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

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SEP 21 1976



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01 To the Chairman, Subcommittee on Energy  
Research, Development, and Demonstration  
(Fossil Fuels), Committee on Science and  
Technology, House of Representatives, and  
02 to the Chairman, Subcommittee on Conser-  
vation, Energy, and Natural Resources,  
Committee on Government Operations, House  
of Representatives

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We have reviewed certain aspects of a management support contract (which the Energy Research and Development Administration's Fossil Energy Organization) awarded to TRW, Inc. The contract was for various energy-related planning and analysis services. This review was made pursuant to your requests. (See enclosures II and III.) The results of our review are shown in enclosure I.

In our opinion, the effect of an agency contracting out basic functions for planning and management of its programs is to dilute the agency's ability to retain essential control over the conduct of its programs and to assure the Congress that its programs are being carried out in an efficient and economical manner. We recognize that the heavy workload and the time pressures involved in putting together a national energy research and development plan may have justified the need for the services TRW, Inc., provided. But, we believe that the Energy Research and Development Administration should reduce its dependence on management and technical support contracts. Fossil Energy officials told us that they are reducing dependence by increasing their staffing.

To correct other problems identified in our review, we are recommending that the Administrator of the Energy Research and Development Administration (1) establish within Fossil Energy a system for screening information sent to support service contractors to prevent possible conflicts of interest, (2) show as a line item in Fossil Energy's budget to the Congress the funds needed for support service contracts

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to keep the Congress better informed, and (3) require that all future support service contracts contain (a) a provision requiring the inclusion of a conflict-of-interest clause in all subcontracts and (b) provisions restricting contractors providing consulting services on other contractors' competitive and noncompetitive proposals from rendering services in various areas where a conflict could arise.

As you know, section 236 of the Legislative Reorganization Act of 1970 requires the head of a Federal agency to submit a written statement on actions taken on our recommendations to the House and Senate Committees on Government Operations not later than 60 days after the date of the report and to the House and Senate Committee on Appropriations with the agency's first request for appropriations made more than 60 days after the date of the report.

Copies of this report will be sent to the Energy Research and Development Administration so that the requirements of section 236 can be set in motion.

Our review was conducted at the Energy Research and Development Administration headquarters in Washington, D.C., and TRW, Inc., offices in McLean, Virginia. We interviewed officials and reviewed pertinent documents and reports of both organizations.

We discussed the matters presented with agency officials and have considered their comments in the report.



Comptroller General  
of the United States

Enclosures - 3

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**TO THE READER:**

**SEVERAL PAGES OF THE FOLLOWING MATERIAL  
MAY BE ILLEGIBLE BECAUSE OF THE POOR  
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COMMENTS ON THE ENERGY RESEARCH  
AND DEVELOPMENT ADMINISTRATION'S CONTRACT  
WITH TRW, INC.; FOR PLANNING AND ANALYSIS SERVICES

BACKGROUND

The Energy Research and Development Administration (ERDA) was created by the Energy Reorganization Act of 1974 (Public Law 93-438, October 11, 1974) and was established in January 1975. The Act authorized ERDA to bring together and direct Federal activities relating to the research and development of various sources of energy and to do various other functions. ERDA's responsibilities include

- exercising central responsibility for policy, coordination, support, and management of all energy research and development programs;
- encouraging and conducting research and development, including demonstrating commercial feasibility and practicable applications related to the development and use of various energy sources; and
- participating in and supporting cooperative research and development projects which may involve contributions of financial or other resources to the work done by public or private persons or agencies.

The establishment of ERDA integrated several energy research and development programs which had been scattered among several Federal agencies. In the fossil energy areas, the Department of the Interior's Office of Coal Research, and part of the Bureau of Mines were integrated into ERDA to form the Fossil Energy Organization.

Fossil Energy's role is to (1) identify needs for, (2) initiate research on, and (3) monitor the status of individual research projects that comprise the Fossil Energy research, development, and demonstration programs. To accomplish this, Fossil Energy is responsible for managing research projects that are done in-house or under contract. The majority of the larger research projects are done under contracts directly between the Fossil Energy operating divisions and private industry. Research is also done by (1) ERDA's Energy Research Centers, either in-house or by contract, (2) by universities under grants, and (3) by arrangements with the contractor-operated ERDA National Laboratories.

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In carrying out its responsibilities, Fossil Energy has used management and technical support contracts for assistance needed to carry out its various energy-related functions.

As of July 1976, Fossil Energy had awarded 36 such contracts valued at approximately \$27 million. Also, Fossil Energy assumed an additional 12 such contracts valued at approximately \$16 million from the Office of Coal Research. These contracts were awarded to other Government agencies and private contractors. One such contract was awarded to TRW Systems and Energy Group, TRW, Inc., (TRW) in June 1975 (No. 2041). This contract was awarded on a sole-source, noncompetitive basis covering the period from February 1975 to May 1976 and cost approximately \$4.9 million.

#### SCOPE OF WORK DONE UNDER TRW CONTRACT

TRW provided Fossil Energy with technical and management support services. Fossil Energy requested such assistance from TRW by means of task orders which outlined the scope and nature of the work. Our review of the task orders indicated that generally TRW's major areas of support were in program planning, program analysis, project analysis, project implementation, and technical and economical evaluations. The following are examples of the tasks assigned to TRW.

- Review and revise fiscal year 1977 budget justification to insure compatibility with ERDA's national plan for energy research, development, and demonstration.
- Study and report to Fossil Energy on various Government incentive plans to encourage commercializing synthetic fuels.
- Update the strategy and objectives for the coal gasification program.
- Evaluate unsolicited proposals for their technical merit.
- Develop work statements for solicited proposals.
- Assist in developing a program plan to identify and develop detailed research strategy for resolving health hazards associated with Fossil Energy technologies.

FUNDING OF TRW CONTRACT

The TRW contract and other support services contracts are funded from program research and development appropriations and are not specifically identified in the ERDA budget request as support services expenditures. Funding for the TRW contract amounted to approximately \$4.9 million of which \$927,029 was awarded to subcontractors. The subcontractors TRW used and the funds awarded to each are shown below.

SUBCONTRACTORS EFFORT UNDER  
TRW CONTRACT

Battelle	\$ 48,629
Resource Planning Association	76,830
Peter Way Associates	87,832
TRW, Transportation, Environment, and Engineering Operations (note a)	81,964
Crawford Associates	2,207
Kerrebrock Associates	1,996
Cameron Engineers	32,589
Phinney Associates	6,361
Hammett Associates	6,113
General Electric	70,000
Dobner Associates	2,931
Materials Associates	2,063
Chase Econometrics	5,000
McDonnell Douglas	2,500
TRW, Industrial Operations (note a)	3,475
Computer Bioengineering	2,500
TRW, System Engineering and Integrated Division (note a)	271,621
TRW, Applied Technology Division (note a)	157,725
TRW, Washington Operations (note a)	48,947
Dart Associates	3,246
Hazelton Laboratories	2,500
Sowle Associates	<u>10,000</u>
 Total subcontract effort	 \$927,029

a/ Division of TRW.

RATIONALE FOR AWARDING TRW CONTRACTS

We discussed the need for technical and management support contracts with Fossil Energy's division and office directors. In the case of the TRW contract, they said that their workload was heavy and that they therefore needed assistance to adequately carry out their duties. They explained that their workload was heavy primarily because, with the reorganization,

Fossil Energy had to (1) carry out an expanded program with essentially the same staff that was transferred from the Department of the Interior, (2) develop planning and budgeting information within a short time, and (3) furnish data for ERDA's national plan for energy research, development, and demonstration which was required to be submitted to the Congress by June 30, 1975.

According to the Deputy Assistant Administrator for Fossil Energy, even if additional personnel were hired, there would still be a need for contracts such as the TRW contract. He explained that, in most cases, TRW was assigned tasks of limited duration that required an expertise not readily available within Fossil Energy. Consequently, he said it would not be practicable to employ personnel with such expertise, because they could not be used effectively full time. As an example, he cited the work done on evaluating various Government financial incentives that would encourage industry to construct and operate commercial scale synthetic fuel plants. This task, which accounted for approximately 25 percent of all work done under the contract, required financial and economic expertise which he said was not readily available within Fossil Energy.

We did not conduct a manpower utilization study to determine whether or not Fossil Energy could have done the tasks assigned to TRW. However, in reviewing the tasks done by TRW, it would seem that such work should be done whenever possible by ERDA.

In our opinion, the effect of an agency contracting out basic functions for the planning and management of its programs is to dilute the agency's ability to retain essential control over the conduct of its programs and to assure the Congress that its programs are being carried out in an efficient and economical manner. We recognize that the heavy workload and the time pressures involved in putting together a national energy research and development plan may have justified the need for the services TRW provided. But, we believe that ERDA should reduce its dependence on management and technical support contracts. Fossil Energy officials told us that they are moving in this direction by increasing their staff.

On June 29, 1976, ERDA contracted with the Arthur Young and Company for a manpower utilization study. The objective of this effort was to collect and analyze data aimed at providing a foundation for more effective and

efficient allocation of manpower through a better understanding of the

- definition and scope of support functions,
- assignment of responsibility and authority for accomplishing support functions,
- organizational requirements for accomplishing support functions, and
- adequacy of manpower resources for accomplishing support functions.

This study, which is to be completed in October, should assist ERDA in determining which and to what extent its organizations, such as Fossil Energy, need support service contractors.

#### DATA SENT TO TRW

In order for TRW to carry out the assigned tasks under this contract, Fossil Energy submitted certain information to TRW which was not available to the public at the time the information was in the possession of the contractor. This included budget and planning data, unsolicited proposals, and "confidential" project information on the H-coal liquefaction process. Although the contract includes an organizational conflict-of-interest clause, the adequacy of which is discussed on page 6, submission of such data could possibly have put TRW or its subcontractors in an unfair competitive advantage over other contractors unless properly screened before submission to TRW. Fossil Energy does not have an established procedure for screening material sent to support contractors.

During the contract period, the Fossil Energy divisions submitted 10 unsolicited proposals to TRW for review. Fossil Energy did not screen these proposals to determine if a possible conflict-of-interest situation might exist for TRW or its subcontractors. Subsequently, TRW returned two proposals without reviewing them. According to TRW officials, this was done to avoid possible criticism due to related work TRW was carrying out.

We questioned Fossil Energy officials as to the extent they relied on evaluations TRW made on the unsolicited proposals. Fossil Energy officials said that they generally have several outside sources review unsolicited proposals and that the recommendations TRW made when evaluating these



proposals were given no more or less weight than any other evaluation provided from outside sources such as Gilbert Associates and the MITRE Corporation. We found that, generally, Fossil Energy agreed with the consensus in deciding whether to accept or reject the proposals. TRW's recommendations were generally in agreement with the consensus. There was no indication in Fossil Energy files that TRW's recommendations were given more weight than the other evaluations.

#### CONFORMANCE WITH PROCUREMENT REGULATIONS

We reviewed selected aspects of the TRW contract to determine if they conformed to Federal regulations. In particular, we reviewed the sole-source justification for the contract and modifications thereto, the adequacy of the organizational conflict-of-interest clause, and whether the conflict-of-interest clause applied to TRW's subcontractors.

#### Sole-source justification

Fossil Energy's sole-source justification points out that TRW had gained current and detailed knowledge regarding its program and the preparation of budgets, charts, and project management; possessed extensive knowledge in the critical area of congressional budgeting and program review procedures; and had assembled a uniquely qualified staff capable of doing this work. According to the Deputy Assistant Administrator for Fossil Energy, TRW gained the capability through prior contracts with the Office of Coal Research. ERDA further stated that no specifications were available for a competitive procurement. Also the preparation of such specifications and the competitive process would take from 9 to 10 months. Because Fossil Energy needed the work to be provided under this contract started immediately, it was decided not to award the contract on a competitive basis. In addition, Fossil Energy considered TRW the only firm capable of providing the necessary services in a timely manner. The sole-source justification for the contract modifications was generally the same as above.

We have no legal reason to object to the sole-source justification contained in this contract.

#### Conflict-of-interest clause

The TRW contract contains a conflict-of-interest clause (Limitation on Future Contracting) which was intended to foreclose those situations when TRW's advice might be biased because of future related procurement opportunities,

and to insure that TRW's work under the contract did not result in an unfair competitive advantage for it.

Our review of the conflict-of-interest clause indicated that it agrees with the general policy expressed in ERDA procurement regulations, for example, to prevent bias and unfair competitive advantages. However, we believe that the contract should have contained an additional limitation.

The contract provides, among other things, that TRW will review technical proposals for merit. The contract does not distinguish between competitive and noncompetitive proposals. In this connection ERDA's procurement regulations state that a contractor providing evaluation or consulting services on a competitive procurement should be restricted from rendering such services in areas where a conflict could arise. Our review, however, did not disclose any such restrictions in the contract. As it turned out, TRW did not review any competitive procurement proposals, but did review noncompetitive ones. Neither ERDA regulations nor the contract, however, contain any restrictions on the contractor, who is providing consulting services on noncompetitive proposals, from rendering services in various areas where a conflict could arise.

In view of the contract's broad scope, it seems that restrictions relating to evaluations of competitive or noncompetitive proposals should have been placed in the contract. To the extent that restrictions relating to competitive procurement proposals were not included, the contract does not implement ERDA regulations.

We also noted that the limitation on future contracting clause speaks only in terms of the contractor under contract when describing restrictions, limitations, and exclusions. Nowhere in the clause itself are TRW's subcontractors described in terms of their conflict of interest, if any. Therefore, we believe that the conflict-of-interest clause does not automatically apply to TRW's subcontractors. In addition, other than in contracts with its own divisions, TRW did not include a conflict-of-interest clause in work that it subcontracted.

It would seem reasonable, in view of the nature of the subcontract work involved, to include appropriate conflict-of-interest clauses applicable to subcontractors in order to prevent possible bias and unfair competitive advantages on their part. While such a clause is not specifically required by Federal and ERDA procurement regulations, it

would have been permissible under ERDA procurement regulations.

### CONCLUSIONS

Fossil Energy awarded a sole-source noncompetitive contract to TRW for technical and management support services for assistance needed to carry out its duties. While ERDA generally followed its established procedures in negotiating the contract, several weaknesses were noted in the contract and Fossil Energy's procedures for using the contractor.

Fossil Energy does not have a system for screening information submitted to TRW or any support service contractor. As a result, Fossil Energy gave TRW two proposals to review which were related to work being done by TRW. Submission of such data to TRW, or any other support contractor could put that contractor in an unfair competitive position. We believe that ERDA should establish procedures for screening all information sent to support service contractors to avoid placing contractors in an unfair competitive advantage or causing a possible conflict-of-interest situation.

The conflict-of-interest clause, while agreeing with the general policy expressed in ERDA regulations, could have been strengthened in two important areas. In view of the broad scope of the contract, we believe a clause stating that a contractor providing evaluation or consulting services on a competitive or noncompetitive proposal be restricted from rendering such services in various areas where a conflict could arise would be appropriate. Also in view of the nature of the subcontractor work involved, the contract should have contained a requirement that all TRW subcontracts include a conflict-of-interest clause to prevent possible bias and unfair competitive advantages.

In addition, funding for this and other support service contracts is derived from research and development program funds. Since these contracts require substantial funds, we believe the funding should be shown as a line item in the budget. This should assist the Congress by putting into perspective the degree to which Fossil Energy uses these types of contracts.

We believe ERDA should reduce its dependence on management and technical support contracts because the effect of an agency contracting out its basic planning and management functions is to dilute the agency's ability to retain essential control over the conduct of its programs and to assure the

Congress that its programs are being carried out in an efficient and economical manner.

RECOMMENDATIONS TO THE ADMINISTRATOR

We recommend that the Administrator:

- Establish a system within Fossil Energy for screening all information sent to management and technical support contractors to prevent possible conflicts of interest.
- Show, as a separate line item in Fossil Energy's budget to the Congress, the amount of funds that are to be spent for management and technical support contracts.
- Require that all future support service contracts contain (a) a provision requiring the inclusion of a conflict-of-interest clause in all subcontracts and (b) provisions restricting contractors providing consulting services on other contractors' competitive and noncompetitive proposals from rendering services in various areas where a conflict could arise.

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March 11, 1976

Mr. Elmer B. Staats  
 Comptroller General  
 General Accounting Office  
 441 G Street, N.W.  
 Washington, D.C. 20548

Dear Mr. Staats:

We are writing to you concerning a contract (No. 2041) of the Energy Research and Development Administration with TRW, Inc. and the development of some of its provisions. Enclosed is a Subcommittee Background Data memorandum concerning this contract.

We are concerned about the procedures followed by ERDA in negotiating the contract and the modifications thereof, as well as the adequacy of the justification for a sole source, noncompetitive contract of this magnitude. We are also concerned about the purpose of the contract. As the enclosed memorandum indicates, the scope of the work required of TRW is very broad, but generally quite vague as to specifics. We are interested in learning more about the tasks performed by TRW and its subcontractors pursuant to Exhibit A of the contract. We note that on at least two occasions, May 13, 1975, and July 1, 1975, ERDA officials expressed concern about the lack of "task orders" issued by the ERDA contracting officer as required by Exhibit A of the contract to "ensure effective contract administration." We would also like to know the extent to which TRW reviews unsolicited proposals, such as those referred to in the enclosed memorandum, pursuant to this contract and whether ERDA relies on TRW's recommendations concerning the proposals.

At our hearing on February 25, 1976, the Subcommittee questioned ERDA about the use of contractors to perform tasks, which involve ERDA program formation and budgets, normally performed by Government employees. ERDA replied that because of manpower limitations such contracting is necessary. We are concerned about this and would appreciate the GAO reviewing ERDA's fossil energy and planning manpower situation and the extent to which TRW is performing such tasks.

On March 24, 1975, ERDA transmitted to TRW a draft of two provisions for the contract entitled "Limitation on Future Contracting and Handling of Data." The first would restrict TRW's "future contracting" with Government under the following circumstances:

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Mr. Staats

ENCLOSURE II

March 11, 1976

If the Contractor under the terms of this contract, or through the performance of tasks pursuant to this contract is required to develop specifications or statements of work or in the course of or as part of contract performance the contractor obtains access to or develops information about Government programs not otherwise available to the public, and such specifications, work statements, or information are incorporated into or directly related to a solicitation, then the contractor shall be ineligible to perform the work described within the solicitation as a prime, subcontractor of any tier, co-sponsor consultant, joint venturer or other capacity, under any ensuing Government contract.

This limitation would continue for three years.

The second provision precludes TRW from disclosing data "bearing restrictive legends". On April 10, 1975, TRW replied that these proposed provisions "are not acceptable" to TRW.

An ERDA memorandum of May 13, 1975 to the ERDA General Counsel indicates that the initial TRW letter contract "limited" TRW to "broad policy-level energy planning" and the parties "agreed that organizational contracting would not be necessary." However, the memorandum adds, "when TRW, with the apparent cooperation of the Office of Planning and Analysis, broadened its planning activities" to include other ERDA offices, "TRW argueably moved into a detailed type of program planning which could lead more predictably to a future procurement decision of ERDA. This raises a serious organizational conflict question."

On May 19, 1975, ERDA prepared a revised provision entitled "Limitation on Future Contracting" which provided in subsection (b) as follows:

If the Contractor under the terms of this contract, or through the performance of tasks pursuant to this contract is required to develop specifications or statements of work or in the course of or as part of contract performance the contractor obtains access to or develops information about Government programs not otherwise available to the public, and such specifications, work statements, or information are incorporated into or directly related to a solicitation, then the contractor shall be ineligible to perform the work described within the solicitation as a prime, subcontractor of any tier, co-sponsor consultant, joint venturer, or other capacity, under any ensuing Government contract. Further, the contractor shall not be

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Mr. Staats

March 11, 1976

eligible for noncompetitive award without solicitation when the contractor has access to or develops information about Government programs not otherwise available to the public and such information is directly related to the proposed sole source effort. These restrictions shall remain in effect for (stated period of time, e.g., three years from date of award) of this contract, or until the information previously unavailable becomes available to the public, whichever occurs first, and shall be binding on all legal successors or assignees of the Contractor.

At a May 21, 1975, meeting ERDA "failed" to reach agreement concerning this provision. Enclosed is a copy of a May 27, 1975, ERDA memorandum which summarizes the discussions at that meeting and sets forth a "critique" of the TRW provision. It concludes that "TRW is seeking substantially less restrictive conflict of interest provisions than those imposed previously by AEC, the Department of the Interior, or ERDA to date. Our decision in this case will certainly set the pattern for subsequent TRW contracts, and perhaps for all of ERDA in the area of planning, technical and engineering support contracts." On May 28, 1975, TRW transmitted substitute language and commented on the problem. A copy of that letter is enclosed.

On June 18, 1975, a revised clause was negotiated and transmitted to TRW by ERDA (copy enclosed) which was accepted by TRW on June 24, 1975. The revised clause is much narrower than the original ERDA proposal. [See GAO note.]

We would appreciate your agency reviewing the "negotiated" organizational conflict-of-interest clause adopted for the TRW contract and the background material and advise (1) whether it is adequate, (2) is in accord with existing regulations and other provisions of law, and (3) whether or not it applies to TRW subcontractors under this contract. Also please ascertain what types of information and data "bearing restrictive legends" have been provided TRW or its subcontractors under the contract. In this regard, we also enclose for your information our February 5, 1976 letter to ERDA and the Interior Department concerning a similar problem in connection with another ERDA contract, and ERDA's March 5, 1976 reply and enclosures.

Your early response to these issues would be appreciated. Please keep us informed of progress.

In providing your reply to us, we request that you not obtain written comments from the agency on your reply, as we will do so after receiving it.

GAO note: Enclosure not included  
in this report.

Sincerely,

*K. Hechler*  
KEN HECHLER, Chairman  
Subcommittee on Energy, Research,  
Development and Demonstration  
(Fossil Fuels)

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ENCLOSURE III

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ENCLOSURE III

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NINETY-FOURTH CONGRESS  
**Congress of the United States**  
**House of Representatives**  
CONSERVATION, ENERGY, AND NATURAL RESOURCES  
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OF THE  
COMMITTEE ON GOVERNMENT OPERATIONS  
RAYBURN HOUSE OFFICE BUILDING, ROOM 2-371-B-C  
WASHINGTON, D.C. 20518

April 15, 1976

Honorable Elmer B. Staats  
Comptroller General  
of the United States  
U. S. General Accounting Office  
441 G Street, N.W.  
Washington, D. C. 20548

Dear Mr. Staats:

Through exercise of its oversight and investigative functions, the Conservation, Energy and Natural Resources Subcommittee notes that the Energy Research and Development Administration has moved to the device of service contracts outside the government in order to have certain administrative and program functions performed. This technique appears especially adaptable to such traditional in-house activities as project review, development of program plans, assignment of report preparation and numerous other public administration actions. This approach has been adopted extensively by the ERDA Office of Fossil Energy.

This committee is concerned about the speed and direction with which this administrative technique has expanded within a number of executive agencies, but particularly, as it has been adopted by ERDA. The relationship and the responsibilities of ERDA to consultant groups outside government is extremely sensitive. At the same time, we are cognizant of the need of ERDA to rely from time to time on outside guidance and counsel in fulfillment of its statutory mission.

The Conservation, Energy and Natural Resources Subcommittee requests that the General Accounting Office undertake a review of this adopted administrative policy of ERDA, to determine whether such contracting efforts represent a sound arrangement for the performance of ERDA functions, and whether this device poses any danger of minimizing development of in-house ERDA administrative capability. We are concerned that various contracts already negotiated may not clearly delineate how the