



Highlights of [GAO-05-456](#), a report to congressional committees

Why GAO Did This Study

The Department of Defense (DOD) is the largest user of other federal agencies' contracting services. The availability of these contracting services has enabled DOD and other departments to save time by paying other agencies to award and administer contracts for goods and services on their behalf. DOD can access these contracting services a number of ways, such as ordering directly from interagency contracts for commonly needed items. DOD also can pay someone else to do the work. For example, DOD uses franchise funds, which are government-run, fee-for-service organizations that provide a portfolio of services, including contracting services. As part of a congressional mandate, GAO assessed whether franchise funds ensured fair and reasonable prices for goods and services, whether DOD analyzed purchasing alternatives, and whether DOD and franchise funds ensured value by defining contract outcomes and overseeing contractor performance.

What GAO Recommends

GAO recommends that DOD, the departments of the Interior and the Treasury, and the Office of Management and Budget improve the manner in which franchise funds are utilized to ensure value and to ensure compliance with procurement regulations. The agencies concurred with GAO's recommendations and identified actions they have taken or plan to take to address them.

www.gao.gov/cgi-bin/getrpt?GAO-05-456.

To view the full product, including the scope and methodology, click on the link above. For more information, contact David E. Cooper at (202) 512-4125 or cooperd@gao.gov.

INTERAGENCY CONTRACTING

Franchise Funds Provide Convenience, but Value to DOD Is Not Demonstrated

What GAO Found

GovWorks and FedSource, two of the franchise funds that DOD has relied on for contracting services, have not always ensured fair and reasonable prices while purchasing goods and services. The franchise funds also may have missed opportunities to achieve savings from millions of dollars in purchases, including engineering, telecommunications, or construction services. In the course of its review, GAO examined \$249 million worth of orders and work assignments from the contracts the franchise funds used to make purchases on DOD's behalf. In many cases, GovWorks sought but did not receive competing proposals. GovWorks added substantial work—as much as 20 times above the original value of a particular order—without determining that prices were fair and reasonable. FedSource generally did not ensure competition for work, did not conduct price analyses, and sometimes paid contractors higher prices for services than established in contracts with no justification provided in the contract files.

For its part, DOD—in the absence of clear guidance on the proper use of other agencies' contracting services—chose to use franchise funds on the basis of convenience without analyzing whether using franchise funds' contracting services was the best method for meeting purchasing needs. DOD also lacks information about purchases made through other agencies contracts, including franchise funds, which makes it difficult to make informed decisions about the use of these types of contracts. The franchise funds' business-operating principles require that they maintain and evaluate cost and performance benchmarks against their competitors. However, the franchise funds did not perform analyses that DOD could have used to assess whether the funds deliver good value. The funds' performance measures generally focus on customer satisfaction and generating revenues. These measures create an incentive to increase sales volume and meet customer demands at the expense of ensuring proper use of contracts and good value.

DOD and the franchise funds—which share responsibility for ensuring value through sound contracting practices such as defining contract outcomes and overseeing contractor performance—did not adequately define requirements. Without well-defined requirements, DOD and the franchise funds lacked criteria to measure contractor performance effectively. On a separate oversight-related issue, GAO found that the departments of the Interior and the Treasury—each of which has responsibility in the successful operation of the respective franchise funds—and the Office of Management of Budget have performed little oversight of GovWorks and FedSource.