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Testimony



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Comments on H.R. 2274 And Our Report on
Contracting Practices for Military Base
Support Contracts

Statement for the Record
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Before the
Subcommittee on Procurement
Committee on Small Business
United States House of Representatives



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Mr. Chairman and Members of the Committee:

We appreciate this opportunity to provide a statement to the Subcommittee on H.R. 2274, The Small Business Protection Act, and highlights of our report, Procurement: Opportunities to Use More Preferred Practices for Base Support Contracts (GAO/NSIAD-87-7), issued in February 1987.

Both H.R. 2274 and our report seek to require additional justification, and promote better analysis of alternatives, when warranted, before decisions are made to consolidate work functions into larger contracts. H.R. 2274 would require a small business impact statement when a procuring agency proposes that work currently performed by a small business be consolidated and the proposed procurement would not be conducive to small business participation. Under the proposed approach, if the Small Business Administration (SBA) believed alternatives exist that would increase small business prime contracting opportunities, SBA would be required to provide recommendations to the procuring agency.

Information we collected on military base support contracts for our 1987 report raised concerns about the adverse effect on small businesses of consolidating single function contracts into large contracts. (See attachment I for the dollar amount of the prime contracts awarded to large and small businesses and attachment II for the amount of subcontracting on selected contracts.) Based on our report, we concluded that, under certain circumstances, proposals to award large consolidated contracts need to be justified in writing and approved. We believe, if this were also a requirement, it would help ensure that small business' opportunities to compete for federal contract awards are restricted only when this has been demonstrated to be in the government's best interests. We believe H.R. 2274 proposes a reasonable approach for ensuring that, before deciding whether to consolidate contract work,

procuring agencies take into account the opportunities given to small businesses to participate.

BACKGROUND

Our report presents the results of our review of the contracting practices the military services used to award large multifunction ("umbrella") contracts for base support services. The Department of Defense (DOD) identified 64 umbrella contracts, valued at \$3.5 billion, used to provide support services on military bases during fiscal years 1977 through 1983. The use of these contracts grew from \$20 million in fiscal year 1977 to more than \$1 billion in fiscal year 1983. We performed this review because of the substantial value of the umbrella contracts. We not only analyzed information on the 64 umbrella contracts, but also compared the results with information from a random sample of single function base support service contracts. In fiscal year 1983, the last year covered by the contracts we reviewed, DOD funded about 6,000 contracts totaling \$2.4 billion for base support services. Most of these contracts were relatively small, covering one function.

Under umbrella contracts, contractors provide a wide range of support services, such as custodial work, lawnmowing, road and building maintenance, trash collection, food services, and security, rather than a single service. By using an umbrella contract, a military base can reduce the number of contracts it needs to award and administer and can concentrate responsibility for the work on a single contractor.

Our report refers to certain practices as preferred for procuring routine or predictable services. These include (1) using a firmly priced contract rather than a fixed-price incentive or cost reimbursement contract, (2) giving at least 50 percent of the weight to price, as opposed to nonprice, factors in

evaluating contractors' offers, (3) using contract statements of work which contain to a great or very great extent performance-oriented descriptions of the work to be done and standards with acceptable quality levels for measuring performance, and (4) exercising contract options that were priced as part of the initial contract award, rather than unpriced options. We refer to contracting practices other than these as less preferred practices.¹

RESULTS IN BRIEF

Most of the work done under umbrella contracts was routine or predictable. However, the military services awarded most of the contracts using contracting practices more suited for obtaining technical, nonroutine work. This lessened the likelihood that the government obtained base support services at a fair and reasonable price.

The military services provided little or no support for many of their decisions to use the less preferred contracting practices. They said they used them mainly to have flexibility, to get the best service, and to save time in the contracting process. However, the preferred practices have been used successfully in awarding some umbrella contracts. In addition, single function contracts, covering many similar types of work as the umbrella contracts, have often been based on the preferred practices.

¹In a separate report, GAO/NSIAD-86-59, we recommended and DOD and other federal agencies adopted regulatory changes to correct problems identified relating to contract options.

RESULTS OF OUR REVIEW

Work Mostly Routine

The work performed under umbrella contracts consisted mainly of routine, predictable activities. DOD contracting officers provided and we analyzed information on the work performed under 56 of the 64 umbrella contracts. The analysis showed that of the 118 different types of work performed under the contracts, 113 (96 percent) were performed under both the umbrella contracts that were firmly priced and those that were not. Firmly priced contracts are best suited for predictable types of work.

The less preferred practices often used to award umbrella contracts are more suited to unpredictable or nonroutine work, such as developing a weapons system. In such work, costs may be harder to estimate in advance, and a contractor's technical expertise may need to weight more heavily in making the award. When used to contract for routine work, however, these practices may result in higher prices. For example, we found that, because nonprice factors were given more importance in evaluating contractors' offers, the 22 umbrella contract awards made to someone other than the lowest priced offeror totaled \$81 million, or 8 percent, more than the total of the lowest offers. In the source selection evaluation process, all of the lowest offerors were judged to be qualified.

Use of Less Preferred Contracting Practices

Overall, we found that for the 64 umbrella base support service contracts which DOD identified as having been awarded between fiscal years 1977 and 1983, the less preferred practices were often used. That is

- 43 (67 percent) were either cost reimbursement contracts or fixed-price incentive contracts;
- 33 (52 percent) were either evaluated predominantly on the basis of nonprice source selection criteria or were awarded noncompetitively;
- 30 (47 percent) were awarded based on work statements not meeting the OMB guidance to a great or very great extent, according to the contracting officers responding to our questionnaire; and
- 11 (17 percent) had unpriced options that had been exercised.

Ten umbrella contracts used only the preferred practices. The other 54 used from 1 to 4 of the less preferred contracting practices. That is, 14 contracts used 1 such practice, 20 contracts used 2, 17 contracts used 3, and the remaining 3 contracts used all 4 of the less preferred practices.

Support Lacking for Less Preferred Practices

Federal law and regulations require decisions to use cost reimbursement or incentive types of contracts to be justified either as (1) likely to be less costly or (2) the only practicable way to satisfy the need. For the 43 umbrella contracts of such types (costing \$2.3 billion), we found that 37 had inadequate documentation to support the contract-type decision. Interviews with contracting officers did not provide additional information supporting 28 of these 37 decisions. Similarly we examined eight contract awards for which price was given less than 50 percent of the weight for evaluating offers and found insufficient support for assigning such a low weight in seven of the eight cases.

Use of Preferred Practices

Is Feasible

Some umbrella contracts were awarded using the preferred practices. Of the 64 umbrella contracts, 21 were awarded using firmly priced contracts. Also, 17 of the 64 were awarded with the dominant importance given to price rather than to nonprice source selection evaluation factors and another 14 contracts were awarded with equal importance given to price and nonprice factors. The kinds of work performed under these contracts based on the preferred practices were similar to the work performed under most of the others.

Better Work

Statements Needed

To increase the effective use of firmly priced contracts and the emphasis on price in awarding umbrella contracts, the services need to prepare more precise contract work statements defining both the work to be done and acceptable performance levels.

Comparison of Umbrella

and Single Function

Contracting Practices

In addition to the differences in the contracting practices used on different umbrella contracts covering largely the same types of work, we found substantial differences between the contracting practices used to award umbrella contracts and single function contracts covering many similar types of work. When base support service work was consolidated and awarded using umbrella contracts, instead of single function contracts, less preferred contracting practices were often used instead of the preferred practices. For example, 33 percent of the umbrella contracts

were firmly priced, compared to 98 percent of the single function contracts. In addition, 48 percent of the umbrella contracts were awarded based on source selection evaluation criteria that gave at least half of the weight to price, compared to 95 percent of the single function contracts. Moreover, on those contracts for which price was given at least half of the weight, the average price weighting was significantly lower for the umbrella than the single function contracts.

OTHER RESULTS OF OUR REVIEW

Our report included several other findings and conclusions relevant to the issue of consolidating contract work:

- The information in attachment I shows that the proportion of the value of prime contract awards to small business concerns, compared to large business concerns, is significantly lower for umbrella than for single function contracts. Attachment II shows, for the umbrella contracts at the military bases we visited, the amount and percentage of subcontract awards to small business concerns.
- Despite contrary DOD policy statements, we found indications that umbrella contract solicitations resulted in less competition than single function contracts. Specifically, umbrella contracts were awarded based on a range of 1 to 15 offers with a mean of 4.3, whereas single function contracts had a range of 1 to 45 offers with a mean of 6.8. About 53 percent of the 64 umbrella contracts were awarded based on more than 2 offers compared with 89 percent of the single function contracts.
- The military services have procured billions of dollars worth of base support services and supplies through umbrella contract awards based on less preferred contracting practices.

- Although most of the work involved was of a predictable nature, contracting officers often decided to use umbrella contracts based on the less preferred practices without justifying that they were the most advantageous method of meeting the government's needs. Neither procurement regulations nor agencies' procedures require the decisions to use umbrella contracts based on less preferred contracting practices, rather than two or more smaller contracts based on the preferred practices, to be justified. DOD policy requires a cost analysis if all or many of the functions for a base are solicited together. However, the policy does not address consideration of, or justification for, not using preferred contracting practices.

- Decisions to use umbrella contracts based on less preferred contracting practices for routine base support services need more careful justification and review.

RECOMMENDATION

We recommended that the Secretary of Defense require both initial solicitations and resolicitations to be based on the anticipated use of the three contracting practices listed below whenever use of an umbrella contract covering a substantial amount of routine or predictable base support work is proposed, except when (1) the contracting officer certifies, justifies, and reasonably supports the use of any other contracting practice(s) in writing as more advantageous to the government and (2) the justification

is approved at a level higher than the contracting officer.² The three contracting practices are:

- A firm fixed-price contract or a fixed-price contract with an economic price adjustment clause.
- Source selection evaluation criteria which assign at least half of the weight to price related, rather than nonprice, factors.
- A solicitation containing work statements with (1) clear, definitive, performance-oriented descriptions of the work that needs to be done and (2) standards with acceptable quality levels for measuring performance.

We believe that adopting our recommendation would help DOD ensure that (1) the inappropriate use of umbrella contracts is limited and (2) small businesses' opportunities to compete for federal contract awards are restricted only when this has been demonstrated to be in the government's best interests.

DOD did not concur with this recommendation, saying it would adversely impact on the contracting officer's responsibility to select the most appropriate contracting method. DOD promised no specific corrective actions, except guidance, already issued, and training, already being offered, relating to better work statements.

²That is, the requirement should apply (1) at the time the "packaging decision" is made determining whether and to what extent work functions are to be consolidated into an umbrella contract and (1) before the solicitation is prepared, so that proper planning can be done to allow use of the preferred practices whenever use of the less preferred practice(s) has not been justified and approved.

Mr. Chairman, this concludes my statement. I would be happy to provide responses for the record to any questions you or other members of the Committee have.

UMBRELLA PRIME CONTRACT DOLLARS^a
AWARDED BY TYPE OF BUSINESS

<u>Year</u> <u>year</u>	<u>Large</u> <u>business^b</u>	Large business awards made outside <u>United States</u>	<u>Small</u> <u>business</u>	<u>Total</u>
-----Dollars in millions-----				
1977	\$ 17,455	\$ 2,658	\$ 0	\$ 20,113
1978	213,306	\$ 31,184	0	244,490
1979	281,048	136,994	6,617	424,659
1980	316,135	175,244	7,356	498,735
1981	321,899	206,651	16,599	545,149
1982	546,571	214,652	14,577	775,800
1983	<u>840,884</u>	<u>166,893</u>	<u>10,738</u>	<u>1,018,515</u>
Total	<u>\$2,537,298</u>	<u>\$934,276</u>	<u>\$55,887</u>	<u>\$3,527,461</u>

SINGLE FUNCTION PRIME CONTRACT DOLLARS
AWARDED BY TYPE OF BUSINESS^a

<u>Year</u> <u>year</u>	<u>Large</u> <u>business^b</u>	Large business awards made outside <u>United States</u>	<u>Small</u> <u>business</u>	Other nonprofit <u>institutions^c</u>	<u>Total</u>
-----Dollars in millions-----					
1983	\$96,537	\$316,962	\$1,003,795	\$11,928	\$1,429,222

^aData was obtained from the Federal Procurement Data System.

^bThis excludes awards to large businesses made outside the United States, shown in the next column.

^cEducational, hospitals, and other entities.

AMOUNT OF SUBCONTRACTED WORK AT UMBRELLA CONTRACT BASES VISITED

<u>Base</u>	Total prime contract amount FY <u>1983</u>	Total subcontract amount	<u>Percent</u>	Small business subcontract amount	Percent of total prime amount
-----Dollars in millions-----					
Bangor	\$ 36.1	\$10.4	28.7	\$ 8.7	24.1
Arnold	64.3	22.5	35.0	10.9	16.9
St. Louis	5.1	0.7	12.7	0.5	10.3
Vance	28.8	5.9	20.5	5.5	19.1
China Lake	7.7	3.9	50.3	3.3	43.1
China Lake	2.7 ^a	1.1	41.9	1.1	41.9
Fort Irwin	23.0	1.7	7.5	1.7	7.5
Fort Gordon	25.8	14.7	57.0	9.9	38.2
Greenland	b	b	b	b	b
Turkey	<u>b</u>	<u>b</u>	<u>b</u>	<u>b</u>	<u>b</u>
Total	<u>\$193.5</u>	<u>\$73.4</u>	<u>37.9</u>	<u>\$41.6</u>	<u>21.5</u>

^aLess than a fiscal year: March 13, 1983, through September 26, 1983.

^bData were not available.