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12 NOV 1976

MEMORANDUM FOR: Deputy Director for Administration

FROM : James H. McDonald
Director of Logistics

SUBJECT : Report on Agency Procurement for Fiscal
Year 1976

1. This memorandum is for your information only. It constitutes the Office of Logistics' annual report on Agency procurement for Fiscal Year 1976. It has been delayed to include significant developments from the Transitional Quarter (TQ).

2. Tab A discusses events which had a significant impact on the procurement process during the past fiscal year and the TQ. Tabs B through I provide statistical data in similar format and coverage to that provided in previous reports, including a listing of the ten contractors who received the largest dollar volume of contracts with the Agency.

3. Statistical data for the TQ were forwarded with the Contract Activity Report for September.

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[Redacted Signature Box]

James H. McDonald
Director of Logistics

Atts
Tabs A - I

cc: DCI, w/atts
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This memorandum may be downgraded upon removal of the attachments.

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REPORT ON AGENCY PROCUREMENT FOR FISCAL YEAR 1976

I. Trends in Government

A. Office of Federal Procurement Policy (OFPP)

The establishment of the Office of Federal Procurement Policy (PL 93-400) on 30 August 1974 is undoubtedly the most significant event in the history of Federal Government procurement. The Procurement Management Staff in the Office of Logistics (OL) has been established as official liaison with OFPP and has been asked to participate as a member of a working group on policies and regulations. This new office, criticized initially by the Congress for inactivity, made great progress during FY 1976 in execution of plans for implementing the most significant of the 149 recommendations made by the President's Commission on Government Procurement. Some of these have included the following:

1. Major Systems Acquisition

A Government-wide policy for the acquisition of major systems was promulgated on 5 April 1976 by OMB Circular A-109. This document, among other things, required identification of major systems with major Agency objectives, high-level approvals for various types of decisions, designation of a Major Systems Acquisition Executive, and prescribed handling of major systems as part of the budget presentation. The Circular also schedules requirements for reporting and implementation. Because of the interdirectorate implications, responsibility for implementation was transferred to the Office of the Comptroller.

2. OFPP Regulations Nos. 1 and 2

These first two regulations from OFPP leave the Armed Services Procurement Regulation (ASPR), issued by the Department of Defense (DOD), and the Federal Procurement Regulations (FPR), issued by General Services Administration (GSA), intact, but make both sets of regulations subsidiary to and a part of the new Federal Procurement Regulatory System (FPRS) issued by OFPP. Regulations Nos. 1 and 2 call for close coordination between GSA, DOD, and OFPP on future regulatory issuances, with the goal being one uniform federal procurement

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regulation. The first regulation stated that DOD and the National Aeronautical and Space Administration (NASA) would conduct their procurement in accordance with the ASPR, while all other agencies would follow the FPR. After substantive discussions with Mr. Witt, the Administrator for OFPP, and correspondence between the DD/A and OFPP, agreement has been reached on CIA's continuing to operate its system "to the maximum practicable extent" in accordance with the ASPR.

3. Procurement Law

Proposed legislation to update and consolidate the two basic procurement statutes, the Armed Services Procurement Act and Title III, Federal Property and Administrative Services Act of 1949, was submitted to the Congress. It was introduced as S. 2309 by Senator Charles H. Percy on 9 September 1975. A subsequent bill, S. 3005, to achieve the same goal was presented by Senator Lawton Chiles on 19 February 1976. Our Office of Legislative Counsel is following these bills.

4. Federal Procurement Institute

The Administrator for OFPP, by memorandum dated 14 July 1976, established the Federal Procurement Institute. The Institute will serve as the focal point for coordinating the Government-wide planning, development, implementation, and evaluation of programs in procurement research, education and training, and career development. DOD will serve as the Executive Agency for the Institute.

B. Executive Order 11905

Issuance of this Executive Order on United States Foreign Intelligence Activities was a major step forward for Agency procurement in that authority for R&D contracting was provided. Also provided was additional enabling authority for handling both classified and unclassified procurement activities in the U.S. and abroad.

C. Accommodation Procurement

This activity, which was the subject of an OL study in 1974, continued to be a matter of concern for the Office of Logistics. It had been expected that involvement in this area would diminish as a result of senior management concern in early 1975: it now appears that our involvement is greater than ever. continues

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with two full-time procurement officers dedicated to that program, and although [] has been reduced significantly, Project [] has been added. While procurement activity on [] is for the most part advisory, there is a continuing drain on procurement manpower assets; and we feel these programs have high "flap" potential.

D. Equal Employment Opportunity

Increasing emphasis throughout Government and from the Director of Central Intelligence's panel has been evident during FY 1976. The Director and Deputy Director of Logistics, along with Chief, Procurement Management Staff, met with the Director's Equal Employment Opportunity panel late in 1975 to explain to them actions being taken to insure that Agency contractors are in compliance with applicable laws and regulations. Revised instructions to contracting officers have been issued (Procurement Note 75), and mechanisms have been established with cognizance agencies to verify compliance or to request action.

E. Congressional Investigations

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Substantial effort was expended on responses to the various investigating committees, principally the House Select Committee. Primary areas of interest for procurement were contracts with educational institutions and with certain contractors such as []. Procurement procedures, forms, and boiler plate also came under scrutiny. Perhaps the most time consuming was the Committee's investigation of covert procurement practices.

F. Transitional Quarter (TQ)

The Federal Government's fiscal year after operation on a basis of 1 July to 30 June since 1842, was changed during the reporting period to 1 October through 30 September. The change required establishment of a mini fiscal year which was identified as the Transitional Quarter (TQ). Guidance was issued to requirements units to avoid to the maximum extent possible initiation of major, time-consuming procurement actions during this period. The budget for the TQ was established at 25% of the FY 1976 budget. The transition period proved to be very active, with [] funded contract actions totalling [] which was equivalent to 44% of the contract volume handled for the entire FY 1976. Notwithstanding the high level of activity, the transition period is considered to have gone very smoothly.

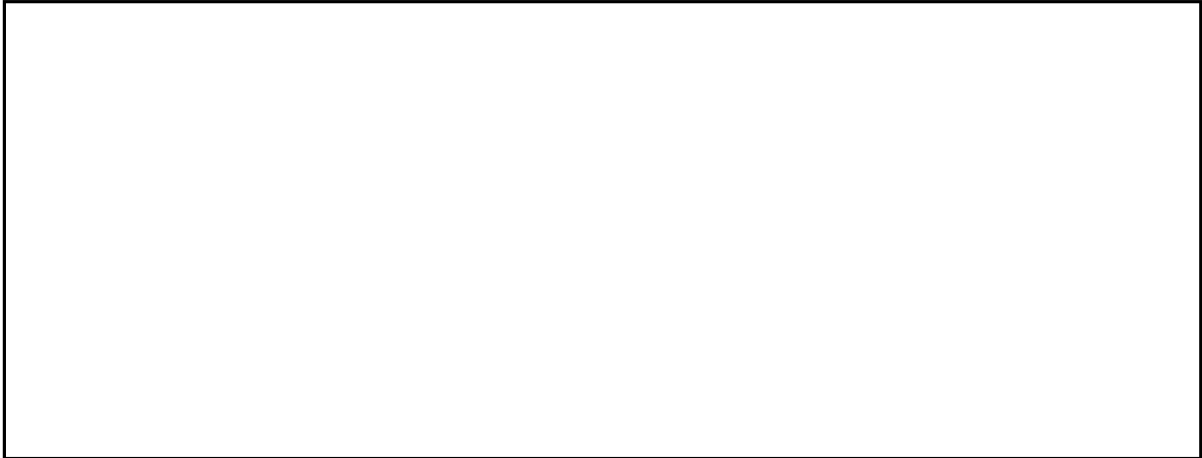
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II. Private Sector

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handled on a case-by-case basis as they are identified because there is no "cookbook" formula for dealing with them. The problem is also critical for DOD and will be followed closely.

B. Contractor Relations

In 1972, the then Director of Logistics, Mr. John F. Blake, and the Chief of the Procurement Management Staff visited several long-time suppliers of services and supplies to interview senior contractor officials and to evaluate industry's perception of CIA procurement practices. A similar survey was made in February 1976.

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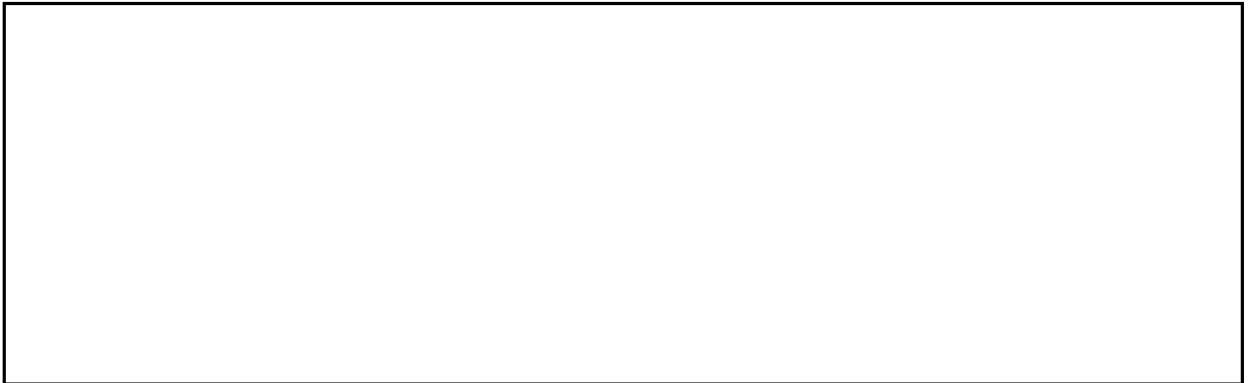
_____ were included in the survey. It was found that the contractors visited continue to be strongly supportive of the Agency, even after the investigations and the resultant negative press. They feel that Agency procurement practices are excellent and in the best interest of the Government. However, those contractors with significant international sales or capital investments abroad expressed sensitivity to publicizing any extensive involvement with CIA.

III. Agency Procurement Organizations

A. Assignments and Acquisitions

Consistent with the OL policy of rotating its procurement officers every three years, 26 officers were selected for re-assignment during the year. Utilization of procurement personnel was complicated by an emergency request from the Deputy

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B. Survey of Procurement--Other Agencies

Increased oversight, coupled with the possibility of General Accounting Office review, raises a question as to the level of manpower resources which would have to be allocated by our Agency to operate our procurement system in a manner similar to that of other agencies. A survey of the procurement process at the Environmental Protection Agency was made and revealed that they employ slightly over two times as many professional procurement officers as we do for about the same number of contract actions, but their dollar volume is substantially less when the National Programs are taken into consideration. A similar survey at NASA is planned.

IV. Management Developments

A. Agency Contract Review Board

The Agency Contract Review Board reviewed 45 agenda items in FY 1976 compared to 44 in FY 1975 and 42 in 1974. Cases reviewed included 32 requests for approval to negotiate new contracts or amendments to existing contracts and 16 requests for the approval of overruns in existing contracts. The number of overruns qualifying for review by the Board was 10 greater than in FY 1975. The average overrun reviewed by



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system. This figure represents a 150 percent overrun of the original estimated cost of [redacted] management was also brought in for discussions with senior command officers and contracting personnel to advise them of the Agency's concern.

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The Board met at [redacted] on 21 June 1976 to review its charter. Items of special concern were the types of contracts that should be reviewed and the dollar threshold at which such cases should be reviewed. (At present, the Board reviews R&D contracts but does not review services or production actions.) The Board is also seeking new guidance from the Director of Logistics as to what he desires in the way of Board action. Final decisions on this matter had not been made by the end of the reporting period.

B. Procurement Policy Panel

This panel, chaired by Chief, Procurement Management Staff, includes as members the Chiefs of the various contracting teams, plus the Chief, Procurement Management Staff, DD/S&T, and the Chief, Procurement Division. Reactivated in 1974, the panel is an important mechanism for communication with and among the various decentralized procurement elements. A two-day seminar-type meeting was held at [redacted] in February; and for the first time, an outside speaker, [redacted] was invited to speak to the group. His comments were excellent, and the practice of bringing in outside speakers will be continued. The principal items discussed by the panel were the use of award-fee contracts and the charter of the Contract Review Board.

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C. CONIF

The CONIF system has undergone a difficult period in its evolution, which is not yet complete. The evolution has involved the transition from a batch update system (CONIF IIA) to a random access, on-line update system (CONIF III). The CONIF IIA system was frozen as of 1 October 1975, with dual coding for CONIF IIA and CONIF III taking place after that date. Further complicating the problem is the interface of the General Accounting System with CONIF III. This upheaval in our data base has been particularly painful because it occurred when the various investigations and an influx of Freedom of Information Act requests were creating a peak requirement period. The forecast now is that we will be able to rely fully on CONIF III effective 1 December 1976.

V. Problems

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A. [redacted]

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mass storage system to be installed in Agency facilities as part of Project [redacted]. In late 1974, cost and performance problems occurred. In the Spring of 1975, contractual relief was granted in the form of additional funds of [redacted] and approximately one additional year for completion. In the Spring of 1976, it became obvious that [redacted] performance was such that completion of the contract in accordance with its terms was in jeopardy; and the two contracts were terminated for default. The contractor appealed the default action in due time, and action has been taken to prepare the Agency's case for hearing before the Armed Services Board of Contract Appeals. As of this date (29 Oct. 1976), [redacted] has proposed an out-of-court settlement, which is under consideration.

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B. Contract Obligations

On 8 June 1976, our office of Finance issued Office of Finance Notice 14-76, "Documentation Requirements for Obligations." This notice reiterated the legal requirements for recording obligations included in [redacted] and in the Appropriations Act of 1955. The essence of this requirement is that we have (1) a bid in writing, (2) acceptance of the bid communicated to the bidder in the same manner as the bid is made, (3) incorporation in the contract of the terms and conditions of the bid without qualification, and (4) signatures of both contracting parties. The Office of General Counsel has held that the Agency's procedure of recording obligations on the basis of contracts being signed by authorized Agency contracting officers and mailed prior to the end of the fiscal year does not meet legal requirements of the Appropriations Act of 1955. In order to have bilaterally signed contracts in hand by the end of the fiscal year, earlier cut-off dates for accepting requisitions from requesting components will be required. Procedures will be developed during FY 1977 to comply with this requirement.

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