

GAO

Testimony

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GAO's Comments on the Reauthorization of the
Office of Federal Procurement Policy (OFPP)

Statement of
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Before the
Subcommittee on Federal Spending,
Budgeting and Accounting
Committee on Governmental Affairs
United States Senate



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Mr. Chairman and Members of the Subcommittee:

We appreciate this opportunity to testify in support of legislation reauthorizing the Office of Federal Procurement Policy (OFPP).

As part of our continuing effort to assess operations at selected central management agencies and in anticipation of reauthorization hearings, we performed a review of OFPP and issued a report in November 1987 on our assessment. Today, I would like to highlight our results. I will also address the proposed legislation to reauthorize OFPP.

As envisioned by the Commission on Government Procurement, OFPP was to play a vital role in achieving greater economy, efficiency, and effectiveness in the federal procurement process. In 1974 the Congress responded to increasing criticism about the complexity and poor management of federal procurement by creating OFPP. The Office was to provide executive branch procurement policy leadership, and coordinate federal procurement policies.

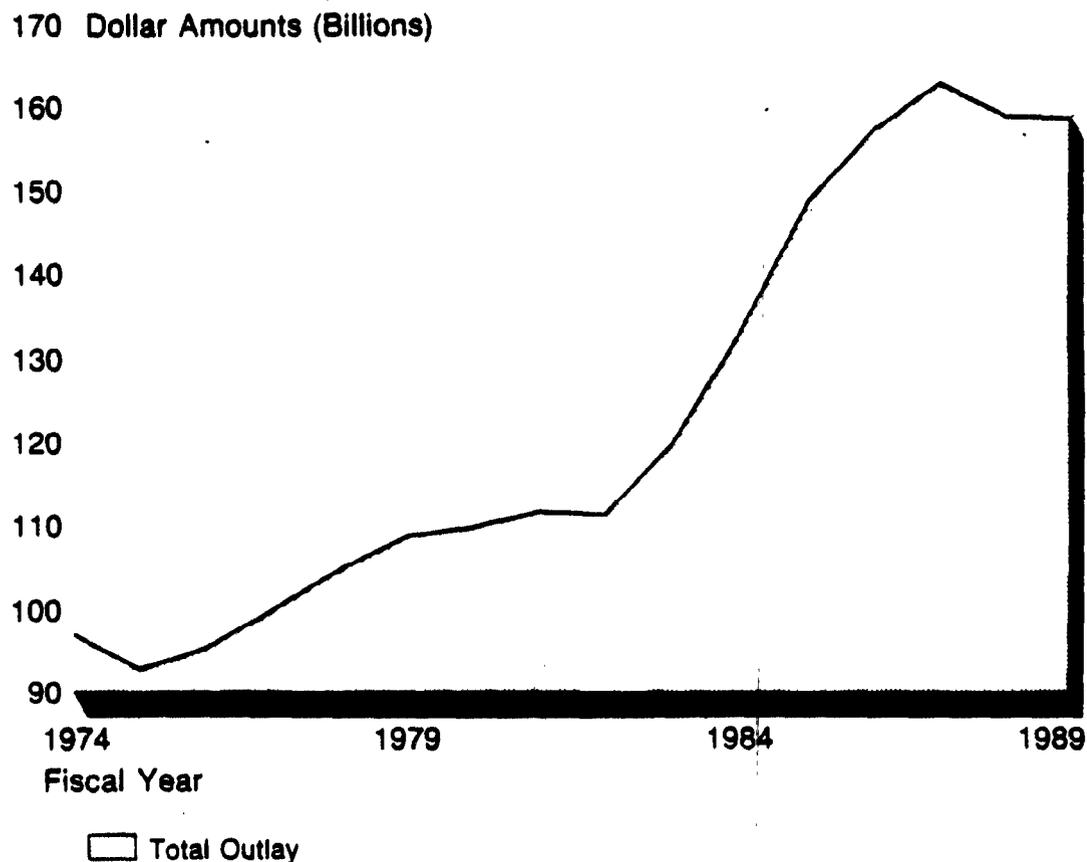
We believe that OFPP should play an important role in achieving greater efficiency and effectiveness in the federal procurement process. OFPP's role is even more important today, considering the significant increase in federal outlays for procurement, research, and development and the large amounts of procurement-

related legislation that has been introduced since QFPP's creation. Chart 1 shows that in 1974 the federal budget outlays for procurement, research, and development was approximately \$97 billion and the estimated outlays for fiscal year 1988 is approximately \$159 billion in constant 1982 dollars.

Chart 1.

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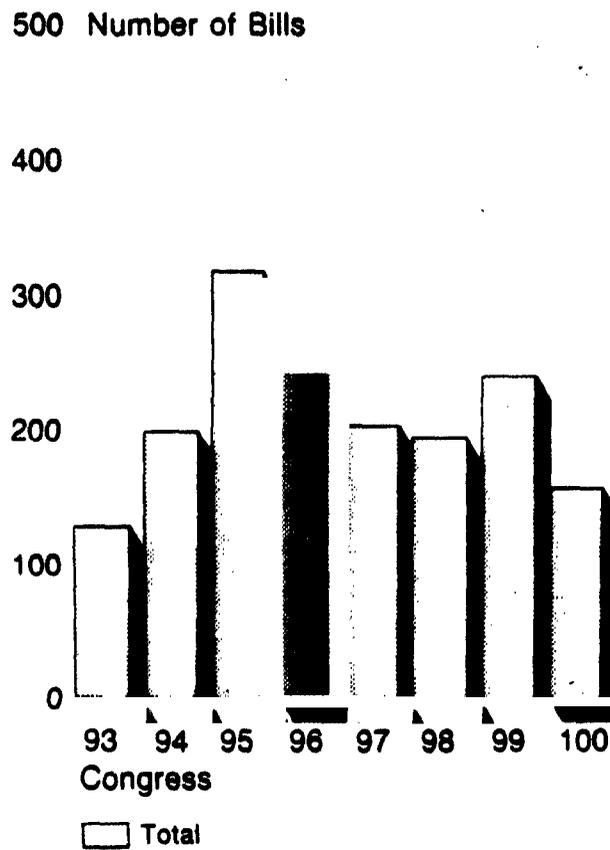
Federal Procurement-Related & RDT&E Outlays (Constant FY82 Dollars)



The volume of procurement-related legislation introduced for a given Congress is significant and OFPP should play a leadership role in developing and coordinating appropriate responses to emerging procurement concerns of the Congress. As shown in chart 2, the numbers of procurement-related bills, introduced, have ranged from 129 to 318 with the most recent Congress at 157.

Chart 2

GAO Legislation Related to Procurement (Gov't Procurement & Public Contracts)



Source: Scorpio

Our review of OFPP included obtaining a broad range of views from the procurement community about OFPP's performance. We obtained this information through a questionnaire completed by government procurement executives and representatives of private industry who had extensive experience in government procurement. OFPP's performance, despite notable achievements such as implementing the Federal Acquisition Regulations, was considered by many members of the procurement community as no more than marginally effective. These experts identified factors that they perceived as contributing to OFPP's uneven performance. The primary factors identified by the experts were the lack of strong management and leadership at OFPP, inadequate support from the Office of Management and Budget (OMB), and a lack of staff resources.

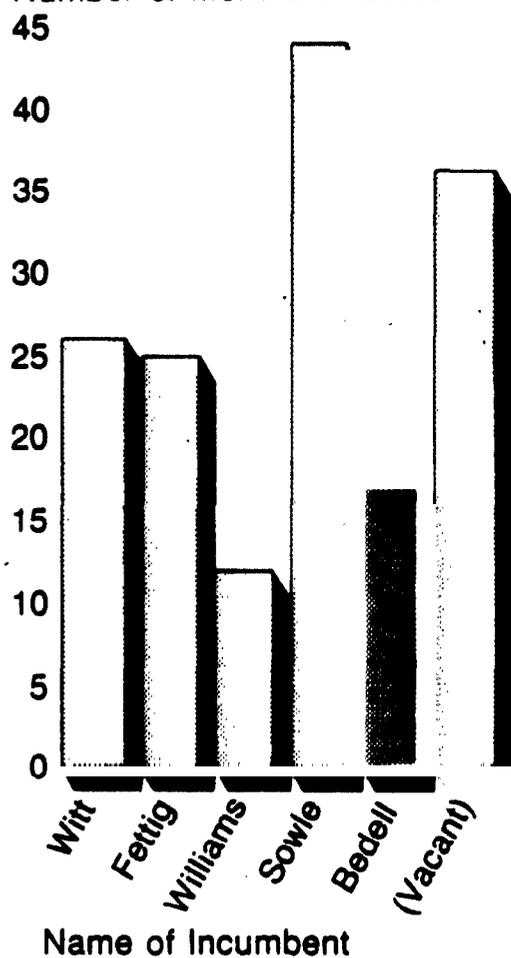
Some believe, and we agree, that lengthy periods without an appointed administrator contributed to OFPP's uneven performance. As shown in chart 3, during OFPP's 14 year existence, it has functioned without an appointed administrator for a cumulative period of 3 years. This relatively long period without an Administrator is indicative of the lack of commitment to the function of OFPP. Effective and dynamic leadership and full support of OMB are critical ingredients to the success of such a small central office. The Director of OMB should ensure that the position of OFPP Administrator does not remain vacant for long periods.

Chart 3

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OFPP Administration (Length of Term)

Number of Months in Office



Despite the expressed concerns over OFPP's performance, both government and private sector experts support the reauthorization of OFPP and believe that OFPP can improve the effectiveness of the government's procurement system. They also believe that central leadership is needed to address the many remaining procurement problems. They identified OFPP as the agency that could best provide this overall direction and leadership. In addition, most believe that OFPP can effectively perform this role as part of OMB, while others believe it should be an independent federal agency.

Our overall conclusion was that OFPP should remain in OMB. We agree with those who argue that linkage to OMB is necessary to provide OFPP the required prestige and clout to get things done.

Now I would like to address some of the other areas included in the reauthorization legislation being considered by the Subcommittee:

- the creation of the Federal Acquisition Regulatory Council,
- the reestablishment of a Cost Accounting Standards (CAS) Board, and

-- the requirement for the OFPP Administrator to ~~do~~ a study for a consistent methodology that executive agencies should use for measuring government contractor profitability.

FEDERAL ACQUISITION REGULATORY COUNCIL

The proposed legislation would create a "Federal Acquisition Regulatory Council" consisting of the OFPP Administrator and a procurement executive from the Department of Defense (DOD), General Services Administration (GSA), National Aeronautics and Space Administration (NASA). Basically, this Council would assist in the direction and coordination of procurement regulatory activities in the federal government. We think that the creation of the Council may assist the OFPP Administrator in more effectively performing its functions by providing a link between the various procurement executives. We believe that the Council might well help to ensure a more coordinated and streamlined approach in the development of procurement policies and regulations.

CAS BOARD

Since the original CAS Board's termination on September 30, 1980, we have consistently advocated that a cost accounting standard-setting authority be reestablished. It is important that an appropriate authority be designated to make, promulgate, amend,

rescind, and interpret cost accounting standards. We believe that OFPP is a logical choice for performing these functions.

Therefore, we support the proposed legislation, which would assign duties and responsibilities previously performed by the CAS Board to the OFPP Administrator.

However, we do have a few recommendations concerning the proposal. Specifically, we suggest:

- that the language relating to CAS applicability be clarified because the proposed provision is broader than the previous law, for example contracts where prices are set by law or regulation appear to be covered. We will be happy to work with the Subcommittee in developing the appropriate language.
- the initial term of office for each Board member be individually time phased so that all members' terms do not end at one time. This will avoid a problem that the original Board faced.
- the Board members who are not officers or employees of the federal government receive compensation at Executive Level IV. These previous Board members were assigned at level IV

rather than at the lower Executive Level V proposed by the new legislation.

We note that other bills dealing with CAS have combined allocability and allowability. We believe that it is important to separate cost allocability standards and cost allowability principles. Allocability is an accounting issue. Allowability is a procurement policy issue. Allocability and allowability traditionally have been viewed as separate concepts serving distinctly different objectives. In reestablishing a CAS Board, we believe this distinction should be maintained, and support this vital distinction.

PROFITABILITY REPORTING PROGRAM

The legislative proposal contains a requirement to develop a consistent methodology that executive agencies should use for measuring the government contractor profitability. We agree with this provision and are currently working with representatives of DOD and OFPP towards accomplishing this requirement. While we support this step towards identifying the various factors needed to measure profitability, we want to emphasize that specific legislation is required to institute a mandatory profitability reporting program.

We issued a report¹ that provides a framework for a profitability reporting program that would require a consistent analytical methodology to evaluate profitability. Our proposal would allow the government to gather data and study aggregated contractor profitability on a regular and consistent basis for the first time. Our report contains suggested legislation to require major government contractors to report financial results annually to the OFPP Administrator.

Over the past several years, a number of statutes, regulations, and management practices have been initiated to improve the defense procurement process. Many of these practices may affect a contractors' profitability. Recently, the defense industry has been outspoken about certain defense procurement policies, such as: (1) cost sharing on new development programs, (2) the new defense profit policy, (3) lower progress payments, (4) revised special tooling investments, (5) revised cost recovery principles, and (6) tax law changes. Currently, sufficient data are not available to measure the full impact of these various factors on actual contractors' profitability and a Profitability Reporting Program like the one we have proposed would correct this real deficiency.

¹Government Contracting: A Proposal for a Program to Study the Profitability of Government Contractors (GAO/NSIAD-87-175, Sept. 1987).

We believe that the lack of information that currently exist is a disservice to contractors who may well have their financial health significantly impaired by various defense policies. We also believe it is a disservice to the DOD policy-makers who must make decisions with little or no data on which to assess their impact.

We recognize that there are industry concerns over establishing a mandatory program for reporting profit data, but these should not be insurmountable. If the Congress, the defense industry, or others believe that modification of our proposed legislation is required before enactment, we will be happy to work with them to develop this legislation and to address any concerns that are raised.

Mr. Chairman that concludes my prepared remarks. I would be happy to address your questions at this time.