

DOCUMENT RESUME

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[Proposed Legislation to Require the Enactment of Special Legislation to Continue Funding Any Major Acquisition Whenever Costs or Estimated Costs Increase by 50 Percent or More]. PSAD-77-100; B-167034. September 14, 1977. 3 pp.

Report to Sen. Abraham Ribicoff, Chairman, Senate Committee on Governmental Affairs; by Robert F. Keller, Deputy Comptroller General.

Issue Area: Federal Procurement of Goods and Services (1900).
Contact: Procurement and Systems Acquisition Div.
Budget Function: General Government: Other General Government (806).

Congressional Relevance: Senate Committee on Governmental Affairs.

Authority: S. 1313 (95th Cong.). OMB Circular A-109.

Proposed legislation (S. 1313) would require the Comptroller General to determine twice a year the cost growth statistics on all major military and civil acquisitions and to report to the Congress and the head of the department or agency concerned when he determines that the actual cost or estimated projected cost of such acquisitions have resulted or will result in a cost growth of 50% or more, excluding inflation. Upon receipt of such report, no additional funds could be obligated or expended with respect to the acquisition unless authorizing legislation were enacted by the Congress. Findings/Conclusions: The data gathering and reporting requirements are executive agency responsibilities. Since departments and agencies should be compiling cost data on major acquisitions, it would place little additional burden on them to report to the Congress when such data shows that costs or estimates have increased by 50% or more. Recommendations: The proposed legislation should require that each department and agency establish the baseline cost and the current estimated costs for each major acquisition, identify the amount of cost growth attributable to inflation, and formally notify the Congress when a cost growth of 50% has been attained or is anticipated on each major acquisition. For the purposes of this bill, baseline estimates should be defined as those which are based on reasonably firm designs and which are the support for requests to the Congress for total project authorizations. (SC)

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

BY REPLY
REFER TO:

SEP 14 1977

B-167034
B-182956-

The Honorable Abraham Ribicoff
Chairman, Committee on Governmental Affairs
United States Senate

Dear Mr. Chairman:

This is in reply to your request for our views and recommendations regarding the provisions of S. 1313 which would require the enactment of special legislation to continue funding any major acquisition whenever costs or estimated costs increase by 50 percent or more. The bill requires the Comptroller General twice a year to determine the cost growth statistics on all major military and civil acquisitions and to report to the Congress and the head of the department or agency concerned when he determines that the actual cost or estimated projected cost of such acquisitions have resulted or will result in a cost growth of 50 per centum, excluding inflation. Upon receipt of the Comptroller General's report no additional funds may be obligated or expended with respect to such an acquisition unless authorizing legislation is enacted by the Congress.

It is our view that the data gathering and reporting requirements are executive agency responsibilities. Inasmuch as departments and agencies should be compiling cost data on major acquisitions, it would place little additional burden on them to report to the Congress when such data shows that costs or estimates have increased by 50 per centum or more.

It should be emphasized that more complete and accurate cost growth data reported on all major acquisitions is a worthwhile objective in our view. This Office has reported on the status of major systems annually for the past 3 years in an effort to demonstrate the usefulness to the Congress of reporting such data. Also, in a report entitled, "Reporting of Selected Major Acquisition Projects Needs Improvement" on December 29, 1976, we recommended that more complete information on selected major acquisitions be submitted to the Congress (enclosed). As mentioned above, however, we view this need as one that can and should be met by the executive departments and agencies responsible for the acquisitions.

The bill also defines major military and civil acquisitions and requires the Comptroller General to determine baseline costs for such acquisitions. The baseline cost would then be used to identify acquisitions

that increase in cost by 50 per centum or more. Our views on these provisions of the bill and our overall suggestions follow.

Sec. 1(1) of the bill sets dollar thresholds for military systems at \$50 million for research and development and \$200 million for production which are the thresholds the Department of Defense had established prior to January 1977. In that month Defense increased the thresholds to \$75 million for research and development and \$300 million for production. We would suggest revision to agree with the current definition of major acquisitions.

With regard to Sec. 1(2), many civil agencies have not established dollar thresholds for major acquisitions. The Office of Management and Budget in its circular A-109, April 1976, stated that dollar thresholds for major acquisitions may be established at the discretion of the agency head. We would suggest that for purposes of this legislation thresholds for major civil systems be set at a total cost of \$50 million for research and development and for production or construction.

Sec. 1(3) states that the term "baseline cost" means a planning or development cost as determined by the Comptroller General. Because of the numerous and varied types of major acquisitions involved, we believe that baseline cost determinations necessarily should be made by the departments and agencies concerned rather than by the General Accounting Office.

In the past, agencies reporting on major acquisitions have used a variety of estimates as baseline estimates depending primarily on the nature and complexity of the project and the different authorizing procedures. They have used for example, (a) estimated costs at reauthorization, (b) construction estimated costs (Corps of Engineers), (c) original cost estimates and (d) preliminary cost estimates, as baseline costs.

It is understandable that initial or preliminary estimates may not be useful for measurement because some are made before designs are complete. The Department of Defense has agreed with us that development estimates should be used for baseline costs because earlier planning estimates are too soft. For the purpose of this bill we would suggest that baseline estimates should be defined as those which are based on reasonably firm designs and which are the support for requests to the Congress for total project authorizations.

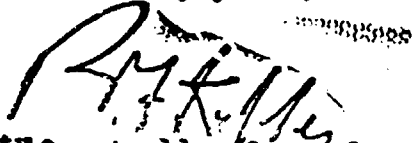
In summary, we suggest the bill require that each department and agency:

- establish the baseline cost and the current estimated costs for each major acquisition,

- identify the amount of cost growth attributable to inflation,
- formally notify the Congress when cost growth of 50 percent has been attained or is anticipated on each major acquisition.

When the bill is enacted, this Office as part of its overall statutory responsibility would monitor executive agency reporting under this legislation.

Sincerely yours,



Deputy Comptroller General
of the United States

Enclosure