



ADMINISTRATIVE
INTERNAL USE ONLY

19 MAY 1978

MEMORANDUM FOR: Deputy Director for Administration
FROM: James H. McDonald
Director of Logistics
SUBJECT: Competition in CIA Contracting

Jack:

1. We have been aware of Senator Hart's concern regarding:

a. A possible lack of competition for intelligence community contracts, and

b. Inclusion of only a relatively small number of contractors in the base of contractors competing for community contracts.

STATINTL
STATINTL
Early action in response to these concerns was taken in April 1977 when a directive (Attachment 1) was issued by Mr. Knoche to all of the deputy directors which committed the Agency to the principle of competition. Also in April 1977 [] was revised to require that any contract planned on a sole source basis and expected to qualify for review by the Agency Contract Review Board [] (or greater) must be presented to the Board for sole source approval at the earliest possible time and prior to any contact with the contractor. Also in 1977 Admiral Turner tasked the Intelligence Community Staff to develop a procurement policy for dissemination to the community which would stress the importance of competition and of broadening the base of contractors serving the intelligence community. Such a policy was developed, tabled and approved by the NFIB (Attachment 2).

OL []

STAT

ADMINISTRATIVE
INTERNAL USE ONLY

ADMINISTRATIVE
INTERNAL USE ONLY

SUBJECT: Competition in CIA Contracting

2. For comparison purposes I have collected figures on Agency-funded, National Programs, Department of Defense and civilian agencies for FY 1976. They are included as Attachment 3 to this memorandum. Analysis of these statistics must be with a jaundiced eye, bearing in mind that the formula or ingredients that go into the numbers for various Government components may vary. Our figure for Agency-funded does not include competition in the general purchase order area or dollars spent for items bought from Federal Supply Schedules. As you know, the DCI has, in NFIB- , levied a require- STATINTL
ment for reporting statistics on competitive versus sole source procurements in FY 1978. It is our intention to get together with other members of the intelligence community prior to filing that report to make sure that our formula for reporting is consistent with theirs.

3. If the statistics shown on Attachment 3 were computed, using formulae which were identical, we must conclude that our National Programs contracting has been handled in exemplary fashion insofar as competition is concerned. We are unable to comment on the number of new contractors invited to compete for contracts in the National arena, either during a specific period or generally. We note, however, that in a recent action being handled in the National area the Director of Logistics and the Chief, Procurement Management Staff, OL, participated in the review process. This particular action was considered to be so sensitive that approval was granted to hold the data outside of our automated data system and, yet, the contract was handled competitively with four contractors included in the competition. We understand Senator Hart's concern regarding the number of contractors competing for intelligence community contracts but we must be mindful that even the Armed Services Procurement Regulation (ASPR 3-101(b)) states: "When supplies or services are to be procured by negotiation, offers shall be solicited from the maximum number of qualified sources consistent with the nature and requirements of the supplies or services to be procured." In the intelligence community and, certainly in the National Programs, the nature and requirements of the supplies or services being procured is unique. The number of firms in America capable of handling major system contracts in the very

ADMINISTRATIVE
INTERNAL USE ONLY

SUBJECT: Competition in CIA Contracting

specialized areas of technology of concern to National Programs is few. The National importance and priority of the programs mitigates against taking chances with awards to contractors without established track records, and further contributes to reducing the contractor field. Even with these constraints the National Programs have active contracts currently with approximately 80 different contractors.

4. When we look at the stable of contractors handling Agency-funded contracts, I believe the number of contractors and the spread of CIA procurement dollars among its contractors demonstrates an effort to include new contractors and also that there are no favorites. Our automated contract information system indicates that since 1 July 1967 we have had contractual relationships with approximately 2,963 contractors and that, at this time, there are active contracts with 827 contractors. These figures do not include small purchases or procurements through General Services Administration, Defense Logistics Agency, or from Federal Supply Schedules. One final factor on the number of contractors and the spread of dollars among those contractors is that no single contractor in FY 1976 received more than two percent of our CIA procurement dollars.

STATINTL

5. At your direction and stemming from discussion of the [redacted] case with Mr. Carlucci, I have asked Procurement Management Staff, OL (OL/PMS) to prepare a directive for Mr. Carlucci's signature which will advise Agency management of Admiral Turner's and Mr. Carlucci's commitment to maximum competition. The NFIB policy statement prepared at Admiral Turner's direction will be made a part of the directive. As a second order of business, OL/PMS will reexamine Agency procurement practices to ascertain whether there is abuse of sole source prerogatives.

STATINTL

[redacted]
James H. McDonald

Atts

DD/SS.T# 1483-71/

Executive Registry

77-011/9

7 APR 1977

MEMORANDUM FOR: Deputy Director for Administration
Deputy Director for Intelligence
Deputy Director for Operations
Deputy Director for Science and Technology

FROM : E. H. Knoche
Deputy Director of Central Intelligence

SUBJECT : Competition in CIA Procurement

1. Procurement of supplies and services required for authorized Central Intelligence Agency programs is vital to the Agency's mission. Applicable Federal Government procurement laws and regulations require that all procurements utilizing appropriated funds, whether by formal advertising or by negotiation, be made on a competitive basis to the maximum practicable extent. The requirement is applicable to all procurements, whether for research and development, production hardware, external analysis, services or major system acquisition. Our fullest compliance with this requirement will serve to optimize our procurement efforts as well as further the doctrine of fairness for Agency contractors.

2. I ask that each of you, during the various phases of program planning and execution, be mindful of the requirement for handling procurement on a competitive basis to the maximum practicable extent. I ask also that you convey to personnel within your Directorates my personal commitment to the principle of competition.

/s/ E. H. Knoche

E. H. Knoche

Distribution:

Orig - DD/A
1 - Each Other Adse
1 - DDCI
1 - ER
1 - OL Official ✓

OL 7 1323

November 1977

ILLEGIB

NFIP Procurement Policy

1. Purpose. The purpose of this Directive is to establish policy and reporting procedures for the procurement of goods and services by NFIP entities.
2. Responsibilities
 - a. The DCI is responsible for controlling the budget preparation and resource allocation for the NFIP.
 - b. The Code of Federal Regulations in Titles 41 and 32 establishes Federal and Armed Services procurement policy pursuant to the Armed Services Procurement Act of 1949, as amended, and the Federal Property and Administrative Services Act of 1949, as amended.
3. Applicability. This Directive shall apply to all purchases and contracts made by NFIP components, units and activities, within or outside the U.S., for the procurement, or acquisition, from non-Federal sources of personal property and non-personal services (including ADP&E and construction) by such means as purchasing, renting, leasing (including real property), contracting or bartering. It includes all functions that pertain to the obtaining of supplies and services, including description (but not determination) of requirements, selection and solicitation of sources, and preparation and award of contracts for supplies or services which obligate appropriated funds.
4. Policy. The following Policy and Guidance for the procurement of NFIP goods and services reaffirms and extends the general and permanent rules for procurement published in the Federal Register and codified under Titles 32 and 41 of the Code of Federal Regulations.
 - a. All procurement, whether by formal advertising, or by negotiation, within the limitations of statutory responsibilities to protect sensitive intelligence sources and methods, shall be made on a competitive basis to the maximum practical extent.

when supplies or services are to be procured by negotiation, offers shall be solicited from the maximum number of qualified sources consistent with the nature and requirements of the supplies, or services, to be procured.

- c. Negotiated procurements shall be on a competitive basis to the maximum practical extent. When a proposed procurement appears to be necessarily non-competitive, contracting officials are responsible not only for assuring that competitive procurement is not feasible, but also for acting whenever possible to avoid the need for subsequent non-competitive procurements. This action should include both examination of the reasons for the procurement being non-competitive and steps to foster competitive conditions for subsequent procurements, including possible break-out of components for competitive procurement. Except for procurement of utilities, and utility services, and educational services from nonprofit institutions, contracts in excess of [] shall not be negotiated on a non-competitive basis without prior review at a level higher than the initiating contract officer to assure compliance.
- d. Procurements, whether by formal advertising or by negotiation, generally shall be made by soliciting bids, proposals, or requests for quotations from the maximum number of qualified sources consistent with the nature and requirements of the supplies or services to be procured.
- e. "Bidders" lists for procurement or other similar devices shall be established, maintained, and utilized to insure access to, and use of, the broadest possible base of U.S. industrial firms.
- f. Purchases shall be made from, and contracts shall be awarded to, responsible prospective contractors only. Responsible prospective contractors shall meet the criteria set forth in Federal and Armed Services Procurement Regulations.

5. Action Required

- a. Within the framework of applicable Armed Services and Federal Procurement Regulations, and consistent with statutory responsibility to protect sensitive intelligence sources and methods Agency Heads, Program

FOR OFFICIAL USE ONLY

STATINTL

- ensure competitive involvement to the maximum extent possible in all procurement activities;
- broaden the scope of procurement actions and increase the number of qualified sources from which to solicit and accept bids, proposals, or quotations; and
- review criteria for designating responsible prospective contractors to broaden the base of U.S. firms supporting the NFIP.

- b. In conjunction with the provision of recommended budgets to the DCI for preparation of the National Foreign Intelligence Program Budget, Agency Heads, Program Managers, and the heads of elements of departments and agencies within the Intelligence Community constituting the NFIP shall report the results of actions taken in accordance with the foregoing guidance. Reports should provide data on the total number and dollar value of competitive procurement actions that exceed for each action; the total number of firms involved, and the number of new firms included on lists of bidders during the prior fiscal year. The first required annual report on FY-78 procurement actions shall be submitted in conjunction with the FY-80 recommended budget.

STATINTL

ILLEGIB



FOR OFFICIAL USE ONLY

ADMINISTRATIVE

Approved For Release 2003/12/19 : CIA-RDP81-00142R000200010004-8 Attachment 3

INTERNAL USE ONLY

COMPETITIVE VS SOLE SOURCE

Procurement Statistics

Dollars - FY 1976

	<u>COMPETITIVE</u> (Percentage)	<u>SOLE SOURCE</u> (Percentage)
¹ Department of Defense	42.6	57.4
² Civilian Agencies	36.	64.
³ National Programs	70.	30.
³ Agency-Funded	30.	70.

¹Source: Telecon to OSD, 17 April 1978

²Source: GAO, Report to the Congress,
Competition for Negotiated Government Procurement
Can and Should be Improved, 15 September 1977.
PSAD 77-15L

³Source: CIA IG Report,
Agency Relations With the U.S. Business Community,
November 1976.

ADMINISTRATIVE

INTERNAL USE ONLY

Approved For Release 2003/12/19 : CIA-RDP81-00142R000200010004-8

Contracts

John F. Blake
Deputy Director for Administration
7D 24 Hqs

DDA 78-1920/1

16 May 1978

STATINTL

Deputy Director of Central
Intelligence
7D 6011 Hqs

Frank:

On the matter of the single versus the dual delegation of contracting authority, there is some additional information concerning which you should be aware.

The Audit Staff issued a report on 28 October 1975, based on the [redacted] which addressed itself to this issue. DDS&T replied to that report. I have extracted that portion of the Audit Report which addresses this issue and you will find it at Attachment A. You will find the DDS&T reply dated 28 June 1976 at Attachment B.

STAT

/s/ Jack Blake

John F. Blake

Atts

Distribution:

Orig RS - DDCI

1 - ER

~~1~~ - DDA Subj

1 - DDA Chrono

1 - JFB Chrono

Atts: As stated

☐ UNCLASSIFIED☒ INTERNAL
USE ONLY☐ CONFIDENTIAL☐ SECRET

Approved For Release 2003/12/19 : CIA-RDP81-00142R000200010004-8

SUBJECT: (Optional)

Competition in CIA Contracting

DD/A Registry

File

STATINTL

FROM: James H. McDonald
Director of Logistics

EXTENSION

NO.

OL 8 2189

DATE 19 MAY 1978

STATINTL

TO: (Officer designation, room number, and building)

DATE

OFFICER'S
INITIALS

COMMENTS (Number each comment to show from whom to whom. Draw a line across column after each comment.)

RECEIVED

FORWARDED

19 MAY 1978

Deputy Director for
Administration

2.

ADDA

3.

DDA

4.

DDCI

5.

6.

7.

8.

9.

10.

11.

12.

13.

14.

15.

STAT

Approved For Release 2003/12/19 : CIA-RDP81-00142R000200010004-8

Approved For Release 2003/12/19 : CIA-RDP81-00142R000200010004-8

SECRET

Approved For Release 2003/12/19 : CIA-RDP81-00142R000200010004-8

STAT

Authority and Responsibility

EXTRACT FROM [REDACTED]
REPORT OF AUDIT RELEASED
28 Oct 75

STAT

36. Contracting officers are hindered when they are directly responsible and subordinate to project managers. The [REDACTED] contracting officer organizationally was responsible to the Comptroller/SPS who in turn was responsible to the C/SPS. As previously indicated, the C/SPS acted as program manager. In our view contracting officers need to retain an independent position removed from project personnel supervision. The team approach with management, contract, technical, and contract audit representation is desirable for major program procurements and all members must be responsive to the needs of one another. However, internal controls are best served when each member functions in an independent manner within his area of competence without diversion or direction from other members.

STAT

37. The DDS&T is responsible for all Agency participation in national programs. Most contracting authority for these programs rests with the Contracting Staff assigned to the Office of Development and Engineering (OD&E). The Director, ODE designates project managers for those programs for which he is responsible. The project manager and the contracting officer report directly to the same official, the Director, ODE. In the [REDACTED] the project manager is the Director, SPS to whom the contracting officer is responsible.

38. In contrast to national program procurement Agency funded procurement falls within the cognizance of the Director of Logistics. As a matter of management convenience, the Director of Logistics has established contract teams in various Agency operating components. The Contracting Officers resident in such teams are administratively under the supervision of the

Approved For Release 2003/12/19 : CIA-RDP81-00142R000200010004-8

SECRET

SECRET

Approved For Release 2003/12/19 : CIA-RDP81-00142R000200010004-8

REPORT

operating component. Nevertheless all Contracting Officers adhere to policy guidance and directives as established by the Director of Logistics for Agency funded procurement thus achieving a degree of consistency and uniformity in carrying out the Agency procurement function.

39. It may be appropriate at this time to question the continued need to keep Agency contracting authority separate from national programs contracting authority. Two reasons have been advanced to support the present procedures. One, the Director of Central Intelligence has elected to delegate contracting authority for national programs to specific contracting officers for national programs. The second reason cited arises from a recommendation made in "A Study of the Procurement Systems of the Central Intelligence Agency" of July 1966, referred to as [REDACTED] which suggested centralizing all Agency Research and Development and related procurement under the direction of the DDS&T. To the extent that program managers report to the DDS&T, procurement has been centralized. However, contracting officers normally report to the program managers. Although the contracting officer appears independent he is not since contractual administration and control can be directed by the program managers.

STAT

Recommendation #8: Review the organizational assignment of contracting officers under national programs. Consider assigning contracting officers to positions where they may be responsive to the DDS&T while responsible to the Director of Logistics.

Recommendation #9: Assure that contracting officers for national programs are assigned to positions where they are not subordinate to project managers.

Approved For Release 2003/12/19 : CIA-RDP81-00142R000200010004-8

SECRET

STAT

Approved For Release 2003/12/19 : CIA-RDP81-00142R000200010004-8

Approved For Release 2003/12/19 : CIA-RDP81-00142R000200010004-8

SECRET

EXTRACT FROM DD/S&T REPLY
Approved For Release 2003/12/19 : CIA-RDP81-00142R000200010004-8
AUDIT REPORT - REPLY DATED 28 JUNE 76

STAT

24. The section under CONTRACTS - Authority and Responsibility and including paragraph 36 through 39 of the Report and terminating with Recommendations 8 and 9, is one that gives us considerable concern and involves the whole philosophy of contracting procedures in national programs. Paragraph 36 opens with the statement that "contracting officers are hindered when they are directly responsible and subordinate to project managers." In the conduct of national reconnaissance programs there must be a single program manager responsible for the total execution of the program. While the Deputy Director for Science and Technology is the operating official of the Agency formally charged by the DCI with that responsibility, the DD/S&T usually delegates the day-to-day direction of a program to a subordinate senior official. In the case of the [redacted] [redacted] that official was the Chief of the Special Projects Staff. This is a proven management technique, and in the [redacted] as with other special programs it has been successful. Obviously, the senior officers selected for such positions are carefully chosen, taking into consideration their background, experience and business management ability.

STAT

STAT

It seems patently clear that any arrangement other than having the contracting officer administratively responsible to the program manager would create a completely undesirable management situation. In the management dynamics of a special program, any division of command allegiance placed upon a contracting officer such as that suggested in Recommendation No. 8 would be unworkable and would place the program manager and the contracting officer in a very awkward position. While it is obvious that the contracting officer has a special responsibility to protect the interest of the U.S. Government in its relationship with the contractor, program managers must be equally sensitive to this requirement. In addition, the contracting officer always has the final say on contracts and is the final approving authority under any circumstances. Therefore, we believe any consideration to split command allegiance of a contracting officer between the DD/S&T and the Director of Logistics in a national program, as suggested in Recommendation No. 8 is undesirable.

Recommendation No. 8. Review the organizational assignment of contracting officers under national programs. Consider assigning contracting officers to positions where they may be responsive to the DD/S&T while responsible to the Director of Logistics.

We cannot accept this recommendation for the reasons stated above as well as those stated in response to Recommendation No. 9 hereunder. We consider that the relationship between the Contracting Officer and Technical Management is adequately set forth in Executive Director-Comptroller's memorandum ER-72-5649 dated 20 December 1972, subject "Statement of Policy and Related Matters Concerning Contractual and Technical Management of Agency Contracts."

SECRET

SECRET

Approved For Release 2003/12/19 : CIA-RDP81-00142R000200010004-8

DDST REPLY

Recommendation No. 9. *Assure that contracting officers for national programs are assigned to positions where they are not subordinate to project managers.*

The auditors apparently do not have a complete understanding of the role of a contracting officer, especially the role of one assigned to a special program office or even a decentralized contracting team. Contracting officers are not hindered when they administratively report to a Chief of Staff, Office Director, Project Manager, or whatever he may be called. The contracting officer is autonomous and is assigned to implement and to carry out contract management and operations for the component to which he is assigned. It is his responsibility to represent and support the interests and needs of that component while governed by the Procurement Management Policies and Procedures of the Agency and his delegation of authority whether derived from the DCI and/or Director of Logistics. The contracting officer should operate at the management level of the operating component and continue to have the option of referring

contracts with significant policy questions to the Director of Logistics, Deputy Directors, or higher authority as appropriate. We therefore do not believe the contracting officer is completely subordinate to program directors under current operating procedures.

Approved For Release 2003/12/19 : CIA-RDP81-00142R000200010004-8

SECRET