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COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

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RELEASED

B-160725

JAN 9 1974

The Honorable William L. Scott
United States Senate

74-0032

Dear Senator Scott:

We have reviewed the suggestion received from Colonel Malcolm F. Kent, USAR (Retired) as requested in your letter of October 25, 1973.

~~Colonel Kent suggests that a separate agency--consisting of a civilian inspector general task force and staffed by recently retired officers with prior inspector general service--review procurement at all government levels.~~ This force, after refresher training, would review individual transactions for improper procurement practices. When the Government did this from 1952 to 1954, it had excellent results.

Since the 1950s many changes have been made in Government procurement. Legislation such as the Truth-in-Negotiations Act, Public Law 87-653, in effect since December 1962, has provided more effective procedures for increasing competition for negotiated contracts and for establishing reasonable prices for noncompetitive contracts. Government agencies have increasingly recognized their responsibilities to establish a system of procedures and controls to insure that (1) maximum competition is obtained, (2) prices are reasonable, and (3) contract performance is satisfactory. They have recognized the need for internal audit and review staffs to insure that prescribed policies and procedures are being followed.

~~Agency procurement offices have independent groups which review each transaction before award. Their procurement practices are also subject to reviews by numerous outside organizations.~~ For example, in the Department of Defense, each service has a Procurement Management Review Group, internal audit organization, and an inspector general. The Defense Contract Audit Agency established in 1965 makes preaward reviews of price proposals for noncompetitive contracts and postaward reviews of selected contracts to identify procurements whose prices have been increased because contractors

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had submitted information that was not accurate, current, or complete at the time of negotiation. A Defense Contract Administration Service, established in 1965, performs most contract administration, quality assurance, acceptance, and payment functions for the military services.

A Cost Accounting Standards Board has been established to provide cost accounting standards designed to achieve uniformity and consistency in cost accounting principles followed by defense contractors and subcontractors under Federal contracts. Such cost standards must be used in estimating, accumulating, and reporting costs in pricing, administering, and settling most negotiated contracts over \$100,000.

Recently, a Commission on Government Procurement made 149 recommendations which are expected to achieve significant overall improvements in Government procurement.

Since the 1950s the trend in auditing has been away from reviews of numerous individual transactions and toward comprehensive examinations and evaluations of agencies' systems and controls and audits of a limited number of transactions to find out whether satisfactory procedures are being followed.

Our examinations of Government procurement are primarily directed at reviews of the system of procedures and management controls to identify deficiencies and recommend improvements. For this purpose, examinations of large numbers of transactions have been unnecessary. However, when deficiencies in negotiating contract prices have been identified or substantial cost underruns are found in selected contracts, we review them in detail to establish whether prices are reasonable.

When our reviews indicate that procedures could be improved, we recommend changes. For example, we have recommended (1) improving formal advertising and negotiation practices, (2) obtaining cost or pricing data for pricing noncompetitive prime contracts and for subcontract estimates included in these contracts, (3) improving contractor performance of contracts, (4) accepting contractors' catalog prices, (5) improving

contractors' procurement practices, (6) settling contractors' claims, (7) increasing competition for emergency procurement, and (8) effecting price adjustments when contractors have submitted defective data for price negotiations. Plans are underway for detail examinations into a number of other activities in which improvements in procurement and contract operations may be desirable.

We met with Colonel Kent and discussed his suggestion and reviewed the changes referred to above that have been made in Government procurement since the 1950s. Colonel Kent said independent reviews of procurements made by States, counties, and cities are needed urgently. Unless Federal funds are involved, a Federal task force would probably require legislation to review these procurements. We advised Colonel Kent, however, that we would consider his suggestion in our future reviews.

Sincerely yours,



[Deputy] Comptroller General
of the United States