls
as

DEPARTMENT OF THE ARMY
UNITED STATES ARMY MISSILE COMMAND
REDSTONE ARSENAL, ALABAMA 35898

AMSMI-IR (36-2b) 1 May 95

MEMORANDUM FOR Commander, U.S. Army Materiel Command,
ATTN: AMCIR-A, 5001 Eisenhower Avenue,
Alexandria, VA 22333-0001

SUBJECT: DODIG Draft Report, DOD Reporting and Controls for Contracted Support Services, Project No. 2CH-3003.01 (AMC No. D9302)

1. Reference Memorandum, AMCIR-A, 27 Mar 95, subject as above.

2. In accordance with the referenced memorandum, the proposed position on subject audit is enclosed.

3. The POC for this audit is Mr. David Prince at DSN 788-6945.

Encl

JAMES M. LINK
Major General, USA
Commanding

COMMAND COMMENTS

DODIG Draft Report, DOD Reporting and Controls of Contracted Support Services, Project No. 2CH-3003.01 (AMC No. D9302)

MICOM submits the following comments to subject draft report:

1. Reference: Page 5. Internal Controls.

Response:

a. The Command nonconcurs that MICOM has an internal management control (IMC) weakness regarding the identification and reporting of contracted consulting services (CCS). For a number of years, MICOM has had adequate management controls in place which permitted managers to identify and report on CCS.

b. Managers and contracting offices have access to DOD 4205.2, AR 5-14, and AMC Circular 5-6 to refer to for identifying and reporting CCS. Also, in Nov 91, an e-mail was published which provided the MICOM community and Program Executive Offices (PEOs) with detailed guidance and procedures for identifying and reporting CCS. In May 92 another guidance memorandum was published which provided detailed guidance and procedures for identifying and reporting CCS. This memo also contained a requirement that all contract requirements packages for service contracts contain a CCS determination signed by the requiring element's director. This assured that all service contracts were reviewed for CCS. In May 94 interim guidance was provided to primary organization elements (POEs) for the new policy change for CCS. This guidance contained detailed information, definitions, samples of management decision documents, schedules 10, formats for reports, etc. In Dec 94 MICOM Regulation 5-14 was published which provided detailed information and samples of documentation required by POEs to identify and report CCS. Therefore, since November 1991, in addition to higher headquarters guidance, MICOM POEs and PEOs have had access to at least four other guidance documents which provided information for identifying and reporting CCS.

c. In May 92, the MICOM CCS Coordinator conducted a training session for the MICOM Command Group, and about 50 MICOM and PEO top level managers. This session provided comprehensive information on identifying and reporting on CCS. It also pointed out the responsibilities of the requiring activity (Managers) as well as those of the Acquisition Center and Resource Management Directorate (RMD). In Aug 94, a training session was conducted for more than 200 MICOM POEs and tenants. This training explained the revised definition of CCS, and provided formats for Management Decision Documents (MDDs).

2. Recommendation 4. "We recommend that the Commanders of the Army Communications-Electronics Command, the Army Missile Command, the Naval Sea Systems Command, the Air Force Materiel Command Electronic Systems Center, the San Antonio Air Logistics Center, and the Air Force Materiel Command Space and Missile Systems Center:

a. Require compliance with DOD Directive 5010.38, 'Internal Management Control Program,' April 14, 1987, reference (h), to cover contracted support services through an internal management control assessable unit as required by DOD Directive 4205.2, 'Use of Contracted Advisory and Assistance Services,' February 10, 1992.

b. Include the results of the assessment of internal controls over contracted support services as a performance measurement for the organizations to judge the success of improvements made over contracted support services."

Response: Concur.

a. At MICOM, CCS is included as an assessable unit for IMCs. Even though HQDA has not provided a published checklist for CCS, MICOM personnel have completed the checklist published in AMC Circular 5-6 to assure that adequate controls are in place.

b. MICOM has always had sufficient guidance and controls in place to allow managers and contracting personnel to identify and report on CCS. Therefore, MICOM does not have any material weaknesses in this area. Although MICOM has adequate management controls in place which cover CCS, RMD believes that these controls would be enhanced if management controls for CCS were added as a performance measurement for MICOM managers. RMD expects to publish guidance by July 1995.

2

DEPARTMENT OF THE ARMY
HEADQUARTERS, US ARMY COMMUNICATIONS-ELECTRONICS COMMAND
AND FORT MONMOUTH
FORT MONMOUTH, NEW JERSEY 07703-5000

REPLY TO
ATTENTION OF

AMSEL-IR (36-2b) 10 May 1995

MEMORANDUM FOR Commander, U.S. Army Materiel Command,
ATTN: AMCIR-A, 5001 Eisenhower Avenue,
Alexandria, VA 22333-0001

SUBJECT: DODIG Draft Report, DOD Reporting and Controls for Contracted Support Services, Project No. 2CH-3003.01 (AMC No. D9302-B)

1. Reference Memorandum, AMCIR-A, 27 Mar 95, SAB.

2. In accordance with the referenced memorandum, the proposed position on the subject audit is enclosed.

3. The Point of Contact for this audit is Mr. Walter Pezzolo, DSN 995-4114.

Encl

WILLIAM J. HEMBERGER
Chief, Internal Review and
Audit Compliance Office

Reference paragraph 4 page 33 of subject draft audit report.

4. We recommend that the Commanders of the Army Communications-Electronics Command, the Army Missile Command, the Naval Sea Systems Command, the Air Force Materiel Command Electronic Systems Center, the San Antonio Air Logistics Center, and the Air Force Materiel Command Space and Missile Systems Center:

a. Require compliance with DOD Directive 5010.38, ''Internal Management Control Program,'' April 14,1987, reference (h), to cover contracted support services through an internal management control assessable unit as required by DOD Directive 4205.2, ''Use of Contracted Advisory and Assistance Services,'' February 10,1992.

B. Include the results of the assessment of internal controls over contracted support services as a performance measurement for the organizations to judge the success of improvements made over contracted support services.

CECOM Response: Concur. Currently, the USAAA is doing some related work in this area as part of their audit of PEO/PM core support contracts. The USAAA audit started on 20 March 1995 and will end in mid-September 1995. The USAAA has three audit objectives: Determine whether activities:
-Properly used,justified and approved core support contracts.
-Properly awarded and administered core support contracts.
-Had effective management controls related to core support contracts.
Based upon the outcome of this audit, the Internal Review and Audit Compliance(IRAC)office will do a follow-up review to determine compliance and to assess the internal controls addressed in the DODIG audit report. In the interim, the subject matter will be reported as an area in the Command's annual assurance statement. The assessment of the internal controls will be determined through the results of the USAAA and IRAC audits.

DEPARTMENT OF THE ARMY
OFFICE OF THE ASSISTANT SECRETARY
U.S. ARMY CONTRACTING SUPPORT AGENCY
5109 LEESBURG PIKE
FALLS CHURCH, VIRGINIA 22041-3201

REPLY TO ATTENTION OF

18 MAY 1995

SFRD-KP

MEMORANDUM FOR INSPECTOR GENERAL, DEPARTMENT OF DEFENSE (AUDITING), 400 ARMY NAVY DRIVE, ARLINGTON, VIRGINIA 22202-2884

SUBJECT: Audit Report on DoD Reporting and Controls for Contracted Support Services (Project No. 2CH-300.01)

This responds to your March 21, 1995 memorandum, subject as above, requesting rewiew and comments on the draft audit report.

The U.S. Army Missle Command (MICOM) and the U.S. Army Communications-Electronics Command (CECOM) concur with Recommendation 4 (page 33 of the report). MICOM has completed a checklist to assure that adequate controls are in place and will publish guidance on use of management controls for Contracted Support Services as a performance measurement by July 1995. CECOM will develop corrective actions and an implementation schedule after completion (expected in September 1995) of a study by the U.S. Army Audit Agency on core support contracts and a subsequent assessment by the CECOM Internal Review and Audit Compliance Office of the internal controls addressed in the subject audit report. MICOM does not concur that it has an internal management and control weakness regarding identification and reporting of Contracted Support Services. The complete responses from MICOM and CECOM are enclosed.

The SFRD-KP point of contact for this action is Rachel Lilley, 756-7565.

FOR THE DIRECTOR:

William A. Kley
for J. Bruce King
Deputy Director

Enclosure

Department of the Navy Comments

DEPARTMENT OF THE NAVY
OFFICE OF THE ASSISTANT SECRETARY
(Research, Development and Acquisition)
WASHINGTON, D C 20350-1000

JUN 05 1995

MEMORANDUM FOR THE DEPARTMENT OF DEFENSE ASSISTANT INSPECTOR GENERAL FOR AUDITING

Subj: DODIG DRAFT REPORT: DOD REPORTING AND CONTROLS FOR CONTRACTED SUPPORT SERVICES (PROJECT NO. 2CH-3003.01)

Ref: (a) DODIG Memorandum of March 21, 1995

Encl: (1) Department of the Navy Comments

We have reviewed the findings and recommendations provided by reference (a). Detailed comments are provided by enclosure (1).

We concur with the report's recommendations. The Naval Sea Systems Command is already in compliance with the first recommendation and they will incorporate the second recommendation requirement in the Consulting Services Operating Plan, maintained at the Program Office level.

W. C. BOWES
Vice Admiral, U.S. Navy
Principal Deputy

Copy to:
NAVINSGEN
NAVCOMPT (NCB-53)
NAVSEASYSCOM (00N3)

DEPARTMENT OF THE NAVY RESPONSE
TO
DODIG DRAFT REPORT OF 21 MARCH 1995
OF
DOD REPORTING AND CONTROLS FOR
CONTRACTED SUPPORT SERVICES

Finding A. Accuracy of DOD Reporting of Contracted Support Services:

DON Position:

Do not concur with the reasons cited in the finding that Contract Support Services have been both overreported and underreported. DODIG indicates this is the result of numerous factors including the following:

a. Limited guidance and training. Do not concur. The Naval Sea Systems Command has established a Process Action Team (PAT) for Service Contracts to identify efficiencies. Guides were developed on "Writing a Statement of Work" - this not only included sample SOWs but differentiated between the type of services one could/could not procure in different appropriations. Additionally, the Naval Seas Systems Command's Procurement Request Manual was updated for preparing services. Charts were completed identifying the differences between CAAS (PB27) and CS (15E) by category. The SECNAVINST 4200.31C was distributed. Detailed budget guidance, CS examples, CS meetings are given the widest dissemination in the Naval Sea System Command.

b. Difficulty in interpreting available guidance. Concur. During the period of this audit Congress revised the "CS" definitions. The Naval Sea Systems Command spent many hours working with NAVCOMPT to define the new meaning. Definitions are ever-changing and still leave much room for individual interpretation. Every few years categories are added to or deleted from what is counted under the CS umbrella. This causes much confusion, even though we are able to react to the new guidance. It makes it impossible to compare year to year budgets across the various definitions.

c. Timing of Reporting by the DOD organizations. Do not concur. The Naval Sea Systems Command shifted to the "new" budget guidance to use the OC 25.1 definitions and scope for the FY 93 President's budget (prepared in December 1992) in response to the October 1992 guidance change. To do this, the Naval Sea Systems Command followed preliminary NAVCOMPT/NAVY guidance. While formal Navy guidance came later, basically the Naval Sea Systems Command followed and the Navy were following the appropriate top level guidance (legislation) within 3 months of its issuance. This type of rapid response to a change always causes difficulties with interpretation.

d. Limited support for reported amounts. Concur. The DODIG conducted

ENCLOSURE (1)

comparisons on the FPDS (DD350) system and the budget exhibit of the PB 15E. The DD350 system is not designed to record actions against the specific Object Class 25.1 CS categories. The DD350 "codes" have never been consistent with the OC 25.1 and therefore should never be used to track or report CS until this shortcoming is resolved. The Naval Sea Systems Command currently uses the Navy STARS official accounting systems to identify the funds obligated (by appropriation). In accordance with SECNAVINST 4200.31C the accounting systems are the official obligation tracking systems to be used. Major changes need to be made to bring consistency between the DD350 and STARS systems.

Finding B, Internal Controls Over Contracted Support Services:

Recommendation B.4.a:

We recommend that the Commanders of the Army Communications - Electronics Command, the Army Missile Command, the Naval Sea Systems Command, the Air Force Material Command Electronic Systems Center, the San Antonio Air Logistics Center, and the Air Force Material Command Space and Missile Systems Center:

a. Require compliance with DOD Directive 5010.38, "Internal Management Control Program," April 14, 1987, reference (h), to cover contracted support services through an internal management control assessable unit as required by DOD Directive 4205.2, "Use of Contracted Advisory and Assistance Services," February 10, 1992.

DON Position:

Concur. The Naval Sea Systems Command is already in compliance with this requirement and has included contracted support services as an assessable unit since April 1989, when it was issued in the Naval Sea Systems Command Management Control Program Users Guide. The Naval Sea Systems Command Inventory of Assessable Units of 15 July 1993 shows that it still remains as an assessable unit, assessable unit "CSS/CETS", Code ID 003A005. Attachments A and B provide documentation. Action on this recommendation is considered complete.

Recommendation B.4.b.:

b. Include the results of the assessment of internal controls over contracted support services as a performance measurement for the organizations to judge the success of improvements made over contracted support services.

DON Position:

Concur. The Naval Sea Systems Command will incorporate this in the Consulting Services Operating Plan which is maintained at the Program Office level. The estimated completion date for this plan is 31 August 1995. Program Offices will be required to specify that they have conducted an Internal Management Control Program review for consulting services and provide the results of their assessment.

DOCUMENT NO. IS-172
APRIL 1989

MANAGEMENT CONTROL PROGRAM
USER GUIDE

NAVAL SEA SYSTEMS COMMAND
SEA AUTOMATED DATA SYSTEMS ACTIVITY
INDIAN HEAD, MARYLAND

Attachment A

Document No. IS-172
April 1989

MANAGEMENT CONTROL PROGRAM USER GUIDE

Prepared by
The NAVSEA Command Systems Division
Command Support Department
Sea Automated Data Systems Activity
Naval Sea Systems Command
Indian Head, Maryland

Attachment A

APPENDIX C

ASSESSABLE UNIT INVENTORY GUIDE

Attachment A

C ACQUISITION POLICY
001 ACQUISITION PLANNING
002 ACQUISITION POLICY
003 ACQUISITION STREAMLINING
004 TACTICAL DIGITAL STANDARDS
005 TEST AND EVALUATION
006 PROGRAM APPRAISAL

03 PROCUREMENT

A PROCUREMENT
001 IMPREST FUNDS
002 SMALL PURCHASES
003 SOLICITATIONS
004 CONTRACT AWARD
005 CSS CETS
006 COST & PRICE ANALYSIS
007 SMALL BUSINESS PROGRAM
008 PRE-AWARD SURVEYS
009 DOCUMENTATION (CONTRACT FILES)
010 QUALITY ASSURANCE
011 TECHNICAL PUBLICATIONS/MANUALS
012 NEGOTIATIONS
013 COMPETITION
014 UNSOLICITED PROPOSALS
015 PROPOSAL EVALUATION
016 MODIFICATIONS
017 SOURCE SELECTION
018 PROCUREMENT SUPPORT
019 PREP OF BID SPECIFICATIONS
020 FIVE-YEAR PLANNING

04 CONTRACT ADMINISTRATION

A CONTRACT ADMINISTRATION
001 COTR FUNCTIONS
002 CONTRACT ADMINISTRATION
003 COST MONITORING
004 CLAIMS AVOIDANCE
005 BUSINESS REVIEW

C-3 Attachment A

REPORT ON ASSESSMENTS | UIC: N00024 | COORDINATOR: PAT BOWMAN | DATE: 15 JULY 1993

AU ID CODE	ASSESSABLE UNIT	TOTAL # OF ASSESS	NUMBER OF UNITS RATED			NUMBER OF REVIEWS PLANNED BY FISCAL YEAR AND TYPE									
						FY 93		FY 94		FY 95		FY 96		FY 97	
			HIGH	MEDIUM	LOW	MCR	AMCR	MCR	AMCR	MCR	AMCR	MCR	AMCR	MCR	AMCR
002D010	FLIGHT DECK COMMUNIC. SYS (FDCS)	1		1						1					
002D011	SHIPBOARD INTEGRATED IC SYS	1		1				1							
002D012	SPECIAL ACCESS PROGRAMS	1		1				1							
002E001	SPECWAR	1		1										1	
002E002	SEABORNE TARGETS	1	1					1							
003A001	IMPREST FUNDS	8		4	4		1	1		1				1	
003A002	SMALL PURCHASES	16	1	6	9		2	3		1		1		1	
003A003	SOLICITATIONS	7	1	1	5			1			1	1			
003A004	CONTRACT AWARD	8		2	6	1		1				2			
003A005	CSS/CETS	7		1	6			1	1						
003A006	COST & PRICE ANALYSIS	11	2	2	7	8				2					
003A007	SMALL BUSINESS PROGRAM	9		3	6					1	1			2	
003A008	PRE-AWARD SURVEYS	4		1	3					1					
003A009	DOCUMENTATION (CONTRACT FILES)	5		1	4							2		1	
003A010	QUALITY ASSURANCE	7	1	1	5	1		1						1	
003A011	TECHNICAL PUBLICATIONS/MANUALS	5	1		4	1		1						1	
003A012	NEGOTIATIONS	6		3	3					2				1	
003A013	COMPETITION	9		4	5					1		1		3	
003A014	UNSOLICITED PROPOSALS	6			6							1			
003A015	PROPOSAL EVALUATION	6		2	4					2					
003A016	MODIFICATIONS	5		1	4			1							
003A017	SOURCE SELECTION	8	1	2	5			1		1		1			
003A018	PROCUREMENT SUPPORT	6		3	3	1					2	1			
003A019	PREPARATION OF BID SPECIFICATIONS														
003A020	REQUIREMENTS DETERMINATION	9	3	2	4	9									
003A021	DELIVERY ORDERS	1			1										
003A022	PHASED MAINTENANCE CONTRACTS	1			1										

Attachment B

Department of the Air Force Comments

DEPARTMENT OF THE AIR FORCE
HEADQUARTERS SAN ANTONIO AIR LOGISTICS CENTER (AFMC)
KELLY AIR FORCE BASE, TEXAS

19 MAY 1995

MEMORANDUM FOR INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON VA 22202-2884

FROM: SA-ALC/ CC
100 Moorman Street, Ste 1
Kelly AFB TX 78241-5808

SUBJECT: Audit Report on DOD Reporting and Controls for Contracted Support Services (Project No. 2CH-3003.01)

1. San Antonio Air Logistics Center's (SA-ALC's) management comments on subject audit report are forwarded per your 21 Mar 95 Memo. We concur with Finding B, Recommendations 4a and 4b, which were directed to SA-ALC. We estimate completion of our proposed actions by 30 Apr 96.

2. Finding B states internal controls were not adequate because DOD management did not place enough emphasis on compliance with guidance on contracted support services. Recommendation 4 is directed to the Commanders of the Army Communications-Electronics Command, the Army Missile Command, the Naval Sea Systems Command, the Air Force Materiel Command Electronic Systems Center, the San Antonio Air Logistics Center, and the Air Force Materiel Command Space and Missile Systems Center. We concur with both the Finding and the Recommendation.

3. Recommendation 4a states: "Require compliance with DOD Directive 5010.38, 'Internal Management Control Program,' April 14, 1987, reference (h), to cover contracted support services through an internal management control assessable unit as required by DOD Directive 4205.2, 'Use of Contracted Advisory and Assistance Services,' February 10, 1992." SA-ALC's management comments are as follow:

Contracted Advisory and Assistance Services (CAAS) will be included as an Assessable Unit for all contracting divisions which utilize CAAS contracts. Vulnerability Assessments on CAAS contracting actions will be completed not later than 30 Jun 95.

4. Recommendation 4b states: "Include the results of the assessment of internal controls over contracted support services as a performance measurement for the organizations to judge the success of improvements made over contracted support services." SA-ALC management comments are as follow:

A metric for tracking the improvement of reporting CAAS statistics will be developed utilizing the information from the DD Forms 350, Individual Contracting Action Report, and DD Forms 1057, Monthly Summary of Actions $25,000 or Less. Estimated completion date is 30 Apr 96 to allow accumulation of sufficient data to accurately measure any improvement.

5. SA-ALC strongly supports the Internal Management Controls Program. Vulnerability Assessments on CAAS actions will be included in our IMC program.

6. Our point of contact is Col Timothy P. Callahan, Deputy Director of Contracting, DSN 945-4679.

LEWIS E. CURTIS III
Major General, USAF
Commander

Audit Team Members

This report was produced by the Contract Management Directorate, Office of the Assistant Inspector General for Auditing, DoD.

Paul J. Granetto
Kimberley A. Caprio
Thomas W. Smith
Ernest R. Taylor
Stephanie F. Mandel
Suellen R. Geekie
Ira C. Gebler
Lisa R. Waller