



EXECUTIVE OFFICE OF THE PRESIDENT  
OFFICE OF MANAGEMENT AND BUDGET  
WASHINGTON, D.C. 20503

*file 1-4-9*

March 29, 1979

CIRCULAR NO. A-76  
Revised

TO THE HEADS OF EXECUTIVE DEPARTMENTS AND ESTABLISHMENTS

SUBJECT: Policies for Acquiring Commercial or Industrial Products and Services Needed by the Government

1. Purpose. This Circular establishes the policies and procedures used to determine whether needed commercial or industrial type work should be done by contract with private sources or in-house using Government facilities and personnel. This Circular replaces OMB Circular No. A-76, dated August 30, 1967, and all subsequent amendments.

2. Background. In a democratic free enterprise economic system, the Government should not compete with its citizens. The private enterprise system, characterized by individual freedom and initiative, is the primary source of national economic strength. In recognition of this principle, it has been and continues to be the general policy of the Government to rely on competitive private enterprise to supply the products and services it needs.

This policy has been expressed in Bureau of the Budget Bulletins issued in 1955, 1957, and 1960. In 1966, Circular No. A-76 was issued and, for the first time, prescribed the policy and implementing guidelines in a permanent directive. The Circular was revised in 1967, by Transmittal Memorandum No. 1, to clarify some provisions and to lessen the burden of work by the agencies in implementation. Transmittal Memorandum No. 2 was issued in 1976, providing additional guidance on cost comparisons and prescribing standard cost factors for Federal employee retirement and insurance benefits.

In 1977, a comprehensive review of the Circular and its implementation was initiated. Transmittal Memorandum No. 3 was issued on June 13, 1977, announcing the review and temporarily reducing the Government retirement cost factor. This revision is the result of that review and careful consideration of comments from all interested parties.

3. Responsibility. Each agency head has the responsibility to ensure that the provisions of this Circular are followed. This Circular provides administrative direction to heads of agencies and does not establish, and shall not be construed to create, any substantive or procedural basis for any person to challenge any agency action or inaction on the basis that such action was not in accordance with this Circular, except as specifically set forth in Section 11 below.

4. Policy. This policy builds on three equally valid policy precepts:

a. Rely on the Private Sector. The Government's business is not to be in business. Where private sources are available, they should be looked to first to provide the commercial or industrial goods and services needed by the Government to act on the public's behalf.

b. Retain Certain Governmental Functions In-House. Certain functions are inherently governmental in nature, being so intimately related to the public interest as to mandate performance by Federal employees.

c. Aim for Economy; Cost Comparisons. When private performance is feasible and no overriding factors require in-house performance, the American people deserve and expect the most economical performance and, therefore, rigorous comparison of contract costs versus in-house costs should be used, when appropriate, to decide how the work will be done.

5. Definitions. For the purposes of this Circular:

a. A "Government commercial or industrial activity" is one which is operated and managed by a Federal executive agency and which provides a product or service that could be obtained from a private source. A representative, but not comprehensive, listing of such activities is provided in Attachment A. An activity can be identified with an organization or a type of work, but must be (1) separable from other functions so as to be suitable for performance either in-house or by contract; and (2) a regularly needed activity of an operational nature, not a one-time activity of short duration associated with support of a particular project.

b. An "expansion" is the modernization, replacement, upgrade, or enlargement of a Government commercial or industrial activity involving additional capital investment of \$100,000 or more, or increasing annual operating costs by \$200,000 or more; provided, the increase exceeds 20% of the total investment or annual operating cost. A consolidation of two or more activities is not an "expansion" unless the proposed total capital investment or operating cost exceeds the total from the individual activities by the amount of the threshold. An expansion which increases either capital investment or annual operating cost by 100% or more is a "new start."

c. A "conversion" is the transfer of work from a Government commercial or industrial activity to performance by a private commercial source under contract.

d. A "new start" is a newly-established Government commercial or industrial activity, including a transfer of work from contract to in-house performance. Also included is any expansion which would increase capital investment or annual operating cost by 100% or more.

e. A "private commercial source" is a private business, university, or other non-Federal activity, located in the United States, its territories and possessions, the District of Columbia, or the Commonwealth of Puerto Rico, which provides a commercial or industrial product or service required by Government agencies.

f. A "Governmental function" is a function which must be performed in-house due to a special relationship in executing governmental responsibilities. Such governmental functions can fall into several categories:

(1) Discretionary application of Government authority, as in investigations, prosecutions and other judicial functions; in management of Government programs requiring value judgments, as in directing the national defense; management and direction of the Armed Services; conduct of foreign relations; selection of program priorities; direction of Federal employees; regulation of the use of space, oceans, navigable rivers and other natural resources; direction of intelligence and counter-intelligence operations; and regulation of industry and commerce, including food and drugs.

(2) Monetary transactions and entitlements, as in Government benefit programs; tax collection and revenue disbursements by the Government; control of the public treasury, accounts, and money supply; and the administration of public trusts.

(3) In-house core capabilities in the area of research, development, and testing, needed for technical analysis and evaluation and technology base management and maintenance. However, requirements for such services beyond the core capability which has been established and justified by the agency are not considered governmental functions.

## 6. Scope.

a. No executive agency will engage in or contract for commercial or industrial activities except in accordance with the provisions of this Circular, or as otherwise provided by law, including, for example, Title 44 of the U.S. Code.

b. The implementation provisions of this Circular do not apply to governmental functions as defined in paragraph 5(f). These functions must be performed in-house by Government personnel.

c. This Circular applies to the need for Government ownership in any "new start" or "expansion" of a Government-owned, contractor-operated (GOCO) facility.

d. Additional provisions are as follows:

(1) This Circular does not provide authority to enter into contracts. Guidelines governing contracts for goods and services are set forth in applicable acquisition regulations.

(2) This Circular will not be used as authority to enter into contracts which establish a situation tantamount to an employer-employee relationship between the Government and individual contract personnel. Additional guidance on this subject is provided in the Federal Personnel Manual issued by the Office of Personnel Management.

(3) This Circular will not be used to justify a conversion to contract solely to meet personnel ceilings or to avoid salary limitations. When in-house performance of a "new start" is justified under this Circular but cannot be accommodated within agency personnel ceilings, an appeal for necessary adjustment to implement this Circular agency-wide should be made to OMB in connection with the annual budget review process.

(4) Major system acquisitions are governed by the provisions of OMB Circular No. A-109, "Major System Acquisitions." Reliance on the private sector is one of the general policies contained in Circular A-109 to ensure competitive consideration of all alternatives before making a decision as to the best method of satisfying an agency mission need.

(5) This Circular does not apply to consulting services of a purely advisory nature relating to the governmental functions of agency administration and management and program management. Assistance in the management area may be provided either by Government staff organizations or from private sources, as deemed appropriate by executive agencies, in accordance with executive branch guidance on the use of consulting services.

(6) This Circular applies to printing and binding only in those agencies or departments which are exempted by law from the provisions of Title 44 of the U.S. Code.

(7) This Circular should not be applied when it would be contrary to law or inconsistent with the terms of any treaty or international agreement.

## 7. Use of Products and Services from Other Federal Agencies.

a. Excess property and services available from other Federal agencies should be used in preference to new starts or contracts, unless the needed product or service can be obtained more economically in the private sector. This is consistent with the Federal Property and Administrative Services Act of 1949 and related regulations.

b. When a commercial or industrial activity operated by an agency primarily to meet its own needs has excess capacity, that capacity can be used to provide products or services to other agencies.

(1) If a formal program is established for managing excess capacity, such as the ADP sharing program operated by GSA, capacity that has been reported as excess can be used by other agencies with no further justification. In the absence of a formal program and report of excess capacity, another agency's use of a Government activity must be justified in accordance with paragraph 8 of this Circular. When the cost justification is used, the agency requiring the product or service will solicit competitive bids or proposals to establish commercial costs, and award a contract when more economical. The prospective providing agency will prepare the Government cost estimate, in accordance with this Circular, for comparison with the commercial cost.

(2) It is not intended that agencies create or expand capacity for the purpose of providing commercially available products or services to other agencies. When the performing agency's own requirements increase, capacity used to support other agencies is no longer excess and should be used in preference to acquisition of additional capability. Consequently, agencies should not expand a commercial or industrial activity which is providing products or services to other agencies. The user agency (or agencies) should be informed, with sufficient notice to arrange alternative sources, that the support will be terminated unless exceptional circumstances prevent that agency from finding a new source.

c. In some cases, a commercial or industrial activity is operated for the primary purpose of providing a product or service to other agencies, such as the Federal Data Processing Centers or the Office of Personnel Management training centers. All such activities must be reviewed under this Circular to determine whether continued Government operation is justified. The review should be made at the earliest possible date, but under no circumstances later than October 1, 1981. Prior to that review, agencies may use the products and services available without further justification. When continued Government operation of the activity is approved, agencies may use the products or services provided, up to the level of capability approved, with no further justification. When expansion of such an activity is proposed, the justification for approval under this Circular can be based on the entire workload, including work for other agencies.

8. Government Operation of a Commercial or Industrial Activity. Government operation of a commercial or industrial activity may be authorized under one of the following conditions.

a. No Satisfactory Commercial Source Available.

(1) A Government commercial or industrial activity can be authorized without a comparative cost analysis when it is demonstrated that:

(a) There is no private commercial source capable of providing the product or service that is needed; or

(b) Use of a private commercial source would cause an unacceptable delay or disruption of an essential agency program.

(2) Before concluding that there is no private commercial source capable of providing the needed product or service, the agency must make all reasonable efforts to identify available sources.

(a) As a minimum, the agency must place at least three notices of the requirement in the Commerce Business Daily over a 90-day period. In the case of urgent requirements, publication in the Commerce Business Daily can be reduced to two notices over a 30-day period.

(b) Agencies' efforts to find satisfactory commercial sources, especially small and minority-owned businesses, should include obtaining assistance from the General Services Administration, Small Business Administration, and the Domestic and International Business Administration in the Department of Commerce.

(3) A conclusion that use of a commercial source would not be satisfactory because it would cause an unacceptable delay or disrupt an agency program requires a specific documented explanation.

(a) Delay or disruption must be spelled out specifically in terms of cost, time and performance measures.

(b) Disruption must be shown to be of a lasting or unacceptable nature. Transitory disruption caused by conversions are not sufficient grounds.

(c) In all cases, specific explanations must be documented. If it is known that the function has been performed by contract elsewhere or at another time, the justification must specify why circumstances are substantially different.

(d) The fact that an activity involves a classified program, or is part of an agency's basic mission, or that there is a possibility of a strike by contract employees is not an adequate justification for in-house performance of that activity. Urgency by itself is not an adequate reason for starting or continuing a Government commercial or industrial activity. It must be shown that commercial sources are not able and the Government is able to provide the product or service when needed.

b. National Defense.

(1) A Government commercial or industrial activity, operated by military personnel, may be justified when:

(a) The activity or military personnel assigned are utilized in or subject to deployment in a direct combat support role;

(b) The activity is essential for training in those skills which are exclusively military in nature; or

(c) The activity is needed to provide appropriate work assignments for career progression or a rotation base for overseas assignments.

(2) A Government commercial or industrial activity providing depot or intermediate level maintenance may be justified in accordance with criteria approved by the Secretary of Defense to ensure a ready and controlled source of technical competence and resources necessary to meet military contingencies. These criteria will limit the extent of in-house capability and capacity within the military departments for depot and intermediate maintenance support of mission-essential equipment to the minimum necessary to accomplish that objective. Justification under these criteria will require a detailed explanation, on a case-by-case basis, why the needed capability cannot be supplied by:

(a) A private commercial source; or

(b) Contract operation of Government-owned facilities.

Such justification must be approved at the military department assistant secretary level or equivalent in the defense agencies.

c. Higher Cost. A Government commercial or industrial activity may be authorized if a comparative cost analysis, prepared in accordance with paragraph 9 of this Circular, indicates that the Government can provide or is providing a product or service at a lower total cost than if it were obtained from a private commercial source.

9. Cost Comparisons. A decision for in-house performance based on economy must be supported by a comparative cost analysis prepared in accordance with this Circular and the supplementing Cost Comparison Handbook.

a. Common Ground Rules.

(1) Both Government and commercial cost figures must be based on the same scope of work and the same level of performance. This requires the preparation of a sufficiently precise work statement with performance standards that can be monitored for either mode of performance.

(2) Standard cost factors will be used as prescribed by the Cost Comparison Handbook and as supplemented by agencies for particular operations. It will be incumbent on each agency to defend any variations in costing from one case to another.

(3) Cost comparisons are to be aimed at full cost, to the maximum extent practical in all cases. All significant Government costs (including allocation of overhead and indirect costs) must be considered, both for direct Government performance and for administration of a contract.

(4) In the solicitation of bids or offers from contractors for workloads that are of a continuing nature, unless otherwise inappropriate, solicitations should provide for prepriced options or renewal options for the out-years. These measures will guard against "buy-in" pricing on the part of contractors. While recompetition also guards against "buy-ins," the use of prepriced or renewal options provides certain advantages such as continuity of operation, the possibility of lower contract prices when the contractor is required to provide equipment or facilities, and reduced turbulence and disruption.

(5) Ordinarily, agencies should not incur the delay and expense of conducting cost comparison studies to justify a Government commercial or industrial activity for products or services estimated to be less than \$100,000 in annual operating costs. Activities below this threshold should be performed by contract unless in-house performance is justified in accordance with paragraph 8.a. or b. However, if there is reason to believe that inadequate competition or other factors are causing commercial prices to be unreasonable, a cost comparison study may be conducted. Reasonable efforts should first be made to obtain satisfactory prices from existing commercial sources and to develop other competitive commercial sources.

(6) The cost comparison will use a rate of 10% per annum as the opportunity cost of capital investments and of the net proceeds from the potential sale of capital assets, as prescribed in the Cost Comparison Handbook.



b. Calculating Contract Costs.

(1) The contract cost figure must be based on a binding firm bid or proposal, solicited in accordance with pertinent acquisition regulations. Bidders or offerors must be told that an in-house cost estimate is being developed and that a contract may or may not result, depending on the comparative cost of the alternatives.

(2) The factor to be used for the Government's cost of administering contracts, in addition to other costs of using contract performance as specified in the Handbook, is 4% of the contract price or expected cost.

c. Calculating Costs of Government Operation.

(1) Each agency should assure that Government operations are organized and staffed for the most efficient performance. To the extent practicable and in accordance with agency manpower and personnel regulations, agencies should precede reviews under this Circular with internal management reviews and reorganizations for accomplishing the work more efficiently, when feasible.

(2) The Government cost factor to be used for Federal employee retirement benefits, based on a dynamic normal cost projection for the Civil Service Retirement Fund, is 20.4%.

(3) The Government cost factor to be used for Federal employee insurance (life and health) benefits, based on actual cost, is 3.7%.

(4) The Government cost factor to be used for Federal employee workmen's compensation, bonuses and awards, and unemployment programs is 1.9%.

d. An existing in-house activity will not be converted to contract performance on the basis of economy unless it will result in savings of at least 10% of the estimated Government personnel costs for the period of the comparative analysis.

e. A "new start" will not be approved on the basis of economy unless it will result in savings compared to contract performance at least equal to 10% of Government personnel costs, plus 25% of the cost of ownership of equipment and facilities, for the period of the comparative analysis.

f. All cost comparisons must be reviewed by an activity independent of the cost analysis preparation to ensure conformance to the instructions in the Cost Comparison Handbook.

10. Administering the Policy.

a. Implementation.

(1) Each agency will designate an official at the assistant secretary or equivalent level, and officials at subordinate contact points for major components, to have overall responsibility for implementation of this Circular within the agency.

(2) Each agency will establish one or more offices as central points of contact to maintain cognizance of specific implementation actions. These offices will have access to all decision documents and data pertinent to actions taken under the Circular and will respond, in a timely manner, to all requests concerning inventories, schedules, reviews, and results of reviews. In considering requests which include information supplied by contractors or prospective contractors, agencies will be guided by OFPP Policy Letter No. 78-3, "Requests for Disclosure of Contractor-Supplied Information Obtained in the Course of a Procurement."

(3) Within 90 days after the date of issuance, each agency will promulgate this Circular, with the minimum necessary internal instructions, identifying the designated official and the central and subordinate contact points. When issued, copies of the internal instructions will be forwarded to OMB's Office of Federal Procurement Policy for review. Copies of subsequent changes will also be forwarded for review.

(4) Each agency will recognize that work for the Federal Government may be performed by use of military personnel, civilian employees, and contract services, and that past experience demonstrates that all three methods have been responsive and dependable in performing sensitive and important work.

(5) Each agency will ensure that contracts awarded as a result of reviews under Circular A-76:

(a) Contain all applicable clauses and provisions related to equal employment opportunities, veterans' preference, and minimum wages and fringe benefits, including implementation of OFPP Policy Letter No. 78-2, dated March 29, 1978, relating to "wage busting;"

(b) Include a provision, consistent with Government post employment conflict of interest standards, that the contractor will give Federal employees, displaced as a result of the conversion to contract performance, the right of first refusal for employment openings on the contract in positions for which they are qualified;

(c) Are awarded to a responsible and responsive bidder or offeror, as required by applicable acquisition regulations; and

(d) Are administered and monitored to achieve proper performance, using appropriate contractual remedies any time performance is less than satisfactory.

(6) Each agency will exert maximum effort to find suitable employment for any displaced Federal employees, including:

(a) Giving them priority consideration for suitable positions with the Government;

(b) Paying reasonable costs for training and relocation when these will contribute directly to placement;

(c) Arranging for gradual transition when conversions are made to provide greater opportunity for attrition and placement; and

(d) Coordinating with the Department of Labor and other agencies to obtain private sector employment for separated workers.

(7) Each agency will provide for alterations to the mode of performance to be timed in consonance with, and adjusted for, the budget process to the extent required and consistent with the firm bid cost study approach.

b. Inventories. Each agency will immediately compile a complete inventory of all commercial and industrial activities subject to this Circular.

(1) Agencies will prepare and maintain a complete inventory of all individual commercial or industrial activities (as defined in paragraph 5.a.), which they operate. In addition to general descriptive information, the inventory should include for each activity: the amount of the Government's capital investment, the annual cost of operation, the date the activity was last reviewed, and the basis on which the activity is being continued under this Circular. The inventory will be updated at least annually to reflect the results of reviews as conducted.

(2) Agencies will also prepare and maintain an inventory of all contracts in excess of \$100,000 annually, except those awarded under a duly authorized set aside program, for services which the agency determines could reasonably be performed in-house, including any activities that have been converted from in-house to contract performance. In addition to general descriptive information, the inventory will include: the contract number, name of the contractor, contract period, period of any options, and the total contract price or estimated cost. Inventory updates will reflect exercise of options and the termination and award of contracts.

c. Reviews. Agencies will prepare a detailed schedule for the review of each commercial or industrial activity and contract in the inventory to determine if the existing performance, in-house or contract, continues to be in accordance with the policy and guidelines of this Circular. The flow chart provided as Attachment B demonstrates the sequence of actions required for proper implementation of the Circular.

(1) The schedule for review of in-house commercial and industrial activities will provide for review of all activities during the three-year period following issuance of this revised Circular. Consideration should be given first to criteria that do not concern cost. Unless continuation is justified under paragraphs 8.a. or b., a cost comparison must be conducted to determine the relative cost of Government and private performance.

(2) The schedule for review of contracts will show the date that each contract (including options) will expire, and the date that the requirement will be reviewed to determine if contract performance is to be continued. The agency will review the contract cost and determine whether it is likely that the work can be performed in-house at a cost that is less than contract performance by 10% of Government personnel costs plus 25% of the cost of ownership of equipment and facilities. When this is determined to be likely, a cost comparison will be conducted.

(3) Both schedules will be completed and provided to the Office of Federal Procurement Policy, OMB, within 120 days of the date of issuance of this Circular. These schedules will be made available by the agency to all potentially affected employees and their representatives, and published for the information of contractors.

(4) Reviews will be conducted in accordance with the schedules, unless it is determined that a change in the schedule will be in the best interest of the Government. In such cases, after approval by the agency head or his designee, the schedule can be revised with 60 days notice to all affected parties.

(5) After the initial review, activities approved for continuation will be reviewed again at least once every five years. When it is determined by the agency head or his designee that the circumstances which supported the initial approval are not subject to change, subsequent reviews may be waived. These activities will be retained in the inventory, however, and so identified. A copy of the justification and the waiver will be made available to all interested parties upon request to the agency contact point.

(7) When the number of commercial and industrial activities and the number of covered contracts is so great that reviews cannot be completed in the prescribed time period, the agency may request approval from the Office of Federal Procurement Policy, OMB, to schedule the reviews over a longer period.

d. New Starts.

(1) A new start should not be initiated by an executive agency unless the justification for establishing the activity under the provisions of this Circular has been reviewed and approved by a senior official of the agency. A new start which involves a capital investment or annual costs of \$500,000 or more must be approved by the agency head or by an official at the assistant secretary or equivalent level.

(2) The actions to be taken under this Circular should normally be completed before the agency's budget request is submitted to OMB. Data in support of such budget requests will be submitted in accordance with OMB Circular No. A-11. In the case of a proposed new start involving a major capital investment where the item to be acquired requires a long lead time (e.g., ADP system, building), approval of budget resources will not constitute OMB approval of that method of meeting the agency need. A final determination to initiate the new start or to rely on a private commercial source, within the resources approved, will be made in accordance with this Circular and other applicable policies, prior to any commitment to a particular acquisition strategy.

(3) When Government ownership of facilities is necessary, the possibility of contract operation must be considered before in-house performance is approved as a new start. If justification for Government operation is dependent on relative cost, the comparative cost analysis may be delayed to accommodate the lead time necessary for acquiring the facilities.

(4) When in-house performance to meet a new requirement is not feasible, or when contract performance would be under an authorized set-aside program, a contract can be awarded without conducting a comparative cost analysis.

e. Set-Aside Programs

(1) It is the general policy of the Government, as expressed in the Small Business Act, to ensure that small businesses, including those owned and managed by disadvantaged persons, receive a fair share of Government contract awards.

(2) Consequently, contracts awarded under authorized set-aside programs will not be reviewed for possible in-house performance. Additionally, new requirements which would be suitable for award under a set-aside program should be satisfied by such a contract without a comparative cost analysis.

(3) On the other hand, in-house activities (in excess of \$100,000 annually) will not be considered for performance under a set-aside contract except when the conversion is justified by a comparative cost analysis.

## 11. Appeals.

a. Each agency will establish a procedure for an informal administrative review of determinations made under this Circular. This procedure will only be used to resolve questions of the determination between contract and in-house performance, and will not apply to questions concerning award to one contractor in preference to another contractor. Upon written request from a directly affected party raising a specific objection, the appeals procedure will provide for:

(1) An independent, objective review of the initial determination and the rationale upon which the decision was based.

(2) An expeditious determination, within 30 days, made by an official at the same or higher level than the official who approved the original decision.

b. The appeals procedure is to provide an administrative safeguard to assure that agency decisions are fair, equitable, and in accordance with established policy. This procedure does not authorize an appeal outside the agency or a judicial review.

c. Since the appeal procedure is intended to protect the rights of all affected parties -- Federal employees and their representative organizations, contractors and potential contractors, and contract employees and their representatives -- the procedure and agency determinations may not be subject to negotiation, arbitration, or agreements with any one of those parties. Agency decisions are final.

d. Agency appeal procedures, when issued, will be submitted to OFPP for review pursuant to paragraph 10.a.(3).

## 12. Effective Date.

This Circular is effective May 1, 1979, but need not be applied to studies in process where a solicitation for contract bids or proposals was issued prior to the effective date.

Questions or inquiries about this Circular or its implementation should be addressed to the Office of Federal Procurement Policy, OMB, telephone number (202) 395-7207.

  
Lester A. Fettig  
Administrator for Federal  
Procurement Policy

  
James T. McIntyre, Jr.  
Director

ATTACHMENT A

EXAMPLES OF COMMERCIAL AND INDUSTRIAL ACTIVITIES

Audiovisual Products and Services

Photography (still, movie, aerial, etc.)  
Photographic processing (developing, printing, enlarging, etc.)  
Film and videotape production (script writing, direction, animation,  
editing, acting, etc.)  
Microfilming and other microforms  
Art and graphics services  
Distribution of audiovisual materials  
Reproduction and duplication of audiovisual products

Automatic Data Processing

ADP services -- batch processing, time-sharing, etc.  
Programming and systems analysis, design, development, and  
simulation  
Key punching and data entry services  
Systems engineering and installation  
Equipment installation, operation, and maintenance

Maintenance, Overhaul, and Repair

Aircraft and aircraft components  
Ships, boats, and components  
Motor vehicles  
Combat vehicles  
Railway systems  
Electronic equipment and systems  
Weapons and weapon systems  
Medical and dental equipment  
Office furniture and equipment  
Industrial plant equipment  
Photographic equipment  
Space systems

Systems Engineering, Installation, Operation, and Maintenance

Communications systems -- voice, message, data; radio, wire,  
microwave, and satellite  
Missile ranges  
Satellite tracking and data acquisition  
Radar detection and tracking  
Television systems -- studio and transmission equipment,  
distribution systems, receivers, antennas, etc.  
Recreational areas  
Bulk storage facilities

Manufacturing, Fabrication, Processing, and Packaging

- Ordnance equipment
- Clothing and fabric products
- Liquid, gaseous, and chemical products
- Logging and lumber products
- Communications and electronics equipment
- Rubber and plastic products
- Optical and related products
- Sheet metal and foundry products
- Machined products
- Construction materials
- Test and instrumentation equipment

Real Property

- Design, engineering, construction, modification, repair, and maintenance of buildings and structures
- Construction, alteration, repair, and maintenance of roads and other surfaced areas
- Landscaping, drainage, mowing and care of grounds

Industrial Shops and Services

- Machine, carpentry, electrical and other shops
- Industrial gas production and recharging
- Equipment and instrument fabrication, repair and calibration
- Plumbing, heating, electrical, and air conditioning services, including repair
- Fire protection and prevention services
- Custodial and janitorial services
- Refuse collection and processing

Health Services

- Surgical, medical, dental, and psychiatric care
- Hospitalization, outpatient, and nursing care
- Physical examinations
- Eye and hearing examinations -- manufacturing and fitting glasses and hearing aids
- Medical and dental laboratories
- Dispensaries
- Preventive medicine
- Dietary services
- Veterinary services



Transportation

Operation of motor pools  
Bus service  
Vehicle operation  
Air transportation  
Water transportation  
Trucking and hauling

Printing and Reproduction

Printing and binding -- where the agency or  
department is exempted from the provisions  
of Title 44 of the U.S. Code  
Reproduction, copying, and duplication  
Blue-printing

Research and Development

Basic research  
Applied research  
Development  
Concept formulation and demonstration  
R&D studies  
R&D testing  
R&D support services

Office Services

Stenographic recording and transcribing  
Word processing/data entry  
Mail/messenger  
Translation  
Information systems and distribution  
Financial auditing and services  
Management auditing

Security

Guard and protective services  
Systems engineering, installation, and maintenance of security systems  
and individual privacy systems  
Forensic laboratories

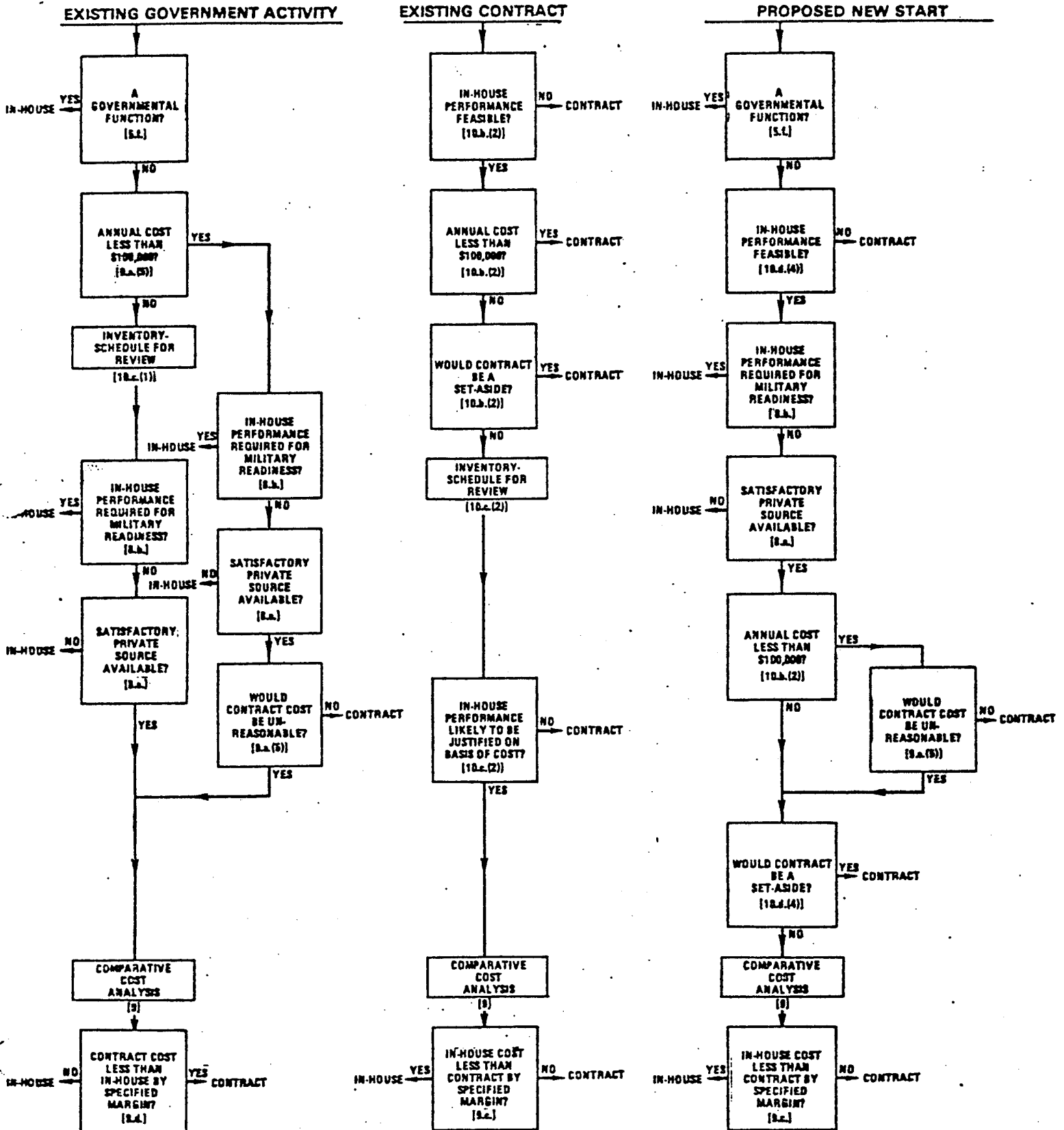
Food Services

Operation of cafeterias, mess halls, kitchens, bakeries, dairies,  
and commissaries  
Vending machines  
Ice and water

Other Services

Laundry and dry cleaning  
Library operation  
Mapping and charting  
Architect and engineer services  
Geological surveys  
Cataloging  
Training -- academic, technical, vocational, and specialized (within the  
limitations of P.L. 85-507, unless waived by the Office of Personnel  
Management)  
Operation of utility systems (power, gas, water, steam, and sewage)

# IMPLEMENTATION OF OMB CIRCULAR A-76



References in brackets is to appropriate paragraph in Circular A-76



EXECUTIVE OFFICE OF THE PRESIDENT

OFFICE OF MANAGEMENT AND BUDGET

WASHINGTON, D.C. 20503

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Revised

Transmittal Memorandum No. 4

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Transmitted herewith is a revision of Office of Management and Budget Circular A-76, which replaces Transmittal Memorandum No. 1, dated August 30, 1967, Transmittal Memorandum No. 2, dated October 18, 1976, and Transmittal Memorandum No. 3, dated June 13, 1977.

The revised Circular (1) reaffirms the Government's general policy of reliance on the private sector for goods and services, while recognizing that (2) certain functions are inherently governmental in nature and must be performed by Government personnel, and (3) relative cost must be given appropriate consideration in decisions between in-house performance and reliance on private commercial sources. The balanced approach in this revised Circular is designed to achieve consistent policy implementation in all agencies, equitable treatment of all parties, and improved economy and efficiency in providing goods and performing services needed by the Government.

To support the increased emphasis on relative economy of Government and contract performance, a comprehensive Cost Comparison Handbook is provided as a supplement to the Circular. This Handbook is to be used by all agencies in conducting comparative cost analyses. The Handbook provides instructions for determining the total cost to Government for each alternative and will provide a more accurate basis for cost-based decisions.

This revision of Circular A-76 is the result of an extensive review of the Circular and its implementation by executive agencies, and careful consideration of all comments submitted on the draft revision that was published in August 1978. Many of those comments were accommodated through clarification and refinement of the draft. Supplementary guidance on special subjects will be developed as needed.

Application to R&D Activities

Some concern was expressed over the potential impact of the application of this Circular to Government R&D activities. While agencies with a need for in-house R&D capability can consider a "core capability" in this area as a "governmental function," additional guidance is needed to ensure some consistency in determining and justifying the size of that core capability and applying the Circular to R&D requirements, in excess of that level of capacity.

An interagency committee jointly sponsored by the Office of Federal Procurement Policy and the Office of Science and Technology Policy, has been established under the Federal Coordinating Council for Science, Engineering, and Technology, to study these issues and recommend guidelines for appropriate and uniform agency implementation. Supplemental guidance addressing R&D activities will then be developed and, after public review and comment, be issued as an amendment to the Circular. In the interim, compliance with this Circular and the periodic review of inventoried R&D activities are to be deferred for one year pending completion of the study, except for new starts and expansions, as defined in the Circular. Additional guidance will be provided on determining justified "core capability" and applying the policy to other R&D requirements to assure that essential in-house capability is maintained, and that the Government and taxpayers' interests are properly considered in contract versus in-house decisions.

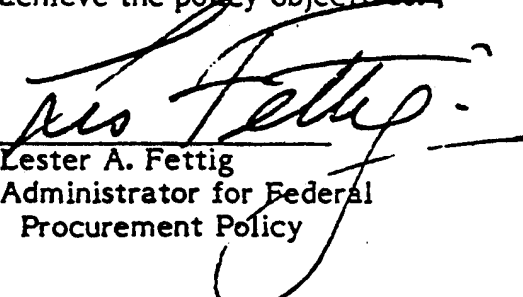
#### Government-Owned Contractor-Operated Activities

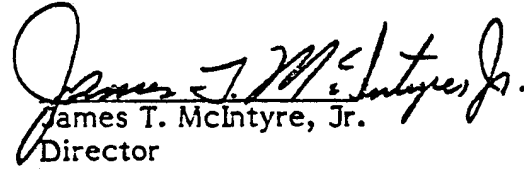
Government-owned, contractor-operated (GOCO) activities were excluded from prior issuances of the Circular. A comprehensive review of all GOCO activities is necessary to determine whether they can be completely treated under the terms of this Circular. In the interim, this Circular is to be applied only to new starts and expansions of Government-owned equipment and facilities.

#### Personnel Ceilings

The relationship between Circular A-76 and agency personnel ceilings was reviewed in some detail and clarified in the Circular. While it is clearly specified that agencies will not use the Circular to contract out solely to meet personnel ceilings, it is equally clear that agencies will contract out when justified under the Circular regardless of the relationship between personnel levels and authorized ceilings. Conversely, contracts for activities that are shown to be justified for in-house performance will be terminated as quickly as in-house capability can be established; when the additional spaces required cannot be accommodated within the agency's personnel ceiling, a request for adjustment will be submitted to OMB in conjunction with the annual budget review process.

The Office of Management and Budget will monitor agency implementation of this revised Circular, providing guidance and interpretations as required. Further revisions and supplements will be issued as necessary in the future to achieve the policy objectives.

  
Lester A. Fettig  
Administrator for Federal  
Procurement Policy

  
James T. McIntyre, Jr.  
Director



EXECUTIVE OFFICE OF THE PRESIDENT  
OFFICE OF MANAGEMENT AND BUDGET  
WASHINGTON, D.C. 20503

SEP 28 1980

CIRCULAR NO. A-76  
Revised  
Transmittal Memorandum No. 5

TO THE HEADS OF EXECUTIVE DEPARTMENTS AND ESTABLISHMENTS

SUBJECT: Policies for Acquiring Commercial or Industrial Products and Services  
Needed by the Government

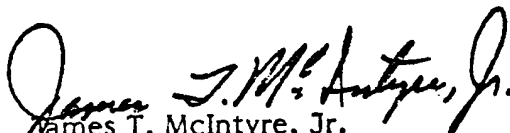
1. This revision amends Transmittal Memo No. 4 to OMB Circular A-76 (revised), dated March 29, 1979. The following revisions are made to the Circular and Cost Comparison Handbook as set forth in paragraphs a through c below.

a. Calculating Contract Costs: Paragraph 9(b) of Circular A-76 is clarified by adding the following sentences: "All cost comparisons under a new start will be based on the solicitation of firm bids or offers. Prepriced option prices in existing contracts will not be used in lieu of the issuance of a new solicitation when conducting a cost comparison under a new start."

b. Utilization of Government Capacity: To ensure that all significant costs are included in the cost comparison, subparagraph F-5(g) of paragraph F-5, entitled "Utilization of Government Capacity," in Chapter V of the Cost Comparison Handbook--Supplement 1 to OMB Circular A-76 is modified as follows. Delete all references to the 5% exception so that the paragraph reads: "Computations similar to those above should also be made for the general and administrative expense rate. Similarly, the impact of contracting-out a product or service on material overhead should be determined."

c. Application of the Circular to Research and Development: The paragraph of Transmittal Memorandum No. 4, entitled "Application to R&D Activities," is amended as follows. Compliance with this Circular and the periodic review of inventoried research and development activities, except for new starts and expansions, are deferred for one additional year pending the development of appropriate criteria on determining justified "core capability." The Department of Defense (DOD), however, shall follow the statutory provision of Section 802 of the Defense Appropriation Authorization Act of FY 1980 (Public Law 96-107).

2. This revision is effective immediately and shall apply to all studies in process where no contract award has resulted.

  
James T. McIntyre, Jr.  
Director



## EXECUTIVE OFFICE OF THE PRESIDENT

## OFFICE OF MANAGEMENT AND BUDGET

WASHINGTON, D.C. 20503

JAN 26 1982

CIRCULAR NO. A-76

Revised

Transmittal Memorandum No. 6

TO THE HEADS OF EXECUTIVE DEPARTMENTS AND ESTABLISHMENTS

SUBJECT: Policies for Acquiring Commercial or Industrial Type Products and Services Needed by the Government

This revision amends OMB Circular No. A-76 (revised), dated March 29, 1979; the Cost Comparison Handbook; and Transmittal Memorandums 4 and 5, dated March 29, 1979, and September 26, 1980, respectively.

1. Amendment to Transmittal Memorandum No. 5. Paragraph 1.c. of Transmittal Memorandum No. 5, entitled "Application to Research and Development," is replaced as follows:

"c. Application of the Circular to Research and Development. Compliance with this Circular and the periodic review of inventoried research and development activities, except for new starts and expansions, are deferred indefinitely pending the development of appropriate criteria for determining "core capability." The Department of Defense, however, shall follow the statutory provision of Section 802 of the Defense Appropriation Authorization Act of 1980 (Public Law 96-107)."

2. Amendments to OMB Circular No. A-76.

a. Paragraph 9.a.(1). Add the following sentences at the end of paragraph 9.a.(1):

"Office of Federal Procurement Policy Pamphlet No. 4, "A Guide for Writing and Administering Performance Statements of Work for Service Contracts," is designated as Supplement No. 2 to this Circular. Work statements for services and quality assurance plans used in cost comparisons will be written using Supplement No. 2. All work statements and quality assurance plans for existing service contracts subject to the provisions of this Circular will be rewritten using Supplement No. 2 before procurement, even though a cost comparison will not be performed. This requirement is not applicable to contracts obtained under small purchase procedures or in those cases where the agency determines that application of Supplement No. 2 would not be in the best interests of mission accomplishment."

b. Paragraph 9.a.(3). This paragraph is replaced as follows:

"(3) Cost comparisons are to be aimed at full cost, to the maximum extent practical, in all cases. All significant Government costs (including allocation of overhead and other indirect costs) must be considered, both for direct Government performance and contract performance, including the cost to the Government for administration of the contract. Costs that would be the same for either in-house or contract operation need not be included in the cost comparison. An example of such a situation is where a contractor would use the same facilities as an in-house operation."

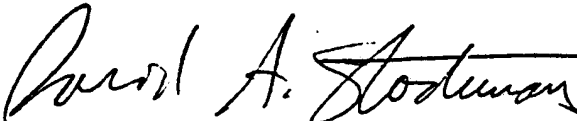
c. Paragraph 9.b.(2). This paragraph is replaced as follows:

"(2) The factor to be used for the Government's cost of administering contracts, in addition to other costs of contract performance as specified in the Handbook, is 4 percent of the contract price or expected costs, unless a larger (up to 6 percent) or smaller amount can be fully justified, using the procedures in the Handbook."

3. Amendments to the Cost Comparison Handbook. Changes to the Cost Comparison Handbook are contained in Attachment A to this transmittal memorandum.

4. This revision is effective immediately and shall apply to all studies in process where no cost comparison has been made, provided there is sufficient time to make changes prior to submission of the Cost Comparison Form to the contracting officer by the date specified for contractor proposals or bids.

5. Inquiries should be directed to Ms. Darleen Druyun, Deputy Associate Administrator for Systems and Technology, Office of Federal Procurement Policy, 726 Jackson Place, NW., Room 9013, Washington, D.C. 20503. Telephone: (202)395-3254.

  
David A. Stockman  
Director



Attachment A

CHANGES TO THE COST COMPARISON HANDBOOK  
SUPPLEMENT NO. 1, OMB CIRCULAR NO. A-76 (REVISED)

A. Chapter III. Paragraph H. Inflation of Out-Year Costs -- Line 8. Add paragraphs 4 and 5 as follows:

"4. In cases where a contract for the needed product or services would include some form of economic adjustment clause for subsequent years, no allowance for inflation of those costs protected by the adjustment clause is included in out-year contract pricing, and corresponding costs of Government performance should not be inflated. For example, contracts subject to the Service Contract Act include a clause that provides for adjustments to accommodate labor cost increases necessitated by future minimum wage determinations. Accordingly, when contract performance would be under a contract subject to the Service Contract Act, labor costs for Government employees in occupations that would be included in the Act should be deducted from the base for inflation calculations."

"5. Depreciation costs for equipment or facilities, included in overhead or G&A expenses, must also be deducted before inflation is computed."

B. Chapter IV. Paragraph D. Contract Administration -- Line 12. Add paragraph 3.

"3. The standard 4-percent contract administration rate shall be used unless there is precise and supportable evidence that expected contract administration costs will be less or more than 4 percent. In no case, however, will the rate exceed 6 percent.

"a. The following conditions must be met in order to exceed the 4-percent contract administration costs:

"(1) The estimate of contract administration cost is based on a formal Government quality assurance surveillance plan;

"(2) The solicitation must contain clearly defined contractor quality control requirements;

- "(3) The Government quality assurance surveillance plan shall be based on the quality assurance technique described in Supplement 2;
- "(4) The supporting data for line 12 must contain a detailed breakdown of inspection costs based on an analysis of the Government quality assurance surveillance plan;
- "(5) The statement of work must be performance oriented, as described in Supplement 2."

C. Chapter V. Paragraph E.4.c. Labor-Related Costs.  
Add the following to the end of paragraph E.4.c.: "In developing the labor related costs the following model shall be used:

- "(1) Estimate the number of personnel who will voluntarily resign or retire from Government employment. Then, estimate those who will be separated but will be employed by the contractor. No costs are chargeable. Severance pay is not allowed for those Government employees who are hired by the contractor within 90 days after separation.
- "(2) Estimate those who will be separated, but will not be employed by the contractor. Calculate severance pay.
- "(3) Estimate those who will remain in Government employment but will be relocated. Calculate the costs associated with relocation.
- "(4) Estimate those who will remain in Government employment, but will be retrained. Calculate the costs associated with retraining.
- "(5) Add the costs determined in steps (2) through (4). Include these costs in line 25.

"(6) Estimate the retained pay costs associated with those persons who would be downgraded as a result of a conversion. These incremental costs (the difference between current pay and downgraded pay) are continuing and not considered a one time conversion cost. This cost should be shown on line 26."

D. Chapter V. Paragraph F. Utilization of Government Capacity -- Line 24. Add the following sentences to the end of paragraph F.1:

"In charging underutilized capacity do not include any underutilized personnel-related costs on line 24. Prudent management will ensure that personnel are assigned to other tasks or reductions made in the size of the overhead organization. Therefore, these costs are not properly chargeable to the cost of contracting-out."

E. Chapter V. Paragraph F. Substitute subparagraphs 5.a. through 5.g. with subparagraphs 5.a. through 5.i. as follows:

"a. Determine Government overhead costs chargeable to the in-house activity.

"b. Determine Government overhead costs chargeable to the cost of contracting-out.

"c. Subtract step b from step a.

"d. Determine any changes to Government overhead costs that should result if the service is contracted out (for example, can a position or part of a function be eliminated?).

"e. Subtract step d from step c.

"f. Go to lines 25 and 26 and identify those personnel who would continue to be employed in the G & A base if the in-house activity under review were to be contracted out. Multiply the combined salary and fringe benefits of these employees by the G & A rate.

"g. Subtract step f from step e.

"h. If the result of step g would be an addition to the cost of contracting out, delete any personnel-related costs from the result of step g.

"i. Enter the result of step h on line 24."

F. Chapter VI. Paragraph C.1. New Start -- Line 31.  
Add the following sentence to the end of the paragraph:  
"Government-owned facilities or equipment that would be used by either the contractor or the Government shall not be included in facility/equipment ownership costs for computing a new start differential."

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A-4(GCS 14-82)

July 31, 1982

the follow-up procedure, and/or the expressed view of the ISAO favoring the auditor's recommendation, NSIA claims a strong argument could be made that undue command influence was brought to bear on the contracting officer.

Taking all this into consideration, NSIA urges that Directive 5000.42 be withdrawn and that any further attempts at contract audit follow-up recognize the necessity for independent decision-making authority in responsible contracting officers.

\*\*\*\*\*

### III. CONTRACT POLICY: NSIA Comments On Legislative Initiatives Limiting Federal Policy Of Reliance On Private Sector

The National Security Industrial Association (NSIA) recently commented on two pending pieces of legislation which would impact Office of Management and Budget (OMB) Circular A-76, "Policies for Acquiring Commercial or Industrial Products and Services Needed by the Government."

It said Bill H.R. 6030, the 1983 DOD Authorization Bill, has budget limitations imposed on it which prohibit the Department of Defense's ability to conduct cost comparison studies, thereby preventing conversion of in-house commercial and industrial activities to performance by the private sector. It said the House Armed Services Committee recommended that: (1) a one-year moratorium be imposed on contracting out within DOD during 1983; (2) that there be an increase of civil service manpower ceilings by 17,000 for the purpose of preventing conversion of in-house Government performance of commercial activities to performance by private sector contractors; (3) all funding for Fiscal Year 1983 for the performance of cost comparison studies be deleted; and (4) that 440 spaces within the Army and Navy for new administrators for the contracting out programs be deleted.

NSIA says the directive repudiates the existing national policy of Government reliance on the private sector for needed goods and services as directed by OMB Circular A-76. It also commented that production of audio-visual materials, engineering and software is not an inherently governmental function which the Government must or should provide its citizens. Also increasing the number of civil servants is an inappropriate expansion of the role and size of Government. According to a June 1981 GAO report, there were 40,000 civil servants operating over 11,000 commercial activities in-house.

NSIA also said that in reporting a bill to make adjustments in military personnel and compensation programs, the House Armed Services Committee amended Bill H.R. 6317 to include restrictions on "contracting out." Title IV contains a permanent change to Section 502 of the 1980 DOD authorizing statute to restrict the Department of Defense from contracting for the performance of commercial and industrial services if the Secretary of Defense determines that military or civilian personnel must perform those functions to meet national defense needs.

The Secretary is required to determine that activities must be performed by DOD personnel to meet national defense needs if: (1) the activity performs depot or intermediate level maintenance and is necessary to ensure (a) a ready source of technical competence and resources to meet

July 31, 1982

(GCS 14-82)A-5

peacetime requirements as well as mobilization and combat equipment readiness requirements, and (b) that combat and combat support activities be self sufficient in providing maintenance support for assigned weapon systems and equipment; (2) performance of a function by other than military or civilian DOD personnel would adversely affect national defense capabilities; (3) in the case of an activity performed on a military installation, performance of the function is so critical to safety in the installation or the well-being of the personnel assigned to duty that interruption in performance would be potentially hazardous or deleterious to the safety or security of personnel at the installation; and (4) H.R. 6317 directs that the cost of a cost comparison conducted by the Government, preparation of a statement of work, and any other costs associated with the contracting process must be added to the contractor's bid or proposal in calculating the cost of performance by a private sector firm.

NSIA says this action, in effect, will undermine DOD's reliance on the private sector for needed goods and services. The services community believes that these initiatives disregard the cost savings offered the Government by the private sector and will increasingly place the Government in competition with the industrial base serving the DOD.

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#### IV. SPACE PROGRAMS: AIAA Endorses Reagan Administration's Space Policy

The White House recently issued the Reagan Administration's new space policy. It seeks a more operational defense/civil space program management relationship, and strongly endorses the Space Shuttle. Some of the major points made are that: (1) the United States rejects any claims to sovereignty by any nation over space or over celestial bodies; (2) purposeful interference with space systems shall be viewed as an infringement upon sovereign rights; (3) the U.S. space program will comprise two separate, distinct and strongly interacting defense and civil programs; (4) the U.S. will pursue activities in space in support of its right to self-defense; (5) as space transportation systems operations mature, the flexibility to transition to a different institutional structure will be maintained; and (6) the U.S. Government will provide a climate conducive to expanded private sector investment and involvement in space activities. The only specific program endorsed by the Administration was the development of anti-satellite capability. There was no mention of projects NASA would like to get started on such as a fifth Space Shuttle orbiter or a space station.

In the meantime, Dr. Stanley Rosen, chairman of the American Institute of Aeronautics and Astronautics' (AIAA) National Committee on Space Systems, said the new national space policy issued by the Reagan Administration is "excellent" and should be implemented more vigorously than previous policies. AIAA is instrumental in planning both military and civil space activities.

Rosen's committee recently completed an AIAA space policy study which outlines policies and goals that AIAA would like to be achieved in the next two decades. Rosen called the Reagan policy a "broad charter" which endorses no specific projects except an anti-satellite capability. AIAA did not recommend endorsement of specific projects. Rosen said, "Of course, in the civil section, the policy did not endorse the space station or anything like that. The AIAA did not ask for that. One of the goals that was recommended was to extend man's capability to live and work in space by developing the orbital facility and support systems necessary for uninterrupted operations

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Executive Registry  
82-5715

DIRECTOR OF CENTRAL INTELLIGENCE  
**Security Committee**

SECOM-D-286

17 August 1982

MEMORANDUM FOR: Acting Director of Central Intelligence

VIA: Director, Intelligence Community Staff

FROM:   
Chairman

18 AUG 1982

STAT

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SUBJECT: OMB Circular A-76

1. Action Requested: That you sign the attached letter to the Director, Office of Management and Budget requesting he clarify contracting guidelines for communication, data automation and other security services relating to sensitive intelligence.

2. Background: In order to complete action on the generic issue posed by the Department of Energy's attempt to contract out communications services for its all-source center, the attached letter to the Director, OMB has been prepared. It describes DCI concerns about unnecessarily broad contractor access to sensitive intelligence and asks Mr. Stockman to instruct Department and Agency Heads not to contract for services which could diminish security.

3. Recommendation: That you sign the attached letter.



STAT

Attachment

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DCI  
EXEC  
REG

SUBJECT: OMB Circular A-76

Distribution:

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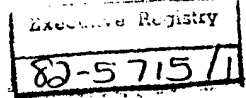
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The Director of Central Intelligence

Washington, D.C. 20505



19 AUG 1982

The Honorable David A. Stockman  
Director, Office of Management  
and Budget  
Washington, D. C. 20503

Dear Mr. Stockman:

I am concerned about the possible erosion of security that may result from contracting with private industry for certain intelligence-related tasks under the provisions of Office of Management and Budget Circular A-76. Senators Goldwater, Nunn and Warner expressed their concern to me on one particular case.

Intelligence Community security policy has always been to maintain government control over sensitive intelligence and to release to contractors only that information required to perform tasks beyond the capability of the government. I believe there are significant risks to national security in contracting out security services such as the operation of government communications centers and automated data services when this permits broad contractor access to all-source and other sensitive intelligence information.

My statutory responsibilities include the protection of intelligence sources and methods. Interpretation of Circular A-76 by departments and agencies to require contracting out security services as mentioned above could severely impede fulfillment of this responsibility. Therefore, I request that you caution Department and Agency Heads against contracting for services in cases where the government's control of sensitive intelligence will be substantially diminished or where contractor access to such data will be unnecessarily expanded.

Sincerely,

/S/ John N. McMahon  
John N. McMahon  
Acting Director



**SUBJECT:** Letter to Mr. David A. Stockman

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The Director of Central Intelligence

Washington, D. C. 20505

12 AUG 1982

The Honorable James B. Edwards  
The Secretary of Energy  
Washington, D.C. 20545


Dear Mr. Secretary:

It has come to my attention that the Department of Energy intends to have the Forrestal Message Center, which handles classified and compartmented messages from several intelligence agencies, operated by a private sector contracting firm, CALCULON, INC.

This has raised concerns within the Intelligence Community about retaining the necessary security protection for the wide range of sensitive intelligence provided to your Department. We have even received several Congressional inquiries on this subject.

We accordingly plan to take a look at other appropriate channels for getting intelligence information to you. Using couriers would be one possibility. I regret the time delays this may cause, but security requirements dictate that we not expose this wide a range of intelligence information to contractor personnel.

Sincerely,

  
John N. McMahon  
Acting Director

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**BARRY GOLDWATER, ARIZ., CHAIRMAN**  
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# United States Senate

SELECT COMMITTEE ON INTELLIGENCE

(PURSUANT TO S. RES. 406, 97TH CONGRESS)

WASHINGTON, D.C. 20510

Executive Registry  
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**ROBERT R. SIMMONS, STAFF DIRECTOR**  
**ABRAM N. SHULSKY, MINORITY STAFF DIRECTOR**

#82-1724

August 2, 1982

The Honorable William J. Casey  
 Director of Central Intelligence  
 Central Intelligence Agency  
 Washington, D. C. 20505

Dear Bill:

Earlier this week, several employees of the Forrestal Message Center of the Department of Energy contacted our Committee to express their concern over a potential security problem at the Center. The attached package of information details their complaint, and it is enclosed for your information and review.

Bill, we don't have any way of evaluating the complaint of these individuals. My purpose in bringing this to your attention is simply to make sure it receives proper consideration by the intelligence community. I don't want to prejudice the outcome of this activity one way or the other. At the same time, I feel I have a responsibility to bring it to your attention.

Thank you for your consideration of this matter.

Sincerely,

*Barry*  
 Barry Goldwater  
 Chairman

Enclosure

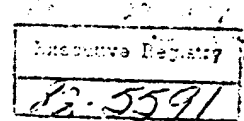
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JIM W. WARNER, VA.  
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RHETT B. DAWSON, STAFF DIRECTOR AND CHIEF COUNSEL

# United States Senate

COMMITTEE ON ARMED SERVICES  
WASHINGTON, D.C. 20510



July 23, 1982

*82-5591*

Mr. John McMann  
Central Intelligence Agency  
Washington, D.C. 20505

Dear John:

It has come to my attention that the Department of Energy is considering contracting-out the classified activities at Forrestal Message Center within that department.

While I cannot judge the economic merits and considerations of the decision to contract this function, I am concerned about the issues this proposed action raises regarding the handling of highly classified material by contract personnel. It is my understanding that this center currently handles classified material from your agency that is restricted from contract personnel.

Because of the nature of the material received by the Forrestal Message Center, I would like to be assured that this matter has received more than a routine review by the Intelligence Community. Thank you for giving this matter your consideration, and I look forward to your report.

Sincerely,

*Sam Nunn*  
Sam Nunn



DIRECTOR OF CENTRAL INTELLIGENCE  
SECURITY COMMITTEE  
COMPARTMENTATION SUBCOMMITTEE

13 AUG 1982

MEMORANDUM FOR: Chairman  
DCI Security Committee

SUBJECT: Access to Intelligence Information by Contractor  
Personnel Performing Service Functions

1. Your 23 July 1982 memorandum (SECOM-D-252) asked that the Compartmentation Subcommittee review extant security policy relative to the use of contractor personnel performing service functions as mandated in OMB Circular No. A-76. While the planned DOE application of this policy was resolved at the 11 August 1982 meeting of the SECOM, you directed that we prepare a draft DCI memorandum to OMB expressing concern about the provisions of the OMB Circular as it pertains to the DCI's responsibilities to protect intelligence sources and methods.

2. A draft DCI memorandum is attached for your consideration. Subsequent to the DCI's review of this matter, I suggest that the Compartmentation Subcommittee be tasked to revise appropriate portions of DCID 1/7.



Chairman, Compartmentation  
Subcommittee  
DCI Security Committee

1 Atch  
Draft DCI Memorandum

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