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*REPORT TO THE SUBCOMMITTEE ON
HOUSING AND URBAN DEVELOPMENT,
SPACE, SCIENCE, VETERANS
COMMITTEE ON APPROPRIATIONS 094848
UNITED STATES SENATE*

Examination Into The Award Of
Seven Management Consultant
Contracts B-114859

Veterans Administration

*BY THE COMPTROLLER GENERAL
OF THE UNITED STATES*

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MARCH 15, 1974



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

B-114859

The Honorable William Proxmire
Chairman, Subcommittee on Housing
and Urban Development, Space,
Science, Veterans
Committee on Appropriations
United States Senate

Dear Mr. Chairman:

As you requested in your letter dated June 27, 1973, we have examined into seven specific management consultant contracts awarded by the Veterans Administration (VA) to determine if the applicable provisions of the Federal Property and Administrative Services Act of 1949, as amended (41 U.S.C. 251-260) and the Federal Procurement Regulations (FPR) were adhered to in making these awards. You also expressed a particular interest in determining the extent to which other management consultant firms were considered for these contracts.

The seven contracts were classified by VA as professional services contracts and were awarded to:

- Henningson, Durham & Richardson, Inc., Omaha, Nebraska, on October 17, 1972, for professional consultant services in connection with the rehabilitation and expansion of the VA Center, Wichita, Kansas;
- Technology Management Incorporated, Washington, D.C., on December 5, 1972, for consultant services relative to the VA's automatic data processing operations;
- Thorne Data Processing Corporation, Alexandria, Virginia, on February 7, 1973, for consultant services relative to VA's Centralized Accounting for Local Management System;

- J. P. Clark Associates, Inc., Dallas, Texas, and Utilities International, Inc., Memphis, Tennessee, both on February 22, 1973, for similar technical analyses and audits of purchased utility costs at selected VA stations;
- Hay Associates, Philadelphia, Pennsylvania, on February 27, 1973, to evaluate the VA's Department of Veterans Benefits (DVB) field organization to determine how VA's regional offices might be best modified and related to conform to the 10 Federal Centers Concept; and
- Educational Testing Service, Princeton, New Jersey, on May 25, 1973, to perform a comprehensive and objective study of the post-Korean Conflict program of education and training assistance currently being provided as compared to the programs that were available to veterans of World War II and the Korean Conflict.

Our examination showed that six of the seven contracts were awarded to specific management consultant firms on a noncompetitive basis. For these contracts, VA's records did not contain evidence that other firms were identified and considered in the selection process. The seventh contract--Educational Testing Service--was awarded on the basis of an evaluation of competitive proposals submitted by six firms in response to a formal request for proposals.

Section 252(c)(4) of title 41, U.S.C., and section 1-3.204 of the FPR provide that professional services contracts may be negotiated by the head of the agency without formal advertising. However, the FPR, in sections 1-1.301-1, 1-1.302-1(b), and 1-3.101(c) and (d), provides that negotiated purchases and contracts are to be awarded on a competitive basis to the maximum practicable extent.

The "General Policies" subpart of the FPR, section 1-1.302-1(b), requires that:

"Irrespective of whether the procurement of supplies or services from sources outside the Government is to

be effected by formal advertising or by negotiation, competitive proposals ("bids" in the case of procurement by formal advertising, "proposals" in the case of procurement by negotiation) shall be solicited from all such qualified sources as are deemed necessary by the contracting officer to assure such full and free competition as is consistent with the procurement of types of supplies and services necessary to meet the requirements of the agency concerned."

Provisions of the FPR also place the burden on the procuring agency for justifying any noncompetitive negotiated procurement. Section 1-3.101(d) states in part, that:

"When a proposed procurement appears to be noncompetitive, the procuring activity is responsible not only for assuring that competitive procurement is not feasible, but also for acting whenever possible to avoid the need for subsequent noncompetitive procurements. This action shall include both examination of the reasons for the procurement being noncompetitive and steps to foster competitive conditions for subsequent procurements* * *."

On the basis of our review of VA's contract files and other pertinent records and our discussions with VA officials, it appears that the above requirements were not met with respect to the six noncompetitively negotiated contracts. No attempts were made by VA to identify and seek proposals from management consultant firms other than those specific firms actually awarded the contracts. Also, the need to negotiate these contracts on a noncompetitive basis was not documented in VA's contract files, and in these cases no apparent attempts were made by the responsible contracting officers or other VA officials to avoid future noncompetitive procurements of professional services.

We believe that the Government's best interests are served by following, to the maximum extent possible, a policy of awarding contracts for professional services on the basis of competition.

Our position on this matter is reinforced by the Commission on Government Procurement which made an extensive study of procurement by the executive branch of the Federal Government and specifically addressed the problems of contracting for professional services in its December 1972 report to the Congress. In its report, the Commission noted the existence of more than 10,000 professional service firms, including 2,000 specializing in management consulting and social sciences, and recommended (volume 1, page 98) that:

"The procurement of professional services should be accomplished, so far as practicable, by using competitive proposal and negotiation procedures which take into account the technical competence of the proposers, the proposed concept of the end product, and the estimated cost of the project, including fee. The primary factors in the selection process should be the professional competence of those who will do the work, and the relative merits of proposals for the end product, including cost, sought by the Government. The fee to be charged should not be the dominant factor in contracting for professional services."

In discussing this recommendation, the Commission pointed out that the then existing procedures followed in procuring professional services are like those used for other competitively negotiated contracts; that is, a request for proposals is issued and the requirement is announced in the Commerce Business Daily, a synopsis of proposed Government procurements, sales, and contract awards, published by the Department of Commerce. Written proposals are then submitted by all interested offerors, negotiations are conducted, and an award is made. These procedures, in our opinion, should be followed to the maximum extent possible in procuring needed management consultant services.

Summaries of the information we developed on each of the seven contracts we examined are contained in the appendix to this report.

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As agreed to by your office, we advised VA of our findings. We subsequently met with VA officials to obtain their oral comments on our findings, and these comments have been recognized, to the extent appropriate, in finalizing this report.

We will make no further distribution of this report unless copies are specifically requested, and then we will make distribution only after your agreement has been obtained or public announcement has been made by you concerning the contents of the report.

We trust that the information furnished in this report will serve the purpose of your request.

Sincerely yours,

A handwritten signature in cursive script, appearing to read "James B. Peets".

Comptroller General
of the United States

SUMMARY OF INFORMATION
ON SEVEN MANAGEMENT CONSULTANT CONTRACTS
AWARDED BY THE VETERANS ADMINISTRATION

CONTRACT NO. V101 (134) P-144
AWARDED ON OCTOBER 17, 1972
TO HENNINGSON, DURHAM & RICHARDSON, INC

The purpose of the Henningson, Durham & Richardson, Inc. (HDR) contract was to obtain professional consultant services in connection with a proposed rehabilitation and expansion project at the VA Center in Wichita, Kansas. HDR, an Omaha, Nebraska firm providing, among other services, architect-engineering services, was awarded the negotiated contract, on a noncompetitive basis, upon the recommendation of VA's Chief Medical Director. No other firms were considered in awarding the contract. The original contract amount was \$28,000, but the amount was later increased to \$36,000 in May 1973 to cover additional services to be performed by HDR.

The Wichita VA Center had been affiliated with the University of Kansas School of Medicine since 1952. At the time the HDR contract was awarded in October 1972, VA was considering an expansion of this affiliation to encompass the Wichita State University Branch of the University of Kansas School of Medicine.

To accommodate the proposed expanded affiliation, according to VA officials, the facilities at the Wichita VA Center needed to be rehabilitated and expanded. HDR was asked to (1) make a functional and physical evaluation of the existing hospital plant, (2) evaluate the center's existing and proposed programs of service to determine facility requirements, (3) develop a space and facilities site plan for the center, and (4) perform additional services--such as preparing schematic design studies leading to recommended solutions--as might be ordered by VA.

We were advised that the Chief Medical Director based his selection of HDR on his knowledge of prior non-VA work performed by this firm.

CONTRACT NO. V101 (134) P-155
AWARDED ON DECEMBER 5, 1972
TO TECHNOLOGY MANAGEMENT INCORPORATED

The purpose of the Technology Management Incorporated (TMI) contract was to provide consultant service support to a VA design study team which was designing an automatic data processing system to automate VA regional office work processes involved in adjudicating compensation, pension and education claims. A VA contracting official informed us that the Administrator of Veterans Affairs determined the need for the contract and selected TMI to perform the work based on VA's past experience with the firm. TMI was awarded the negotiated contract on a noncompetitive basis, without any attempt to seek proposals from other consultant firms.

The contract was a labor-hour contract with a dollar limit originally set at \$180,000; however, this amount was increased to \$270,000 due to changes directed by VA.

Although the original contract amount exceeded \$100,000, a pre-award audit review of TMI's proposal, as provided in FPR 1-3.809(b), was not performed as an aid in negotiating the contract price. VA contracting officials stated that, rather than request the pre-award audit, they determined the reasonableness of the contract price by comparing TMI's proposed labor rates with the rates charged by TMI under two previous contracts.

In May 1971, VA had awarded a time and materials contract to TMI on a noncompetitive, sole-source basis.¹ This contract was subjected to a pre-award audit by VA's Fiscal Audit Division. As a result of this audit and subsequent clarification by TMI, VA determined that the labor rates were reasonable. Subsequent contracts with TMI, including the December 1972 contract, were not subjected to pre-award audits on the basis that TMI's rates per hour had not changed significantly since May 1971.

¹The selection of TMI for this contract was discussed at some length during the fiscal year 1974 appropriations hearings before the House Appropriations Subcommittee on Housing and Urban Development, Space, Science, Veterans. (Part 1 of the hearing record, pages 579-88.)

During our review, the Director of DVB's Systems Development Service, which has overall responsibility for system design efforts in DVB, advised us that other firms or organizations, such as the National Bureau of Standards, could have performed the work required under TMI's December 1972 contract.

CONTRACT NO. V101 (134) P-160
AWARDED ON FEBRUARY 7, 1973
TO THORNE DATA PROCESSING CORPORATION

The purpose of the Thorne Data Processing Corporation (Thorne) consultant services contract was to study VA's Centralized Accounting for Local Management (CALM) System at both the VA Central Office and the VA Data Processing Center, Austin, Texas, to determine the feasibility of developing computer programs for a separate subsystem which would interface with the CALM System to allow the automatic matching of receiving reports and associated invoices at the Austin Center.

VA negotiated a contract with Thorne on a noncompetitive basis because the firm was believed to have a unique software (computer programming) package for matching receiving reports and invoices that could be of value to VA if the package could be modified to be compatible with the CALM System. The use of Thorne's software package was believed by VA to be a cheaper and faster method of developing the desired CALM subsystem than by using in-house resources.

The Thorne contract was awarded at the request of the VA Controller and the Chief Data Management Director. No attempt was made to negotiate the contract price, according to the VA contracting officer, because VA believed that the price offered by Thorne for its unique software package was reasonable.

In accordance with applicable regulations, VA obtained a delegation of authority from the General Services Administration (GSA) to contract-out for the desired software services on the basis that no known Government sources existed for the proposed services. We noted, however, that the document evidencing GSA's delegation of authority contained a caveat that the authority granted did not constitute approval for VA to procure the needed services on a sole-source basis.

VA's proposal to match receiving report and invoice data by computer to reduce the existing manual matching effort was formally discussed by VA representatives with officials of the General Accounting Office in a meeting in October 1972. The GAO representatives expressed their belief at that time that VA's proposal sounded reasonable and would conform to GAO's requirements for accounting systems; however, the awarding of a contract to carry out this proposal was not discussed.

VA had originally intended that Thorne perform two phases of work, at a total cost of \$25,250; (1) a study, at a cost of \$6,000, to determine the feasibility of using Thorne's unique software package and the extent to which modifications were necessary to implement it and (2) development of the operating system at a cost of \$19,250. Because the second phase was contingent upon the successful outcome of the first-phase study, Thorne was only given a contract for the first phase.

The results of Thorne's study, according to VA officials, gave VA a detailed plan and an insight into Thorne's unique software package. However, VA concluded that using Thorne's software package to develop the desired CALM subsystem would require considerable modification and be more costly than initially anticipated. VA therefore decided to develop its own subsystem programs, taking advantage of some of the concepts developed in Thorne's \$6,000 study.

CONTRACT NO. V101(134)P-164
AWARDED TO J.P. CLARK ASSOCIATES, INC.
ON FEBRUARY 22, 1973
AND CONTRACT NO. V101(134)P-165
AWARDED TO UTILITIES INTERNATIONAL, INC.
ON FEBRUARY 22, 1973

The purpose of the contracts awarded to J.P. Clark Associates, Inc., and Utilities International, Inc., was to conduct, on a test basis, technical analyses and audits of purchased utility costs for electric, gas, water, and sewage services at a total of 18 selected VA hospitals to determine whether VA's utility expenditures--\$38 million in fiscal year 1973--could be reduced. Separate but similar contracts were concurrently awarded to both firms.

The J. P. Clark contract, for a total of \$8,000, called for analyses and audits of purchased utility costs at eight VA hospitals, at a rate of \$1,000 for each hospital. By comparison, the Utilities International contract totaled \$2,500 and called for analyses and audits at 10 VA hospitals, at a rate of \$250 for each hospital. According to VA contracting officials, the rates differed substantially because J.P. Clark was to actually visit several of the hospitals being audited whereas Utilities International was not.

The awarding of these contracts was the result of an employee suggestion in July 1972 by the Chief, Engineering Division, at the Long Beach, California, VA Hospital. The Chief had pointed out the possibilities of having an outside audit by J. P. Clark Associates of VA's gas, water and electric bills to determine if VA was overpaying for these services or could obtain better rates from the utility companies. Acting on this suggestion, the Director, Engineering Service, Department of Medicine and Surgery (DM&S) met with the president of J.P. Clark Associates who offered a proposal to do the study.

Subsequently, the Deputy Chief Medical Director, DM&S, approved the negotiation of a \$13,000 contract with J. P. Clark. During the negotiations with J. P. Clark Associates in October 1972, another consultant firm specializing in utility cost analyses and audits, Utilities International, Inc., contacted VA and expressed an interest in performing VA's proposed study. VA then gave both firms an opportunity to submit proposed rates for the study.

In January 1973, after reviewing the proposals of both firms, DM&S decided that, to properly evaluate and compare the quality of services provided by the two consultant firms, it would establish a pilot program under which each of the consultants would audit a selected number of VA stations. Accordingly, the two separate contracts were negotiated for a total cost of \$10,500, or \$2,500 less than the amount originally established for a single contract with J. P. Clark Associates.

VA contracting officials informed us that no other consultant firms were considered in awarding the two contracts because, at the time, they believed that no other firms specializing in utility cost analysis existed.

During our review, we identified three other firms which specialized in the type of services desired by VA. When contacted by us, officials of all three firms stated their firms' ability and willingness to provide the required services for the Federal Government if given the opportunity.

Brochures obtained from these three firms showed that one firm was founded in 1927 and has had clients throughout the United States and Canada. The second firm was founded in 1933 and has national and international reputations. The third firm was founded in 1945 and has had clients throughout the Northeastern United States including several Federal agencies.

We believe that reasonable efforts on the part of VA, such as contacts with other Government agencies or announcements in the Commerce Business Daily, would have disclosed other sources for the services desired, from which proposals could have been solicited.

CONTRACT NO. V101 (134) P-167
AWARDED ON FEBRUARY 27, 1973
TO HAY ASSOCIATES

The purpose of the contract awarded to Hay Associates (Hay) was to provide consultant service to VA regarding a proposed reorganization of DVB and its field offices. Hay was to conduct an in-depth review of various VA studies and analyses, assume leadership of previous limited ongoing organizational studies, and expand the evaluation to encompass an integrated evaluation of the entire DVB field organization. In conducting its evaluation, Hay was to determine how staffing, processes, technology, and structure of VA's regional offices might be best modified and related to conform to the 10 Federal Centers Concept.

Both the decision to award the consultant contract and the selection of Hay to provide the services, according to VA contracting officials, were made by the Administrator of Veterans Affairs. These officials stated that a non-VA source for the services was desired by the Administrator due to the nature of the study. VA contracting officials stated also that they believed the Administrator had selected Hay for the contract on the basis of his personal knowledge of the firm's capabilities and reputation. They

said a proposal was obtained from the selected firm and found to be acceptable.

In his testimony before the House Appropriations Subcommittee on HUD, Space, Science, Veterans in 1973 (see page 2 of this appendix), the Administrator stated that other management consultant firms had been discussed within VA but that Hay was the only firm with which VA had actually negotiated. He said that Hay was selected because, among other reasons, he " * * * knew something about them. They are one of the leading consultants in the business world." At another point in his testimony, the Administrator stated that, to his knowledge, no other firm was considered at the time the Hay contract was negotiated. Our examination of VA contract files did not disclose any evidence that firms other than Hay had been considered for the contract.

The original contract amount for the Hay study was \$65,000; however, when the study results were released to the public, many veteran-affiliated organizations expressed concern regarding the proposed VA reorganization. Hay was therefore given two time extensions and an additional \$4,500 to make presentations to veterans service organizations, congressional committees, and public agencies to explain its study recommendations.

CONTRACT NO. V101 (134) P-171
AWARDED ON MAY 25, 1973
TO EDUCATIONAL TESTING SERVICE

The purpose of the Educational Testing Service (ETS) contract was to make an independent study and evaluation of the post-Korean Conflict program of education and training assistance currently being provided eligible veterans as compared to the programs of assistance that were available to veterans of World War II and the Korean Conflict. This study was directed to be made pursuant to section 413 of Public Law 92-540, enacted on October 24, 1972. Unlike the other six management consultant contracts awarded by VA in fiscal year 1973, this professional service contract was awarded on the basis of solicited competitive proposals.

An initial request for proposals was mailed to eight consultant firms on March 9, 1973. Response to the initial request indicated that it would be impossible to meet the

April 24, 1973, target completion date for the study, as provided in the act. VA therefore obtained congressional approval to extend the completion time for the study to mid-September 1973.

A new request for proposals was then mailed on May 4, 1973, to the same eight consultant firms that received the initial request plus three additional firms that had subsequently contacted VA expressing an interest in the study.

VA received proposals from 6 of the 11 firms, and, on the basis of an evaluation of these proposals by a subcommittee of the Administrator's Education and Rehabilitation Advisory Committee, the Administrator awarded the study contract to ETS on May 25, 1973. The contract award decision was based upon ETS's understanding of the study purpose and its ability to perform, rather than its proposed contract price of \$92,607, which was not the lowest price offered.