

22 March 1964  
220364

MEMORANDUM FOR: Deputy Director of Central Intelligence

SUBJECT : Procurement Policy

1. This memorandum contains a request for action by the Deputy Director of Central Intelligence. Such request is contained in paragraph 6.

2. Last fall the Chief of the Procurement Division and the Director of Logistics conducted a series of briefings for the components of the Agency which have a principal interest in our contracting policies and procedures. Among other purposes, these briefings were intended to educate the people principally concerned with the advantages of incentive contracting under certain circumstances. Based upon the understanding that we had achieved an agreement in principle with the desirability of adopting incentive clauses wherever practicable, I circulated for coordination a proposed Agency notice to announce the policy that every effort would be made to obtain competitive bids to meet Agency requirements, including research and development; and that incentive clauses would be included in Agency contracts whenever prudent. The notice would also require that all proposals, other than technical "state of the art" explorations, be obtained in writing by or through the Office of Logistics. A copy of the draft notice as circulated is attached, together with the comments we have received.

3. The other Deputy Directors agree in principle with the desirability of obtaining competition and introducing incentive clauses whenever feasible. In practical application, however, while they agree that these provisions can probably be applied realistically for production contracts, they are extremely reticent about having the Agency adopt any such policy in the negotiation of research and development contracts. They are additionally reluctant to accept the premise that all such proposals should be submitted in writing by or through the Office of Logistics. In essence, the problem seems to be apprehension on the part of the customer components that the procurement officers will attempt to obtain competition and insert incentive clauses in contracts in all cases whether they are directly pertinent to the realities of the situation or not. There is also some apparent feeling that the injection of a procurement officer into the contractual process early in the exploratory phases would introduce undesirable administrative impediments, detracting from the essential elements of speed, compartmentation, and security, and tending to dilute the effectiveness of the rapport which frequently exists between the Agency's project officer and the contractor.

4. I do not deny that a close working relationship between the project engineer and the contractor is essential to the successful conclusion of many research and development activities, but this is only one ingredient. I fully recognize that we

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can seldom, if ever, consider the insertion of incentive clauses in nebulous exploratory research and development contracts and that it is only occasionally feasible to solicit bids. Certainly, I would not intend to impose arbitrarily such restrictions in instances where they clearly do not apply. On the other hand, we find quite often that very tentative initial conversations between project officers and contractors tend to progress to a point where an understanding amounting to a commitment has been reached before the contracting officer is made aware that a proposal is being considered. When this happens, the Agency loses the advantages available to it from precontract audit and cost analyses with the result that we have become committed to a price which might otherwise have been negotiated downward. It is also possible that we forego the opportunity to consider other sources known to contracting officers by virtue of their participation in activities in behalf of other Agency components. In such instances, the result is that we do not always get the best available talent to perform a particular function, and the contract we do get is not always at the most favorable price possible.

5. In summary, I agree that a close working relationship between project officers and contractors is essential to the successful completion of research and development contracts, and that we must retain maximum flexibility in obtaining highly specialized contractor services. I am nonetheless convinced that this must be a team effort and that positive contributions can be made by bringing the expertise of the Support components to bear at the earliest practicable moment. If we are to ensure that the best interests of the Agency are protected in all respects, there must be ample time not only to accomplish all of the necessary security clearances but to permit reasonable precontract audits and cost analyses to ensure that we get the best available service for our money.

6. While the DD/I, DD/P, and DD/S&T have not registered nonconcurrences with the proposed policy, they have expressed serious reservations which prevent me from enunciating the proposed procurement policy without your agreement. It is requested that you approve the attached proposed notice for publication.

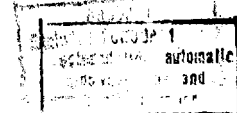
(SIGNED)

L. K. White  
Deputy Director  
for Support

**4 Attachments:**

- Att 1: Proposed Notice on Procurement Policy
- Att 2: Memo dtd 13 Mar 64 to DD/S fr DD/P, subj:  
"Comments on Proposed Notice Concerning  
Procurement Policy"
- Att 3: Memo dtd 6 Mar 64 to DD/S fr DD/I, subj:  
"Procurement Policy"
- Att 4: Memo dtd 4 Mar 64 to DD/S fr DD/S&T,  
subj: "Procurement Policy"

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