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Our study could have been extremely complicated because of the necessary compartmental organization of the Agency. However, this was not the case. We received excellent cooperation from all the Agency personnel who participated with us in the review or whose systems were being reviewed. Moreover, we found a general acceptance and enthusiasm for the need for assessment of the system. In some cases, procedural changes were put into effect immediately which reflected joint decisions by Agency personnel and our representatives. In other cases, where suggestions involved more complex and extensive changes, steps were taken by Agency personnel to begin implementation.

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We wish to express our appreciation for the many courtesies extended to us during the study.

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NRO and USAF review(s) completed.

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CHAPTER VI. SUMMARY OF RECOMMENDATIONS

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APPENDIX

CHAPTER I.

OBJECTIVES AND SCOPE

1.0 Statement of Tasks

2.0 Approach

3.0 Accuracy of Data

I. OBJECTIVES AND SCOPE

The objectives of the study are best understood by reviewing the work statement prepared jointly by Inspector General and contractor representatives, which follows:

1.0 STATEMENT OF TASKS

Work Statement

"The contractor will use his best efforts, but will not apply more than ten man months of professional talent, to accomplish the following tasks by June 15, 1966:

Task I. Appraise the effectiveness of the Research and Development Procurement System including:

1. Analysis of (a) requirements determination, (b) responsiveness of procurement to needs, (c) operating procedures including data processing, and (d) management control;

2. Identification of major current and potential procurement problems, including the possible need for allocation and priority assistance; and

3. Identification of alternate courses of corrective action for any problems cited.

Task II. Appraise the effectiveness of the Logistics Support System, including:

1. Analysis of (a) requirements determination, (b) responsiveness of procurement to needs, (c) operating procedures including data processing, and (d) management control;

2. Identification of major current and potential procurement problems, including the possible need for allocation and priority assistance; and

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3. Identification of alternate courses of corrective action for any problems cited.

Task III. Appraise the impact of programming, budgeting, funding, accounting and auditing systems on procurement activities.

Task IV. Appraise the procurement organization in terms of its impact on security and on the efficiency of the procurement activities.

Task V. Submit a report to the Inspector General summarizing the findings together with supporting data reached as a result of the appraisals conducted in Tasks I through IV."

2.0 APPROACH

After receiving a number of briefings from components on Agency operation, organization and procedures, we divided the study into three principal sections, namely:

- A study of Research and Development and related procurement.
- A study of Logistics Support.
- A study of budgeting, funding, and auditing functions and operations as they apply to procurement.

A number of offices, divisions and branches were visited. Interviews were conducted with management and support personnel. Selected reports, contract files and related records were reviewed. Financial and statistical data were compiled by our representatives or by Agency personnel under our direction.

Specific directorates, divisions, staffs and offices which were reviewed were:

- For the study of Research and Development

  National Photographic Interpretation Center, DDI
  Technical Services Division, DDP

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Office of Communications, DDS
Office of ELINT, DDS&T
Office of Research and Development, DDS&T
Office of Special Activities, DDS&T
Office of Special Projects, DDS&T [1]

. For the Logistics Support study

Procurement Division, Office of Logistics, DDS
Supply Division, Office of Logistics, DDS
Selected supply customers:
[redacted] 25X1
Far East Division, DDP
Office of Communications, DDS
Technical Services Division, DDP
Covert Procurement Branch, Office of Logistics, DDS
Covert Proprietaries, Office of Logistics, DDS
Office of Finance, DDS
Industrial Contract Audit Division, Office of Finance, DDS
Audit Staff, Office of Inspector General
Office of Planning, Programming and Budgeting
Office of Computer Services, DDS&T
25X1 [redacted] Office of Logistics, DDS

Other

25X1 [redacted] Office of Logistics, DDS
DDS special supply management study group

Some of the more important procurement and support locations which were not visited or reviewed are:

Operating proprietaries
Stations

1. Because of the recent separation of the Office of Special Projects (OSP) from OSA, OSP was not surveyed in depth. Procedures currently in effect were described to be similar to those used by OSA.

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support inventories
Agency contractors
OSA inventory support locations

3.0 ACCURACY OF DATA

Financial and statistical figures contained in this report are approximate but not necessarily precise. They were obtained from a variety of Agency reports and records without audit.

In many cases the data were very difficult to extract and assemble. It was generally necessary to work with manual rather than automated records. Moreover, we were unable to work with control totals and the files and records lacked uniformity among components. Nevertheless, we feel that they are substantially correct to serve the purpose of the study.

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CHAPTER II.

SUMMARY OF FINDINGS

1.0 Characteristics of Agency Procurement

2.0 Definitions

3.0 Findings

AGENCY PROCUREMENT SYSTEMS

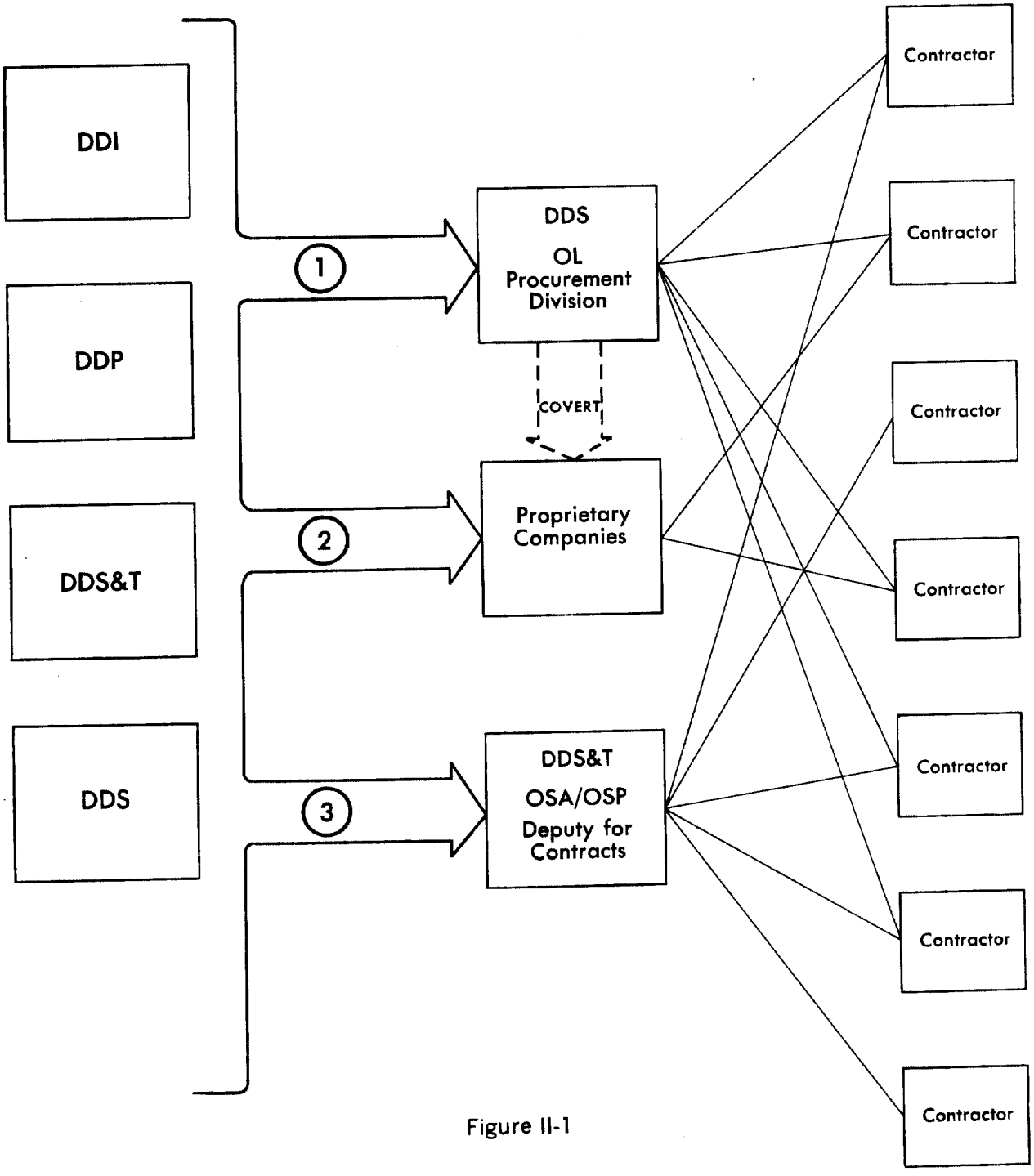

Figure II-1

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II. SUMMARY OF FINDINGS

1.0 CHARACTERISTICS OF AGENCY PROCUREMENT

Certain characteristics of Agency procurement have been identified which have an important bearing on the responsiveness of the system to Agency needs. In succeeding chapters these characteristics are treated in detail. It is fitting, however, to identify them in summary form as a backdrop for the assessment and recommendations which follow.

Multiple Procurement Systems

Several procurement systems exist which should perhaps more aptly be called sub-systems. This is because an over-all procurement system cannot be identified within the Agency in terms of procurement policy and control.

The three principal systems are shown in Figure II-1. One system includes procurement through the Office of Logistics, Procurement Division (OL/PD). A second involves procurement through the Deputy Director for Science and Technology (DDS&T), Offices of Special Activities (OSA) and Special Projects (OSP). A third system deals with procurement through proprietary companies.*

A variety of lesser channels of procurement exist. While they are not sub-systems in stature, they are worthy of note because they contribute to the multiplicity of procurement means.

As an example, the technical components of the National Photographic Interpretation Center (NPIC) and DDS&T procure Research and Development (R&D) in support of the National Reconnaissance Program (NRP) through OSA and OSP. Procurement by technical components also takes place directly through the Procurement Authorization Request (PAR) arrangement in OSA and the Work Order Routine in the Office of Logistics (OL) under basic agreements negotiated by OSA and OL respectively.

Expenditure Classifications

Additional important features of Agency procurement can be identified by classification of expenditures in terms of organization and in terms of the type of procurement.

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* Some covert procurement through proprietaries takes place through OL.

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Classification by Organization

Figure II-2 shows the expenditures for R&D and related production in terms of the originating organizations. Figure II-3 similarly illustrates expenditures for Logistics Support and Programmed Production by directorate. As can be seen from these figures, expenditures through DDS&T (OSA/OSP) dwarf expenditures through OL/PD. Significantly, procurement expenditures for the Air Force portion of the NRP are several times larger than expenditures of Agency funds from this source.

Classification by Type of Procurement

Expenditures can also be classified by type and method of procurement employed. R&D procurement, including follow-on production, is one classification. This type of procurement is carried out by both OL and OSA/OSP. The use of performance specifications typifies the method because final products cannot be defined precisely in terms of design specifications. A relatively high degree of technical knowledge and understanding concerning the nature and use of the item required is needed to buy R&D effectively. Follow-on production is included in this category because production runs are small, intimately connected with R&D, and frequently involve numerous technical changes.

The second classification of procurement is Logistics Support and Program procurement. Here the product can be defined precisely. Design specifications, completely describing the product configuration, quality, and operating characteristics typically are used as the basis for procurement. Frequently a manufacturer's identification number defines the product. Relatively little knowledge or understanding of the product is needed by contracting personnel for this type of procurement. Procurement expenditures for Logistics Support and Programmed Production are shown in Figure II-3.

In summary, as shown in Figure II-4, total Agency procurement expenditures by type of procurement are:

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Research and Development
Logistics Support

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25X1 [redacted]

[redacted]

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Significance of Expenditure Classification

It is significant that total Agency procurement expenditures are:

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Predominantly one type.

Predominantly originated in one directorate.

Predominantly procured by one directorate.

Procurement Management

Procurement management within the Agency is decentralized and, consequently, there is not a single, centralized organization with responsibility for coordination and control of Agency procurement activities.

The decentralization of responsibility is greater in practice than is made apparent by examination of policy and the organization structure. Technical components carry out several procurement functions independently of the procurement office. For example, sources are identified and qualified, requirements are established, proposals are solicited and evaluated, and a source selected prior to involvement of the procurement office. These activities involve close association with contractors and are generally referred to as "pre-cooking the deal".

Procurement policies and procedures followed by OL/PD differ widely from those followed by the OSA and the OSP in DDS&T. As an example, the recently issued Procurement Policy Guide applies only to procurement by OL/PD which amounts to less than of Agency procurement expenditures.

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Representatives from eight different technical components and three purchasing organizations deal directly with contractors. Two or more technical components and two or more purchasing organizations within the Agency often contact the same company. Approximately 20% of the Agency's R&D contractors negotiated contracts with two or more Agency buying organizations. Because the Agency does not exercise overall control of its procurement efforts, contractors encounter a variety of policies and procedures.

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There is no Agency-wide review, monitoring, or coordination of procurement. In R&D procurement, [redacted] 25X1
procurement), over-all review of procurement programs is carried out by the Office of Planning, Programming and Budgeting (O/PPB) through the medium of R&D Catalog Forms. However, the office lacks the technical capability to assess these programs or to insure avoidance of unwarranted duplication.

Divided responsibilities frequently result in lack of coordination among the technical, procurement, and audit functions in the Agency's purchasing activities.

2.0 DEFINITIONS

Each interested reader may not be totally familiar with the terminology used in this report. For that reason and also because variations in terminology convention exist within the Agency, a glossary of terms has been included in Appendix J.

Of particular importance because their characteristics influence procurement, a distinction is made between two types of production. As used in this report:

Related Production

Frequent use of the expression "R&D and Related Production" is made. "Related Production" is defined as all that production which is related to a particular R&D program, whether the production is included in the same R&D contract or not. Subsequent repeat production runs are also included in the definition of the terms. Further, in OSA considerations the logistics support for the operation of programs which result from R&D contracts is included in the meaning of the term.

Programmed Production

The term "Programmed Production" is used in connection with general Agency Logistics Support. The term applies to non-Agency developed items which are produced under contract for inventory.

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Distinction Between Related Production and Programmed Production

A clear distinction between Related Production and Programmed Production is made because the method of procurement is influenced by the characteristics of each. The following characteristics are important:

- Quantity - Related Production is usually very limited in quantity. Programmed Production frequently involves relatively large quantities.

- Specifications - Related Production most usually involves only performance specifications in which the definition of what's wanted is less than exact. Programmed Production involves design specifications, (not infrequently a catalog number), in which the definition of what's wanted is precisely known.

- Production Changes - Related Production almost always involves changes, frequently quite far along in the production cycle. Changes derive from such factors as: needs to more closely meet specifications, changes in the original specifications themselves, or modifications to improve performance over original requirements. Programmed Production seldom requires changes and when changes are required, they are usually minor in complexity.

Impact of Production Characteristics on Procurement

The characteristics of Related Production and Programmed Production call for procurement which is different in some major respects, such as:

Product Knowledge - Because technical considerations play such an important part, considerably more product knowledge is required for Related Production procurement than for Programmed Production.

Procurement Knowledge - Because major changes frequently occur, considerably broader knowledge of contracting procedures and contract administration is required for Related Production than for Programmed Production.

Continuity - Because the interrelationship of technical changes is often complicated and occur frequently over relatively broad spans of time, including the operational phase, there is more need for continuity of assignment of personnel in Related Production than in Programmed Production.

3.0 SUMMARY OF FINDINGS

Our principal findings are summarized in this section.

3.1 R&D Procurement

3.1.1 Over-all Management

There are several R&D procurement channels in existence without over-all Agency policy, procedures, and control.

3.1.2 Division of Responsibility

With the exception of major system procurement in OSA and OSP, there is a division of procurement responsibility between the technical, procurement, and audit functions in all phases of procurement. This division of responsibility is the chief contributor to a lack of teamwork and on occasion results in ineffective negotiations, limited price and cost analysis, frequent sole source procurement, limited time for negotiations, delays in negotiation and uncoordinated contract administration.

3.1.3 Policies and Procedures

Existing documented procurement policy applies to only 5.3% of R&D procurement. (It applies to less than 15% of total procurement.)

Reporting requirements placed on contractors differ widely and for the most part provide inadequate information for contract management. Notably lacking are estimates-to-complete which are very important because of the predominance of CPFF contracts. Personal contact with contractors is heavily relied upon to monitor technical progress. Requirements for contractor written reports is minimized. Heavy burdens on personnel time is therefore required when trips to contractor sites are involved.

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3.1.4 Management Information

There is a lack of adequate information to permit effective management by the exception principle.

The current efforts to provide the information necessary for management of R&D procurement are not being approached on an acceptable system design basis.

3.1.5 The responsiveness of the R&D procurement systems is generally good with certain notable exceptions.

. . A very high number of contracts are delivered late. The average degree of late delivery is not excessive but important contracts are seriously late on occasion and the total pattern of extensions and delays signals the need for attention.

. The audit function which should act as a precontract and negotiating contributor does not play a sufficiently decisive role.

. There is a lack of capability to perform adequate cost analysis.

. A very high number of procurements are on a sole source basis which, in conjunction with a general lack of cost analysis, casts doubt on the soundness of costs.

3.1.6 Contract Type Selection

The selection of the type of contract to be employed appears to be based primarily on the premise in technical components that Cost Plus Fixed Fee contracts provide the singularly best medium for giving the flexibility needed. There is a reluctance to consider other types principally because the administrative burdens are too great. The existing procedures and division of responsibility make CPFF administration easier but not necessarily the best. No "best" type can be identified as a generalization. Fixed Price contracts, for example, when negotiated without adequate cost analysis, provide no means for recovery if excess profit prevails. Incentive contracts which include features which are impossible to measure are equally difficult.

The selection of contract type appears to be made too often in favor of CPFF without sufficiently thorough evaluation of the relative advantages of other types.

3.2 Logistics Support

3.2.1 Logistics Supply System

The management of inventory levels for different classes of technical materiel is the responsibility of the various components who have the necessary technical knowledge to select the items originally. Responsibility for administrative and housekeeping supplies is delegated to the Supply Division of the Office of Logistics (OL/SD). We believe this type of organization to be proper and desirable.

However, the manner and frequency in which the inventory status of many of the supply items are being reported, analyzed and controlled raises some basic questions. All items, whether they are of the type that can be programmed (planned time consumption) or the type which are drawn down through issues and automatically replenished, are managed with similar decision rules which may be inappropriate in many cases.

Further, the frequency and form in which the inventory status of a particular item is reported, analyzed and controlled bears little relationship to the item's importance to continuance of Agency operations or its cost. A grenade-rifle is reported in the same manner as a paper stapler. Both are reported at the same time intervals.

25X1A The exclusion [redacted] from the inventory reporting system is a problem because it precludes both a complete knowledge of the current inventory status of items as well as information pertaining to the application and consumption of property and supplies.

In general, the present reporting and control system on one hand contains voluminous information that in many cases is simply too much to review, analyze and digest. In other cases we find that the frequency of reports, their formats, content and the decision rules used for control may be inadequate to insure the lowest possible inventory investment which will properly satisfy Agency needs without endangering or impeding its missions.

In summary, the effectiveness of logistics supply inventory management could not be appraised because the current reporting system does not:

- Rank items in accordance with their importance to Agency operations, or their costs, for the purpose of determining how frequently their status should be reviewed.

- Utilize different decision rules and report formats for items with different behavior characteristics.

- Include all pertinent inventories, or complete information, concerning their application or consumption.

3.2.2 OSA Supply System

OSA inventories in support of air operations are found in several locations, some under the cognizance of the United States Air Force (USAF).

The techniques required to manage this class of inventory differ substantially from normal housekeeping items because of planned preventive maintenance programs, the need for usage correlation with different flight plans and so forth.

While we did not review the inventory management systems and records applicable to these operations, we found great concern in OSA with the lack of modern, automated records and reports available under the USAF systems.

3.2.3 Interdepartmental Requisitioning

The Interdepartmental Requisitioning unit performs the important function of procuring stock items from other Government agencies and departments. We believe that it is unable to operate as effectively as it should because:

- It is understaffed.

- In some cases, high priorities are assigned to interdepartmental orders which appear to be unnecessary and possibly may become embarrassing to the Agency.

- An automated information system is not available to enable the unit to properly manage outstanding requisitions.

- The unit appears to be burdened with unnecessary administrative detail.

3.2.4 Covert Procurement

The Covert Procurement Branch appears to be a necessary branch performing important functions and handling actions which would upset normal routines if they were to be routed through regular procurement channels. We believe that certain existing policies and procedures are ineffective because:

- Many low cost items are procured utilizing a paperwork system the cost of which exceeds by many times the cost of items procured.

- There is some question whether covert procurement routines are justified for all actions to which they are applied.

- The system appears to be burdened with unnecessary accounting detail.

- Personnel have not been rotated sufficiently.

3.3. Budgeting, Funding and Accounting

3.3.1 Research and Development

Budgeting, funding and accounting for Research and Development (R&D) are handled differently than for logistics procurement. Because of the need for security, the identification and pro-ration of appropriations and funds is often highly complex and we agree that this is necessary.

Annually, the Office of Planning, Programming and Budgeting (O/PPB) is gradually increasing the detailed information required for budget calls and with this we concur. The present system is good and it is thorough. However, OSA and OSP have requested and need an automated system to replace their current, manual accounting systems.

3.3.2 Logistics Procurement and Inventories

Rather than utilizing a formal allotment system with or without a revolving stock fund, the Agency utilizes a system of "Property Requisitioning Authority". This system places the responsibility on the user to maintain control records of his unused PRA and the total of all components' PRA is given to the Office of Logistics (OL) in the form of a general procurement fund to replenish inventories or to make direct purchases as requisitioned by the components.

This system has not responded effectively in the past during periods of heavy mission activity. There appear to be many reasons for this, the principal ones being:

- Communications and hence updating of control records have lagged with the result that OL has completely dissipated procurement funds during the fiscal year.

- Operators, in some cases, don't understand the system and have confided that they do not trust the system.

- The pricing and funding methods do not appear to have made proper allowances in the past for obsolescence, price increases, spoilage and increases in lead-times and inventory levels.

- There is an apparent lack of discipline if a component exceeds its PRA.

- In the past, issues from inventories have been handled in the same manner as new stock procurements for inventories with apparent resulting confusion on the part of components.

- Information feedback from Headquarters to the components apparently has been insufficient to enable them to properly plan and control their PRA.

3.4 Contract Auditing

Contract auditing, pre-award cost and price analysis is handled by a number of different units throughout the Agency with varying degrees of effectiveness.

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Industrial Contracts Audit Division (ICAD) handles audit aspects for procurement contracts which are issued through OL.

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Our findings are:

. ICAD audit procedures are good. However, this division is not sufficiently equipped with the types of talent necessary to perform proper cost analyses.

. ICAD audit recommendations may be over-ridden by Contracting Officers without proper "sign-off". Audit participation during negotiations appears to be ineffective in some cases.

. The Agency is apparently experiencing unnecessary misunderstandings with some contractors concerning its authority to perform post audits of Firm Fixed Price (FFP) contracts.

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. The Defense Contract Audit Agency (DCAA) appears to be attempting to introduce itself into Agency audit activities.

. Audit Staff/IG activities were found to be very effective.

3.5 Security

Divided responsibility for procurement, coupled with divided responsibility for security, has resulted in duplicate and inconsistent security procedures that often are incompatible with the real environment in which procurement "cover" activities are conducted. The Inspector General's Survey of Industrial Security in September 1965, and several earlier studies, identified duplication and inconsistencies in the industrial security program which until recently was the responsibility of OL/PD and DDS&T. A new Industrial Security Division has been established by the Director of Security to maintain central cognizance of the Agency's industrial security program. It can be expected that this organization will overcome the defects previously identified in procedures for controlling security of contractors who handle classified work for the Agency.

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It is suggested that the new Industrial Security Division also examine the following apparent inconsistencies in procurement security procedures identified by this survey. 25X1

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CHAPTER III.

RESEARCH AND DEVELOPMENT AND RELATED PRODUCTION PROCUREMENT SYSTEM

1.0 R&D Procurement System Overview

2.0 Assessment of Procurement by OL

3.0 Assessment of Procurement by DDS&T/OSA

4.0 Assessment of Technical Participation in Procurement

5.0 Contract Auditing

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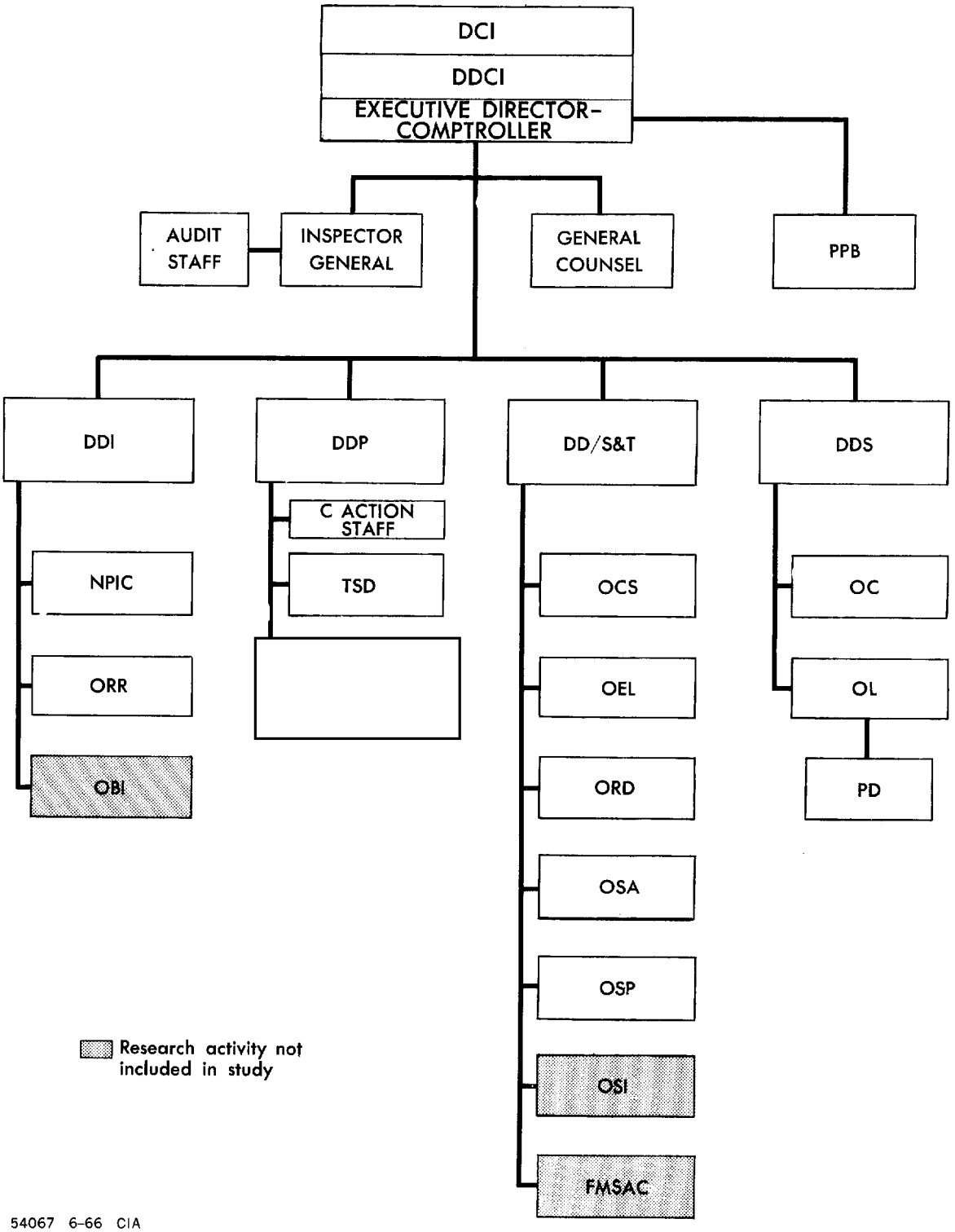
ORGANIZATION – R & D RELATED COMPONENTS



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III. RESEARCH AND DEVELOPMENT AND RELATED PRODUCTION PROCUREMENT

The objective of this portion of the report is to appraise the R&D procurement system in terms of how well it is responding to the R&D needs of the Agency.

The results of the appraisal are intended to portray identification of problems, alternative courses of corrective action, and recommendations. The appraisal includes the usual activities of procurement: identification and qualification of sources, solicitation of proposals, evaluation of proposals, selection of source, negotiation, contract administration, and contract settlement. In addition, activities not normally considered within the definition of procurement but closely associated with it have been examined. Activities in this category include planning, programming, budgeting, funding, accounting, and auditing.

Within this broad scope, a specific level of effort has been applied to meet the primary objective of assessing the responsiveness of the procurement system to Agency needs. The depth to which each subject has been treated varies. Consultation with the sponsor of the study from time to time throughout the course of the study provided guidance on where emphasis should be placed.

The Agency organizational components engaged in R&D are illustrated in Figure III-1. Of these, DDI/OBI, DDI/ORR, DDS&T/OSI, and DDS&T/FMSAC are engaged in research which does not of itself ultimately result in hardware. It was decided for that reason, and because the budgets are relatively small, to concentrate on the research and development hardware-oriented organizations. Therefore, while some information about them is included, these non-hardware research groups were not visited.

The initial analytical approach taken in this study was a determination of elapsed time between major milestones in the procurement cycle. Elapsed time, while only one, is an important measure of responsiveness. Unusually long times frequently flag the need for examination of contributing causes.

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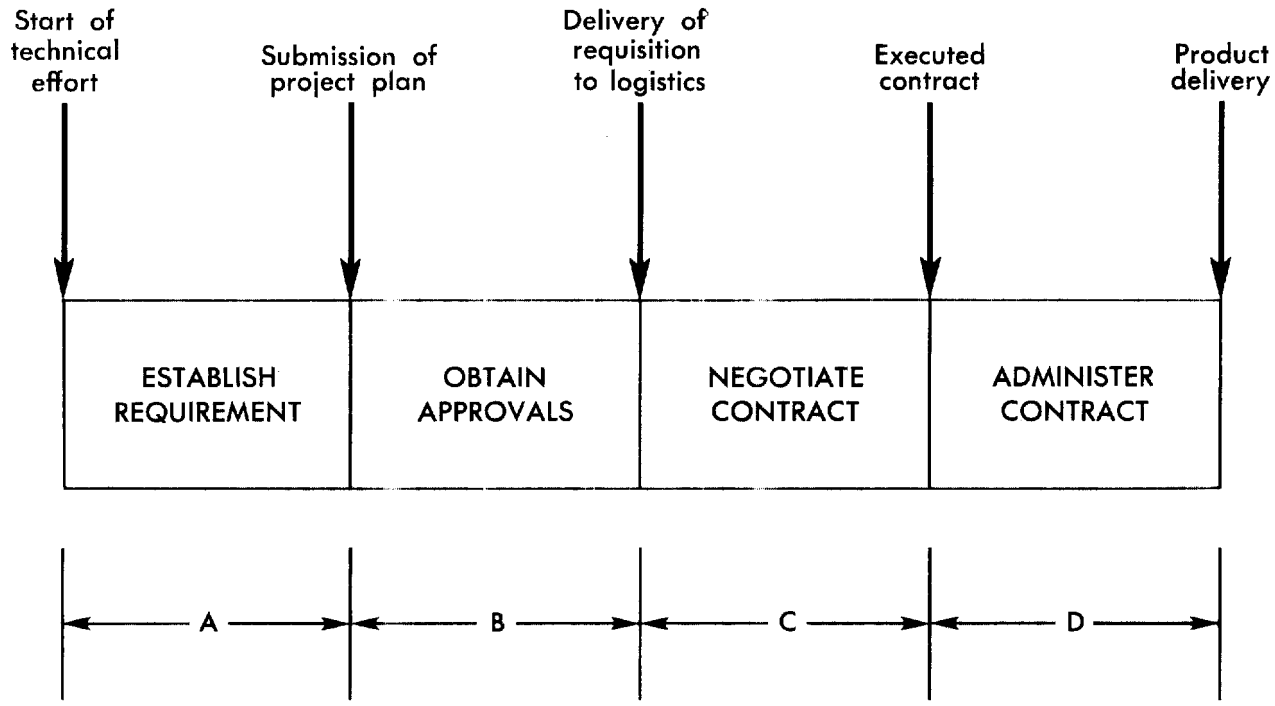
MEASUREMENT OF RESPONSIVENESS



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The major milestones selected are shown in Figure III-2. It was difficult to establish a single point, consistently meaningful for all components, at which the in-house technical effort for a given contract commences, (Phase A). This was true for a variety of reasons; i.e., records were not maintained, formal assignment of technical personnel was not made, the over-lap of one phase with another masked the point. Consequently, the first clearly identifiable point in time in the process was the submission of documentation to management for approval of a requisition.

While exact time measures could not be made, Phase A was not ignored as a contributor to the over-all elapsed time. The work content of that phase, including such activities as writing requirements, proposal solicitation, evaluation, and source selection, was examined and estimates of the total time involved were determined.

In addition to this time measurement, each component's organization, procedures, work content and management controls were examined and analyzed as required to assess responsiveness of the system to needs.

In this assessment the answer to one basic question was sought. Does the system provide goods and services which meet specifications, on time and within cost?

The treatment varies in depth from subject to subject. An attempt was made to supply examples in detail to illustrate general conclusions and still reach and primary over-all objective within the prescribed limits of effort. Certain contracts were selected as illustrative of capabilities and limitations, but were not taken from each component. These examples serve to illustrate problems of the general system and are not intended to apply to the particular component beyond the conclusions as stated.

1.0 PROCUREMENT SYSTEM OVERVIEW

1.1 Identification of Procurement Systems

The R&D procurement system is comprised of five sub-systems which have evolved in the course of time. The basis for identification of the sub-systems was primarily one of determining the essentially

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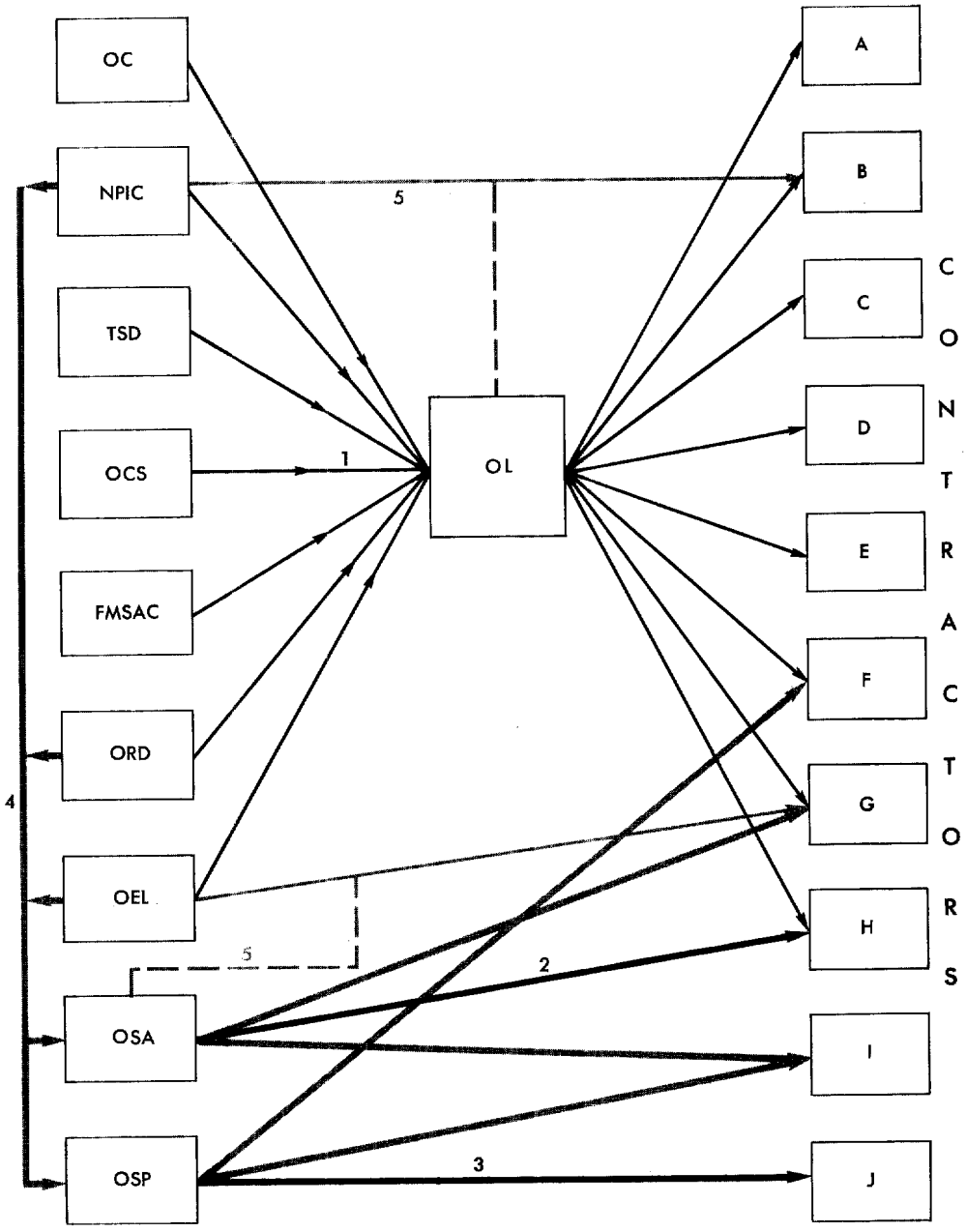
R&D PROCUREMENT CHANNELS



1 ——— All components have some procurement through O/L–PD–R&DS
2 ——— O/SA single-management procurement for aircraft
3 ——— O/SP single-management procurement for satellites
4 ——— R & D equipment and service in support of NRP
5 — — — Direct procurement in special cases with peripheral association with procurement offices. [The Work Order Routine (O/L) and the Procurement Authorization Request (O/SA)]

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or completely independent channels through which procurement occurs. On that basis, the five sub-systems illustrated in Figure III-3* have been identified and examined.

The sub-systems are as follows:

1. Procurement is through the Office of Logistics, Procurement Division, R&D Section (OL/PD/R&DS)

2. Procurement is carried out through a Contract Section which is physically located within the OSA organization and which has complete and special Contracting Officer authority for procurement of major aircraft systems, representing a single-management orientation.

3. The OSP sub-system is identical to OSA (2, above), but applies to satellite procurement rather than aircraft.

4. Various components carry out R&D in support of aircraft or satellite programs associated with the National Reconnaissance Program (NRP). Procurement so associated is carried out through the corresponding OSA or OSP Contracting Officer.

5. The fifth sub-system is barely worthy of such identification but is sufficiently important in a practical sense to be included. The channel is characterized by a basic contract (negotiated by OL or OSA or OSP) under which procurement takes place directly by the technical component. The procedure is identified as the "Work Order Routine" if it applies to OL, and as the "Procurement Request Authorization" (routine) if it applies to OSA or OSP.

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* The illustration depicts the different channels in existence but because the situation is somewhat complicated, the illustration is not complete in every detail. For example, channel 4 identifies the procurement by three components: NPIC, OEL, and ORD through OSA and/or OSP. Other components might also use this channel from time to time. Similarly, the contacts with contractors as illustrated is not precise, because of the complexity in defining the exact commonality of contractors.

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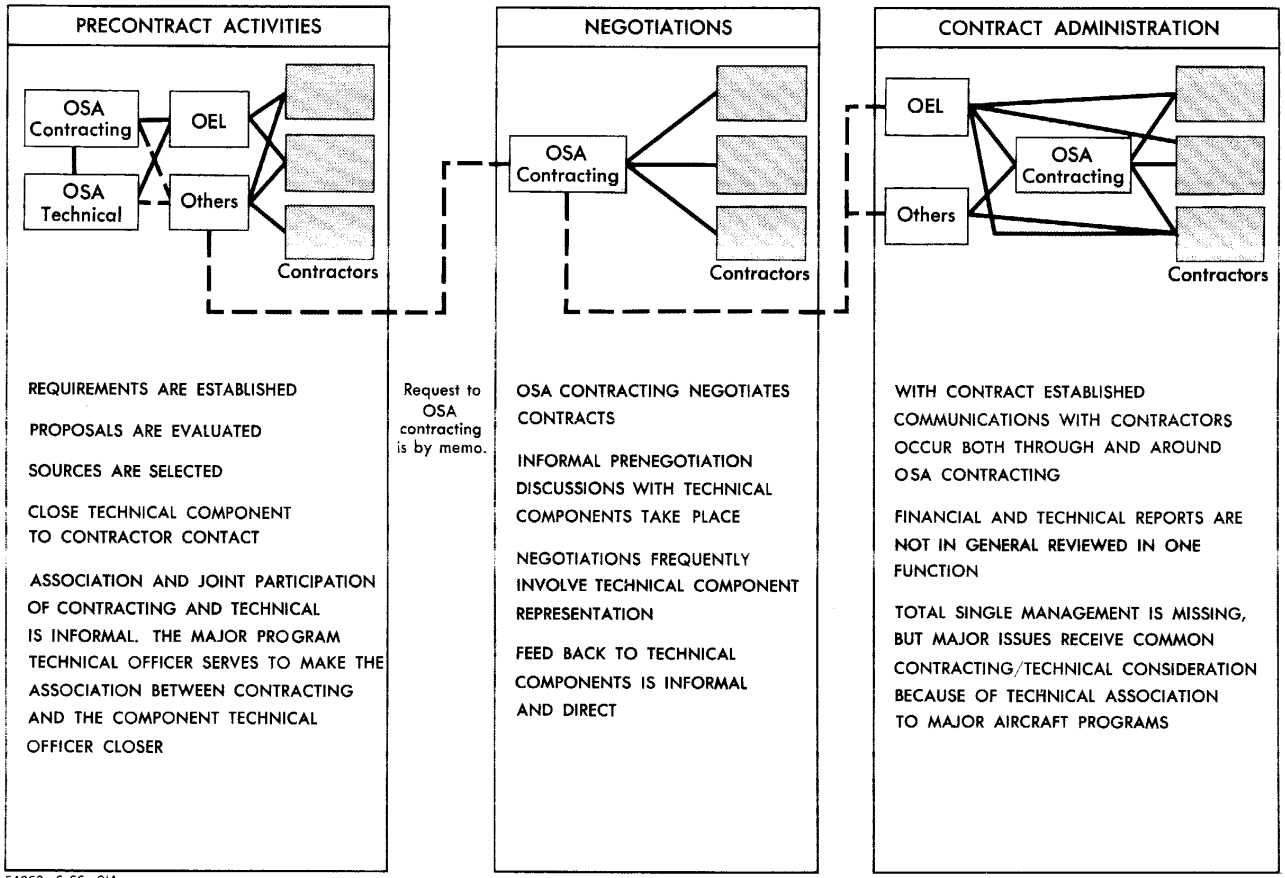
III-6

RESEARCH AND DEVELOPMENT-PROCUREMENT CHARACTERISTICS
OSA SUPPORT PROCUREMENT



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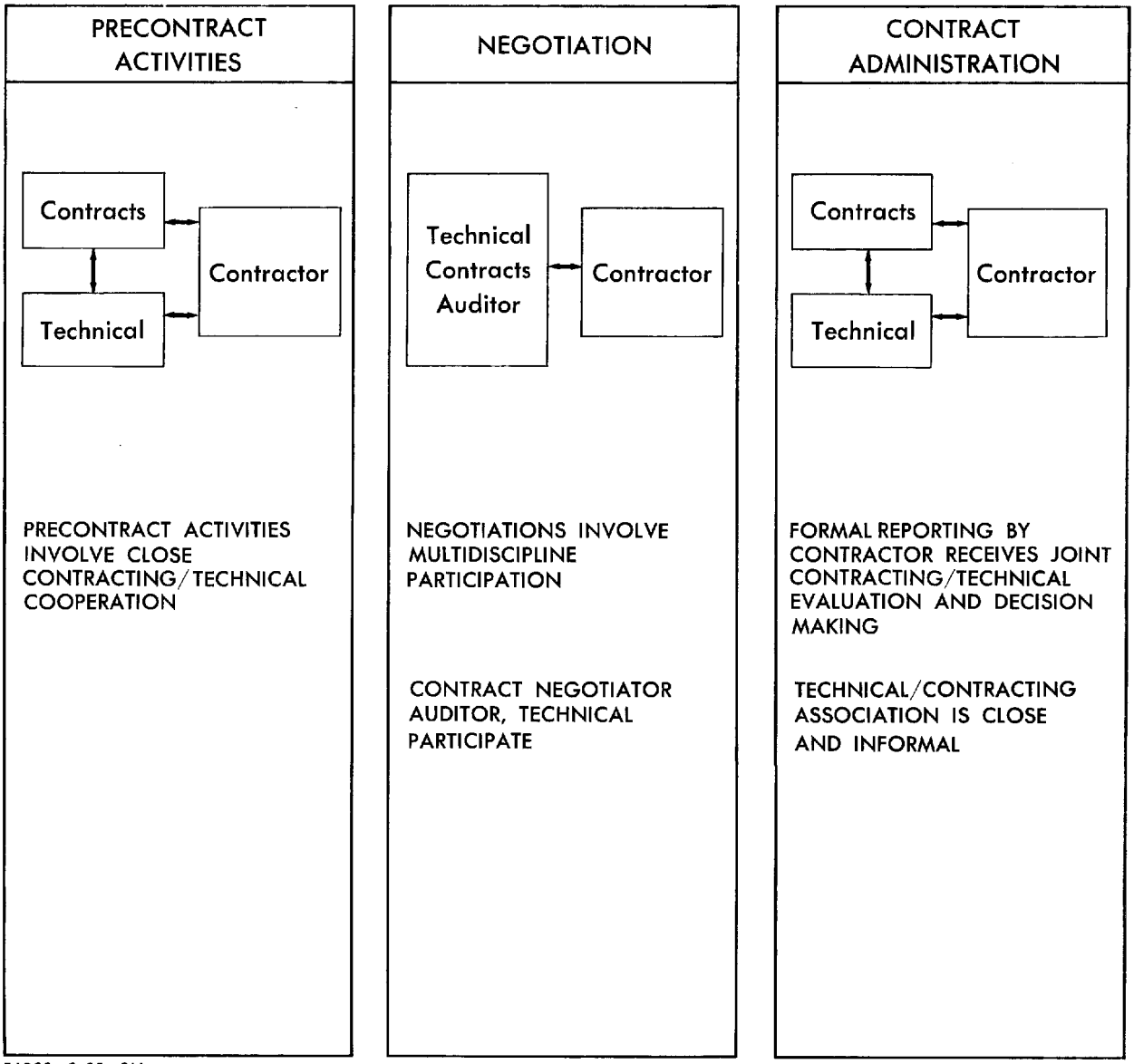
RESEARCH AND DEVELOPMENT PROCUREMENT CHARACTERISTICS OSA MAJOR SYSTEMS



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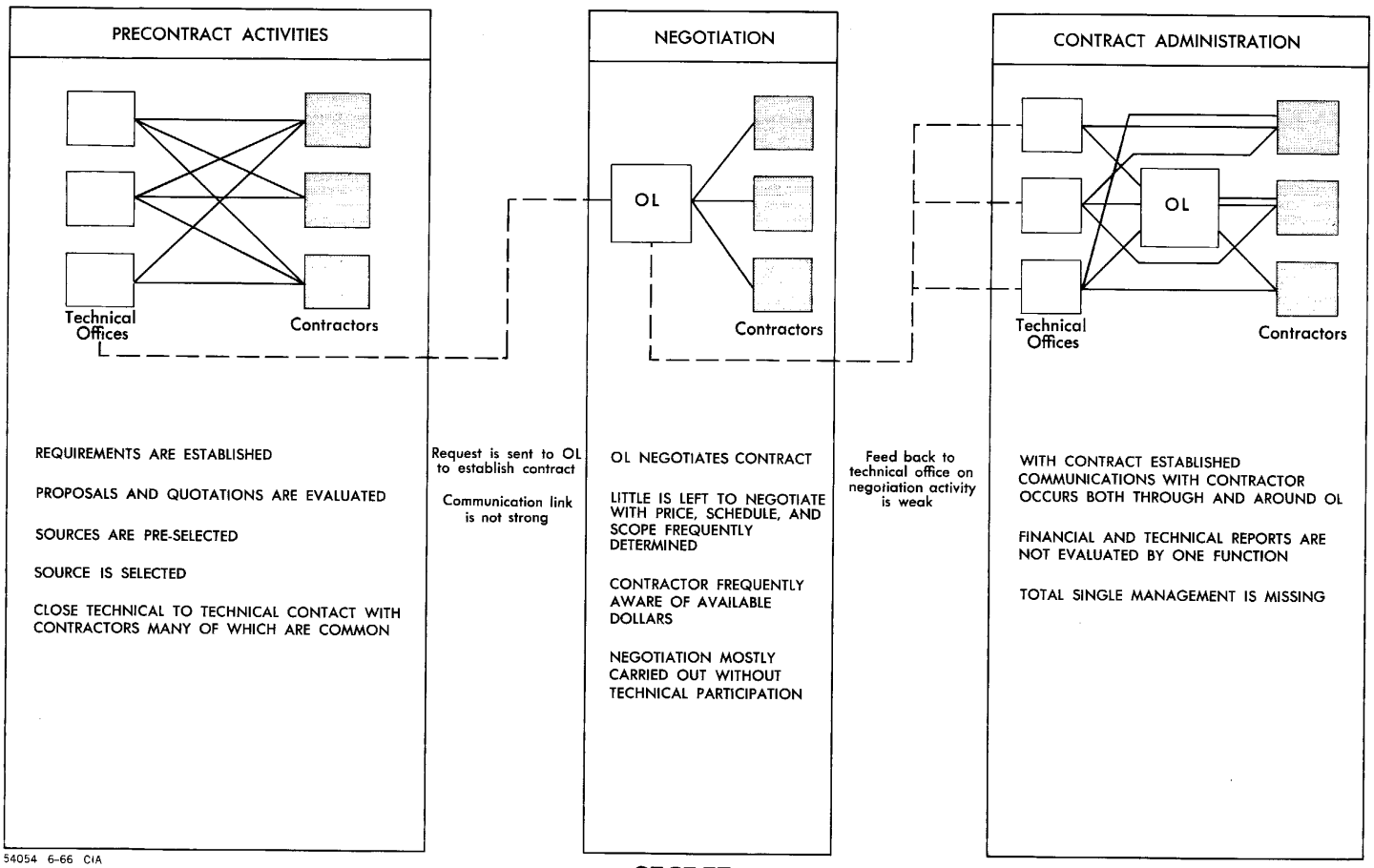
RESEARCH AND DEVELOPMENT
PROCUREMENT CHARACTERISTICS (OL)



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The text which follows in succeeding sections treats each of these sub-systems in detail. It is useful to an understanding of that material, however, to first examine in summary the distinguishing functional characteristics of:

Procurement of R&D by OL
Procurement of R&D by OSA

- Major Systems
- Support Systems

1.2 Characteristics of Procurement Systems

As an extension of Chapter II-1.0, where characteristics of Agency procurement as a whole was treated, the more detailed characteristics of procurement in R&D are discussed in the following paragraphs. Figures III-4, -5, and -6 provide a graphic reference for comparison of major differences and similarities of the various systems.

1.2.1 Characteristics of Procurement by OL

Division of Responsibility

The most consistently evidenced and most frequently referenced subject during the course of discussions was division of responsibility. The main point is that technical activities and procurement activities are rather completely in series. The division of responsibilities between Technical Representatives and procurement personnel are in evidence in many ways, such as those discussed below.

Identification and Qualification of Sources

The technical components have responsibility for establishing the list of qualified bidders from a technical standpoint. The Procurement Division of OL passes judgment on the qualification of bidders in all other respects. The opinion of the Industrial Contract Audit Division on qualification of bidders is at times apparently ignored.

The evaluation of contractors on the basis of past performance has been attempted by OL but the evaluation program information has little influence on technical decision making.

Solicitation of Proposals

The recently-issued Procurement Guide [redacted] compromises on the subject of responsibility for solicitation of proposals by arranging to divide it on the basis of the dollar value of the contract. The responsibility assignment is at best vague. In practice things are clear. Proposals are solicited by the technical components almost exclusively. 25X1

Evaluation of Proposals and Source Selection

Technical and cost proposals are evaluated independently by the technical components. The package is then forwarded to OL/PD. A second evaluation with different emphasis and uncoordinated with the first then takes place. A Procurement Evaluation Committee (PEC) in OL/PD makes final decisions on source selection. Technical people attend only occasionally and have no vote.

Negotiation and Execution of Contracts

Negotiation is largely an independent activity of the Procurement Division. Participation by Technical Representatives and audit personnel is infrequent.

Contract Administration

Responsibility is severely separated. Technical progress is evaluated in the technical component. Financial status is assessed on a spotty basis in the Procurement Division/Contract Administration Section. Seldom does anyone examine the two pieces of information together. In some technical components, responsibility for any aspect of "finances" is denied. Quite clearly, under these circumstances, there is no one in charge from a total management point of view.

Contract Settlement

Responsibility for preparing the various pieces of information necessary to close a contract is, as a matter of course, in many different people. The functional responsibility for contract settlement is in Procurement Division/Contract Settlement Section (PD/CSS). Analogous to contract administration, however, there appears to be no one person responsible for settlement of contracts.

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The Consequences of Division of Responsibility

The "Pre-Cooked Deal"

The solicitation, and evaluation of proposals, and source selection by technical components is often a close, personal activity between the Technical Representative and the contractor. The contractor is frequently aware of the amount of money available. There is very little left to negotiate with the source pre-selected, the price established and rates previously established by basic agreements. The best terms often cannot be acquired with such a routine. The routine is frequently referred to as "pre-cooking." But in the process of attempting to get the price down, without a simultaneous assessment of the effect on the work to be accomplished, a "pre-cooked deal" may be distorted from the original objective.

Poor Performers Awarded Contracts Unconsciously

Historical information on a contractor's performance is not thoroughly known by the technical component from its own information. The Contractor Evaluation Program information compiled by OL, when ignored, may well permit the selection of a contractor with a previously poor Agency record of performance.

1.2.2 Characteristics of R&D Procurement by OSA

The characteristics of procurement by OSA may be presented most clearly by treating separately, procurement of major systems and procurement of supporting sub-systems. The characteristics of each are significantly different. By major system is meant those such as the IDEALIST, KEDLOCK, and EARNINGS programs. By supporting sub-systems is meant the sensor projects carried out by OEL, ORD, and NPIC in support of NRO efforts.

1.2.3 Characteristics of Procurement by OSA for Major Systems

Centralization of Procurement Responsibility

Responsibility for procurement is centralized in the OSA Deputy for Contracts (DC). A close personal association exists between the DC and the technical counterparts. In the matters of identification of

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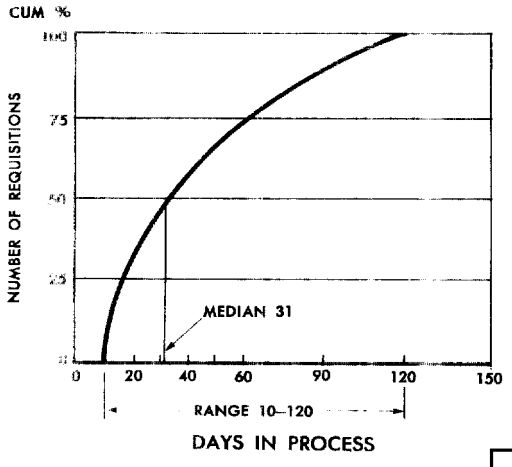
PROCUREMENT SYSTEM TIME RESPONSE IN DAYS

RANGE	Shortest and longest time
MEDIAN	50% of the number took less and 50% took more than 28 days
AVERAGE	Numerical average time – 31

	REQUISITION PREPARATION	MANAGEMENT APPROVAL	CONTRACT	CONTRACT DELIVERY
DD/S&T VIA OSA	10–120 28 31	1–100 6 13	1–45 15 20	0–120 0 30
DD/S&T VIA OL	10–120 28 31	1–100 6 13	1–210 26 43	0–300 80 90
NPIC VIA OL	30–360 90 135	Major delays	Similar to other OL negotiations	30–360 141 165
TSD VIA OL	Not readily available	12 (Est.)	1–110 30 39	Not readily available
OC VIA OL	2–160 31 [illegible]	1–62 8 18	1–81 25 34	0–270 51 85



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sources, solicitation of proposals, evaluation of proposals, and source selection, the responsibility is discharged in the DC but in conjunction with the contributions of other functional elements.

Centralization of Responsibility for Price/Cost Analysis and Negotiation

The responsibility for price/cost analysis is clearly in DC where a capable audit function exists and the analysis is carried out in detail. In the matter of negotiation, a team approach is used. Representatives of DC, technical and audit functions negotiate according to a pre-planned negotiation strategy.

Centralization of Responsibility for Contract Administration

The responsibility for administration of contracts is centralized in the DC. Financial and technical reporting by the contractor as well as the results of technical inspections of progress are the basis for centralized management considerations.

1.2.4 Characteristics of Procurement of Support Systems by OSA

In procurement of support project R&D efforts through OSA, the activities are more like OL procurement in that considerable technical-contractor interaction precedes negotiation with but one significant difference. The association of OSA systems technical people with individual component technical personnel acts as a cohesive force. In effect, the relationship between OSA contracting and technical components is stronger than it is in OL procurement. There are, of course, varying degrees of close relationship, depending on the component involved.

The assessment of contract financial and technical status information, however, is a divided responsibility, and is not routinely carried out.

1.3 Responsiveness of Procurement System

1.3.1 Time

Examination of elapsed time in four main phases of R&D procurement activities is shown in Figure III-7. Elapsed time was measured for each of the components listed for the preparation of requisitions,

management approval, negotiation and contract delivery. In each case three measures are shown: range, median, and average times.

These conclusions may be drawn from these data:

. In the preparation of requisitions, the amount of time is very much the same in all technical components, averaging between 31 and 42 days. NPIC is an exception. Here time in preparation appears excessive. TSD data is indicated as being unavailable only because records are not maintained which would yield such data without research which was considered uneconomical for the purposes of this study. The number of requisitions processed per year indicates that the time is probably less.

. Management approval time (including the highest level required), contrary to original impressions gained by the study team, appears relatively short, averaging two weeks. NPIC is an exception. Management approval time is symptomatic of a major problem. Section 4.4 deals with this question in detail.

. Negotiation times reveal that procurement through OSA is approximately twice as rapid as negotiation through OL. Further, the time to negotiate in OL is not significantly different for different technical components.

. Contract delivery is best when procurement is by OSA. Contract delivery data, however, indicates a general Agency posture of late contract delivery. The degree of lateness is approximately the same in all cases except NPIC, where delivery is significantly later.

1.3.2 Over-runs

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III–7a

OFFICE OF LOGISTICS
PROCUREMENT DIVISION

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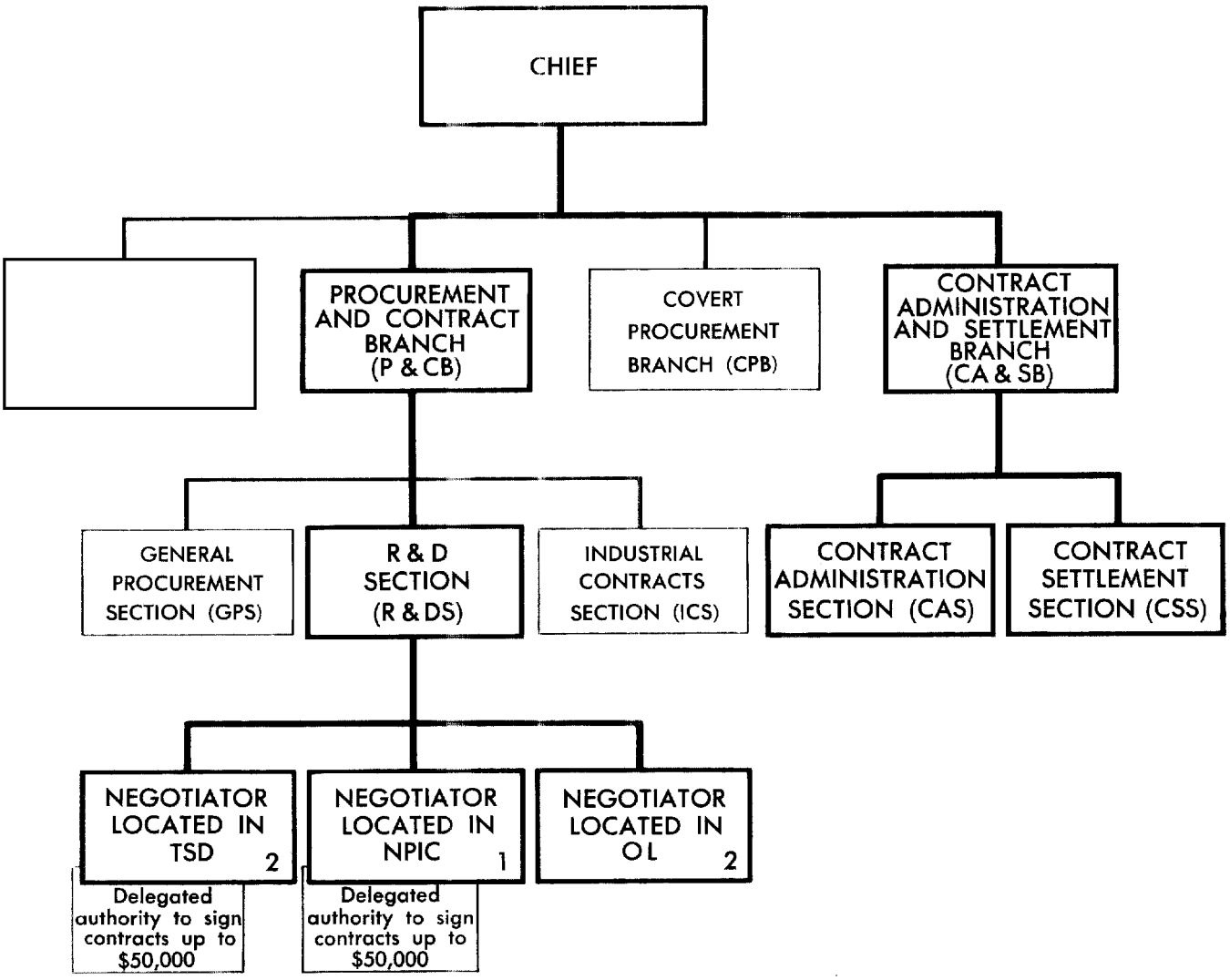

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Further, establishment of final rates is a necessary ingredient to the calculation of the precise amount of over-run dollars.

Unsettled contracts in DDS&T total 352. These are contracts on which work is complete but for a variety of reasons (final rates, final delivery certification, etc.), are not closed.

The facts that CPFF contracts account for 53% of the total active contracts in R&D, that innumerable extensions in time are granted on contracts, and financial status not closely administered, make it probable that cost over-runs are on the increase and will be higher for FY 1966.

2.0 ASSESSMENT OF PROCUREMENT BY OFFICE OF LOGISTICS

2.1 Organization

In the organization structure illustrated in Figure III-7a, of particular interest from an R&D procurement view are the Procurement and Contracts Branch (P&CB), Research and Development Section (R&DS), and from an administrative view the Contract Administration and Settlement Branch (CA&SB) and the corresponding sections, Contract Administration (CAS) and Contract Settlement (CSS). [redacted] 25X1 which performs much of the R&D procurement, is, in effect, in series with P&CB since all incoming requisitions are directed to P&CB first.

It is noted that the responsibility for various phases of a contract's life are handled by several different organizations and individuals; i.e. negotiation by R&DS, administration by CAS and settlement by CSS. This choice of structure emphasized the specialties involved at the expense of continuity from the standpoint of one individual maintaining responsibility throughout the life cycle of the contract. It should be noted that, correspondingly, the technical side generally maintains continuity by assigning one man for the life of the contract. The choice of organizational structure is understood to have been a trade-off considering the number of qualified people available and the workload. The resultant Agency procurement and administration approach, however, does not enhance a team approach to deal with the contractor on a consistent basis.

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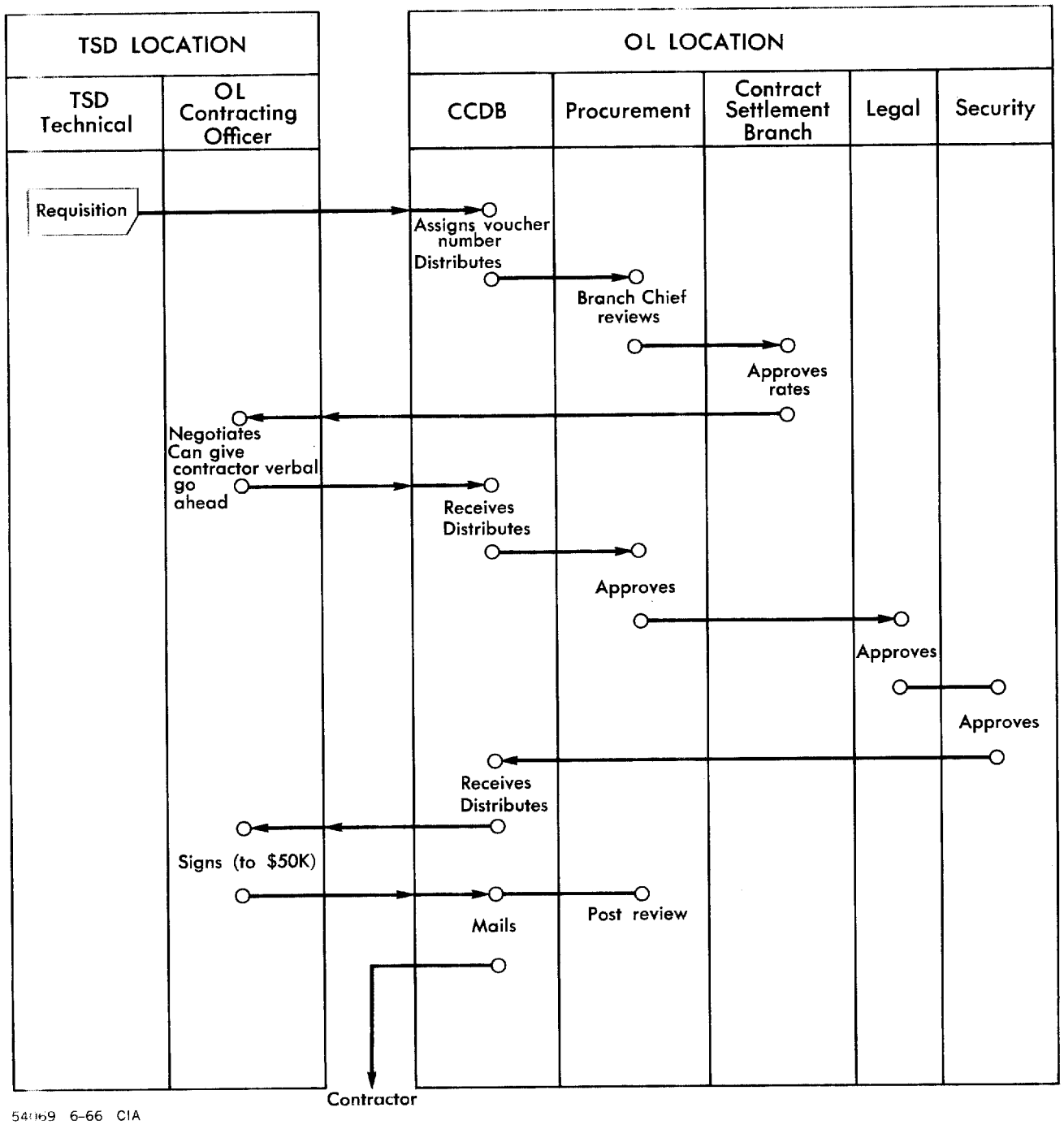
DELEGATED CONTRACT OFFICER REQUISITION ROUTINE (OL)



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The total number of negotiators who process all of the R&D procurement is five. In the case of TSD, two of these negotiators have been assigned full time and are physically located at TSD. Contracting Officer (CO) approval to execute contracts up to $50 thousand has been delegated to one of these men. One negotiator with similar CO approval authority is assigned to NPIC.

The effectiveness of this arrangement is hampered by the complexity of the procedures. The routine procedure involved in R&D procurement through this mechanism is described with the aid of Figure III-8. In fact, the arrangement seems to lengthen processing time. The delegation provides signature authority without conveying any major decision authority. The routine maintains the same steps as the routine in which the CO resides in OL. At the same time, physical separation and distance precipitates time-consuming personal trips.

The assignment of negotiators is very much a product of the workload. That is, a particular negotiator is not oriented to a product line nor a particular group of contractors. A given negotiator may well be faced today with the negotiation of a contract for a piece of electronic equipment and tomorrow with the negotiation of a contract for an optical device. Likewise, the contractors involved may both be ones with whom he has had no previous experience. Admittedly, the wide diversity of products involved and the few negotiators available makes assignment by product difficult. However, no military or industrial procurement organization with a comparable task is known to the study team which is not oriented to product lines. Each product line is characterized by its own peculiar group of leading suppliers, practices, language and customs, all of which become the stock-in-trade knowledge for effective procurement.

One example is the matter of source identification. One procurement man, for example, cannot be expected to develop a sound background in contractor sources for recording devices if his work assignment is constantly changing in product content and he never has time to develop the specific knowledge required. It should be, however, a responsibility of the procurement function to be knowledgeable of and to recommend alternate sources of supply.

With the small number of experienced negotiators assigned and the varying workload, product orientation is not entirely practical.

2.2 Characteristics of Procurement Policy

The basic principles and procedures for OL procurement are set forth in a Procurement Handbook, [redacted] dated 6 April 1966. The document has just recently been distributed. Specific knowledge of its content was found to be spotty in contacts made throughout the technical components below top management. The document is not claimed to be all-encompassing, but rather is intended to set forth the general principles. No radically new principles are suggested over and above what have been the principles of the past.

In practice things work quite differently from the suggested policy in important respects. For a variety of reasons these deviations are likely to continue. The functions which represent particular difficulties are the principal ones: (1) solicitation of proposals; (2) source selection and evaluation; and (3) contract administration.

2.2.1 Solicitation of Proposals

The question addressed in [redacted] on source selection is: "Who solicits proposals?" Significantly, this section was described as the main point of contention in arriving at a description mutually acceptable to all concerned. The answer as expressed in Section 13 is a compromise on the basis of the dollar value, which leaves the situation vague.

Reduced to its simplest terms, Section 13 states that technical components will normally solicit technical proposals and informally solicit cost or price proposals if the value is under $50 thousand. For those over $50 thousand, either joint or separate discussions with the contractor by the Technical Representative and the Contracting Officer must take place. The technical component may solicit technical proposals but the Contracting Officer must solicit cost or price proposals.

The issue is kept vague by use of such terms as "normally will", "may", and "informally". The policy seems destined to precipitate continued independent action by the two functions.

For all projects over $50 thousand, the procedure demands that technical and cost proposals be independently solicited and, as stated, implies that technical and cost proposals will always be received at

25X1 different times. This is highly impractical in many cases if only because it is time-consuming.

The technical office has responsibility for establishing the list of contractors who are technically qualified to bid. This responsibility is modified by the responsibility held by Logistics to approve the financial stability, performance reputation, integrity, and security requirements. With the two functions' activities independently in series, this leaves the final decision as to the acceptability of a contractor until after he has submitted a quotation and precipitates time-consuming discussion. 25X1

In practice the Technical Representatives solicit technical proposals and cost proposals without regard to dollar value. The contractors from whom proposals are to be solicited are determined by the technical office. There are cases in which this is not true. However, they are the exception rather than the rule. For example, during FY 1965 only 30 cases occurred in which OL issued "Requests for Proposals." In FY 1966, fewer than 25 cases had occurred to the time of this study. This is a very small portion of the several hundred contracts over $50 thousand. (See Appendix, Exhibit A - Figure A-1).

2.2.2 Proposal Evaluation and Source Selection

Price/Cost Analysis

The procedure establishes that some form of price or cost analysis is mandatory. The responsibility for price/cost analysis is not spelled out. The procedure says simply that it should be carried out.

In practice, no regular procedures for cost analysis in either technical offices or in OL was discovered. Price analyses are made by technical offices in varying degrees, but in many cases the practice is not a thorough one.

The Industrial Contract Audit Division (ICAD) does participate in a pre-award price analysis when requested. Cost analysis is often difficult because ICAD is not equipped to judge labor hour content and can only check labor rates. Price analysis findings (discrepancies) do not require "sign off" by negotiators similar to that required in the DOD.

(See also Chapter VI, Section 6.0)

Contract Type Selection

Only the choice among incentive contracts is treated, and not the selection of contract type in general. The incentive criteria selection is the Technical Representative's responsibility for performance and delivery incentives. The amount of money to be involved is the responsibility of the negotiator. For cost incentives, the responsibility is solely that of the negotiator except that "the effect of the incentive on working relationships and ... advice on the reasonableness of cost estimates" are the responsibility of the Technical Representative.

In practice, the technical participation and interest in initiating and arriving at incentive contracts did not appear strong. One technical office indicated, "We never know what kind of contract it will be until it's negotiated." Another stated, "We don't have anything to say about incentives." In the many requisitions examined in the course of the study, none requested an incentive contract and many ignored the question of contract type. It appears that OL is the prime mover to the extent that incentive contracting is carried out. The incentive features, however, are or should be of initial interest to the Technical Representative.

2.2.3 Contract Negotiation

[redacted] states simply that the Contracting Officer is the sole authority legally authorized to negotiate contracts. (The exception of his written delegations is noted). The desirability of the Technical Representative in negotiations is recommended.

In general practice, technical participation in negotiations is not present. An imbalance of contractor contact occurs. The pre-negotiation contact is frequently close and personal. Both technical and cost aspects have been agreed upon in many cases. The actual negotiation is then engaged in solo by negotiators who do not know the product or the contractors as well as the Technical Representative.

2.2.4 Award of Contracts

The final determination of the method of procurement* is made by the Procurement Evaluation Committee (PEC) in OL/PD. The Director

* Applies to only certain contracts depending on a prescribed list of criteria.

of Logistics is the arbitrating authority for disputes between technical offices and the PEC. Participation of Technical Representatives on a non-voting basis is welcomed but infrequently exercised. An opinion frequently expressed by them was, "Why go, when you're outnumbered and can't vote."

Since the PEC action represents the final activity in contract award decision, it is appropriate to discuss here the subject of mutual participation of the Technical Representatives and the Contracting Officers in the entire procurement procedure through contract award.

The consensus of those questioned in both OL and technical components was that more mutual participation was needed throughout the process. Both equally, strongly denied their individual capability to engage in it as a matter of practice. For example, when asked if they could participate in a major number of pre-negotiation activities, including the solicitation of proposals, the OL answer was "no." When asked if a Technical Representative could participate in most negotiations, the technical answer was "no."

The current workload in both technical and OL offices as presently structured with separated functions appears to preclude the mutual considerations that both types deem necessary to an efficient operation.

2.2.5 Contract Administration

The policy clearly establishes that the Contracting Officer (CO) is responsible for security compliance with the contract [redacted] 25X1 b.1) and, equally, clearly establishes that the Procurement Division (synonymous with CO) is responsible for monitoring all contracts (p. 23, 19.b).

The responsibility of the technical component (Technical Representative) is to provide technical guidance (p. 23, 19.a) and to perform technical supervision (p. 23, 20.a), in the capacity of the Technical Representative of the CO (p. 24, 20.b).

The policy sets forth the CO as the manager responsible for execution of the contract in accordance with its terms and conditions.

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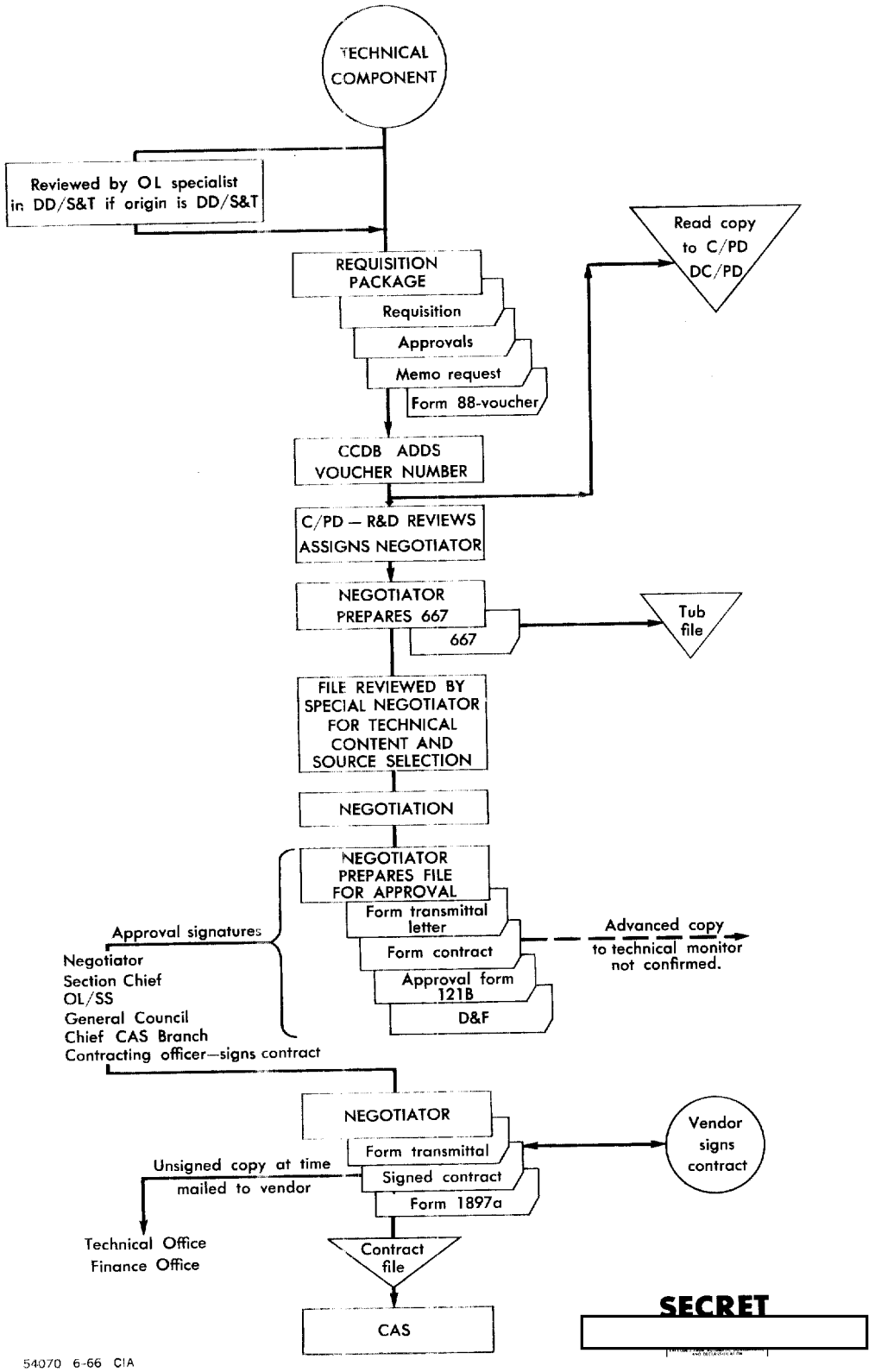
SIMPLIFIED FLOW DIAGRAM OL – P/CB – R&DS



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One point of possible confusion was investigated. Under "Scope of Inspection" (p. 24, b), it is stated that the Technical Representative is "responsible for conducting inspection to determine compliance with all contract and specification requirements." Interpretation of "contract" in this context was learned to apply to technical aspects and not to "all" requirements. For example, assurance of compliance with the terms and conditions for requesting progress payments or of the "Buy American Act" are not technical responsibilities.

The policy on contract administration is a normal one. However, it does not work well as presently implemented. The CO is not completely supplied with the kind of information needed, nor is his orientation and amount of workload proper to expect good administration. The association of CO and Technical Representative is in most cases a distant one and in many cases an impersonal one.

The general impression gained was that, in the matter of contract administration, no one really exercises the role of manager of the situation. The CO and the Technical Representative each have access to technical and financial status information. However, mutual consideration of adequate financial and technical information is required to properly administer contracts. Such mutual consideration does not take place. (Certain very special cases do exist in which it occurs. Attention is addressed to these few instances later in the report.)

The atmosphere in which the administration proceeds is that the Technical Representative, by and large, considers the financial considerations the responsibility of the CO and, correspondingly, the CO views the technical considerations as an independent responsibility of the Technical Representative.

2.3 Assessment of Procedures and Practices

The formal detailed procedures employed in OL/PD/R&D were reviewed through discussions with OL Procurement personnel and examination of system flow diagrams prepared by the Special Assistant to the DDS as part of a data processing study. Figure III-9 has been prepared to illustrate in a simplified form the step-by-step activity of processing an R&D requisition. Variations occur depending on the type contract involved, if the contractor is a new one, and if substantial future business is contemplated. Those variations were examined but are not commented upon further since their effect on the general pattern of

activity is minor. The procedure is relatively straightforward and supported by stereotyped, pre-prepared form transmittal letters, contract forms and the like to minimize processing time for routine actions.

The procedure involves several persons reviewing the requisition and attendant documents. The reviews provide all levels of OL management opportunity to obtain knowledge of the substance of individual requisitions.

The procedure, as a routine, does not provide for any personal contact with the technical offices. It is significant that routinely there is no such provision. It is difficult to convey the spirit and important details of a desired procurement wholly in writing. The procurement package including requisition, proposal, approval signature page, and covering memo is a relatively sterile package with which OL/PD must start. Without some personal association, routinely provided, the system presents an uncomfortable atmosphere for the procurement function. Specifically, it makes misinterpretations possible and discourages the full, potential contribution of the procurement function.

2.3.1 Evaluation of Contractors

The evaluation of a contractor's history of performance is less exact than is desirable. Such performance records that do exist play little or no role in technical source selection. Contractors develop reputations and most certainly these reputations are factors in Agency evaluations. However, hard and fast measures are not being applied. Distinction is made between Inspection Report evaluations, which deal with progress on a particular contract, and the record of a contractor's performance history. The question addressed is the role of a contractor's historical performance as a factor in source selection.

A record of contractor performance is now maintained by OL. Various offices are requested, annually, to rate contractors on a variety of points by checking boxes corresponding to general qualitative measures such as "Excellent", "Poor", etc. A 0-10 weighting is applied judgmentally by the evaluator and a final rating from 0 to 10 arrived at by averaging. A rating of 6 or 7 is considered satisfactory.

The predominantly important measures of performance (did he meet specifications?), cost (did he deliver within cost?), and schedule (did he deliver on time?) do not play a sufficiently important or exact role.

The rating form attempts to measure comprehensively a variety of factors. However, the weighted average method applied in arriving at a single numerical index permits peculiar results.

Because collectively, the factors pertaining to cost, performance, and schedule amount to less than 30% of the total measure, it is quite possible for a contractor rated "Excellent" in each of these to arrive at a marginally satisfactory (6) rating. Likewise, a contractor with a poor security rating might be labeled "Excellent" (8) in total. The mathematical scheme for arriving at a one number rating, together with the inclusion of numerous factors such as "Reasonableness in Negotiation", "Evaluation of Cost Accounting System", "Problems in Processing Billing", contribute to lack of faith in the meaning of the final index number by certain technical components.

Little evidence was found that Technical Representatives, who by and large make the proposal evaluations and source selections, were influenced to any measurable extent by the existence of the index rating.

2.3.2 Source Selection and Sole Source Procurement

The procedure recognizes the need for competition and in spirit includes a "look" at source selection. The Contractor Performance Evaluation Data which is collected does not, however, play any significant role in the process. "The source is seldom questioned" summed up the discussion on this subject in OL/PD. It appears that to the extent of personnel qualified and information available, effort is made to seek additional sources. It is not thorough.

The Office of Logistics records indicate a very high degree of sole source procurement. For example:

Total Procurement *	FY 1964	FY 1965
Sole Source Actions	2,044 (91.5%)	2,257 (86%)
Competitive Actions	240 (8.5%)	361 (14%)

*R&D figures are included in total procurement. No separate break-out for R&D was available.

In pursuing the question in the technical components, it was at first suspected that the OL figures, as they applied to R&D, might be

high because the independent technical solicitation of proposals did involve competition which was not always evident to OL. For example, a request to OL to contract with the ABC Co. may have been preceded by a competition which was not made evident in the request.

The general contention among technical components was that much competition takes place and that the very high sole source record is in actuality not as high as OL records indicate for R&D.

The precise amount of sole source R&D can be obtained only by an exhaustive examination of individual technical component files which was quite beyond the scope of this study. However, the OL figures are considered sufficiently correct for several reasons:

. The source of OL information is the requisition and memorandum request. If only one contractor source is called out, the transaction is labeled sole source. There is little likelihood that the technical component's request would simply ignore the existence of competition. On the contrary, the many requisitions examined were attentive to the issue of justifying sole source when it clearly was such.

. There is a popular misconception of what constitutes a competitive procurement. A truly competitive procurement involves the preparation of a specification against which several contractors bid. This is distinctly different from a consideration of alternate proposals which involves receiving several proposals in response to a generally stated problem. In the latter case, entirely different conceptual approaches and differently based cost estimates are usually involved. Discussions with technical personnel lead to the conclusion that multiple proposal cases were frequently referred to as competitions.

. None of the R&D procurement in one technical component (NPIC) is according to specification, but rather according to general performance goals, which precludes true competition.

. A detailed examination of 68 contracts in OEL showed that only 13 involved competition, representing a sole source procurement of 80%. In TSD, 99% of R&D procurements are recorded as sole source.

2.3.3 Feedback Information on Negotiations

There is inadequate feedback to technical components on the status of negotiations. It was explained in OL/PD that a change in procedure six months ago provides that a copy of the contract be distributed to the technical component (and the budget officer) at the same time it is mailed to the vendor for signature. The feeling was expressed that "to add any more forms" as a communication medium or "to advise by phone" would be a troublesome addition to an already burdened system.

The desire for knowledge of the status by technical management is obvious. The current routine is inadequate for two reasons:

- The point at which the contract is mailed to the contractor occurs too late to satisfy an interested Technical Representative.

- In practice, copies are not being routinely received by the technical offices.

Further, simply knowing that the contract has been mailed is insufficient. The contractor may already have commenced work based on a verbal phone go-ahead. A contract copy does not carry this information. Frequently many weeks transpire before a signed copy is returned by the contractor, and in many cases work has already commenced. When the contract is returned signed by the vendor, a form which advises the technical office that Inspection Reports are required is distributed. Because of the late timing and intermittent receipt of copies of contracts, the Inspection Report requirement form is the only medium by which technical offices are routinely advised, not of negotiation proceedings and status, but, in a rather indirect manner, that a contract has been consummated. Eventually, an obligation of funds report reaches technical offices to advise the contract value and permit adjustment of obligation accounts as required. This latter does not fill the information gap.

Some undesirable results have and are likely to reoccur from this general situation:

- A contractor can be actually working on the basis of pre-contract authorization by the Contracting Officer without the Technical Representative's knowledge.

- The Technical Representative can erroneously assume that a contractor has commenced work when he hasn't.

- A dual channel of communication between contractor and the Agency develops--one between the contractor and OL, and another between the contractor and Technical Representative.

2.3.4 Approval for Obligation

Several (30) contract records in the DDS&T computer data base indicated a contract effective date which preceded the DDS&T approval date (the date on which the necessary highest level signature was obtained). It might be assumed that verbal approvals had been given in the interest of time, and that paperwork followed later. However, a double check of six randomly chosen cases involving the contract files at DDS&T and OL did not bear this out. Rather, it illustrated the existence of one or more problems: incorrect recording; failure to record verbal approvals; or different sources of dates used.

The sample data collected are as follows:

	BCN	Contract	Contractor	DDS&T App.Dt.	DDS&T Eff.Dt.	OL App.Dt.	OL Eff.Dt.
1.				8/4/65	7/1/65	8/4/65	7/1/65
2.				10/8/65	10/1/65	---	6/7/65
3.				7/13/65	7/1/65	6/21/65	7/1/65
4.				2/3/65	1/14/65	4/24/65	6/14/65
5.				10/27/65	10/10/65	6/15/65	6/23/65
6.				2/28/66	1/25/66	11/16/65	1/25/66

Item 1. Both sources indicate the same dates. Approval lagged the effective date of the contract by 35 days. No reason was discovered to explain the discrepancy.

Item 2. No reconciliation of date differences could be found. Approval date was not available in OL records.

Item 3. Approval dates differed. Effective dates were the same. No apparent reason.

Item 4. Apparently different Task Orders involved but not confirmed.

Item 5. One set of dates refers to the basic agreement, and the other set to a Task Order.

Item 6. The sets of dates refer to different phases of the over-all task.

It appears that:

- In some cases the signature approval is made after an effective contract date has been established by negotiation. This may be fully justified under circumstances demanding quick action; however, the files do not indicate such an explanation.

- Simple recording errors occur in translating information to the machine.

- Discrepancies are generated easily because of differences in reading recorded dates. For example, approval date might be the date of the memo to OL (which is prepared prior to approval) or the actual date on the signature line of the "buck slip."

2.3.5 Certification for Payment

Several times during the course of visits to the technical components, questions concerning the procedure for certification for payment of contractor invoices arose. It was informally suggested that this report might well address the subject.

Three questions came up most often:

- What is being certified by a Technical Representative when he is asked to sign an invoice?

- What role does the Inspection Report play?

- Why does the routine differ from invoice to invoice?

The procedure was looked into at OL and Office of Finance/ Disbursement. The procedure gives rise to questions because it is not

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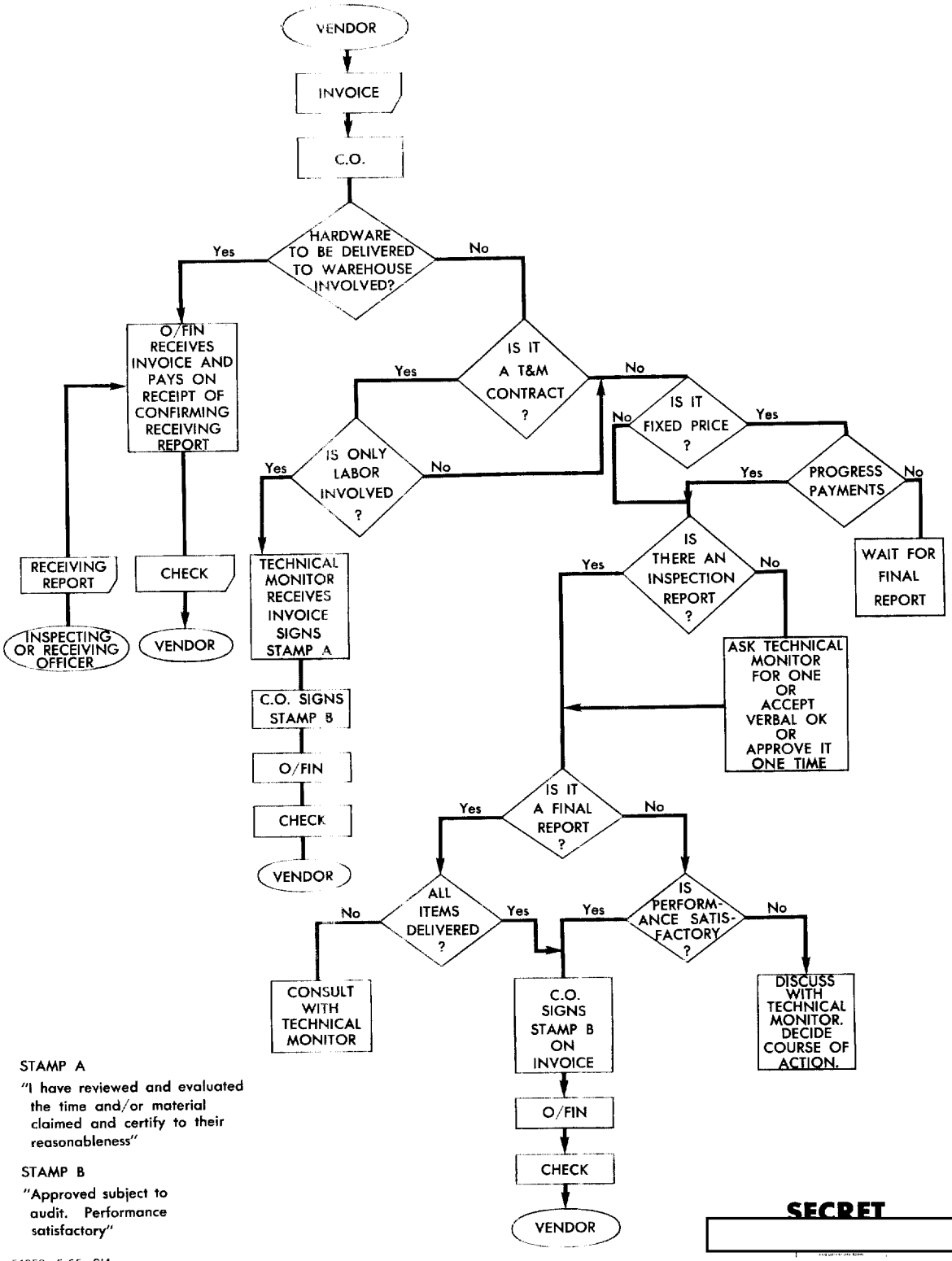
R & D CERTIFICATION FOR PAYMENT (OL)



STAMP A

"I have reviewed and evaluated the time and/or material claimed and certify to their reasonableness"

STAMP B

"Approved subject to audit. Performance satisfactory"

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firmly established and documented and is therefore subject to interpretation. Figure III-10 illustrates the routine as it was described. The basic steps are that the Technical Representative certifies to the Contracting Officer, and the Contracting Officer certifies to the Disbursing Officer, who issues a check in accordance with the invoice.

Three pieces of documentation are involved: the invoice with a signed stamped certification; the Inspection Report; and a Receiving (or Acceptance) Report. Examination of Figure III-10 reveals that the type of contract, involvement of hardware going to the warehouse, and the nature of the Inspection Report normally determine the routine.

Variations occur. For example, in the question of Fixed Price Contracts, the reporting routine supposedly does not require Inspection Reports to be made unless progress or partial payment is involved. This is a moot point. Examination of several contract files revealed that the requirement had been established by OL and reports were indeed being made periodically in cases with and without progress payments being involved.

Other variations occur. It was observed in some cases that the contracts calls for delivery of the invoice directly to the Technical Representative. It was not obvious why this was so.

The Inspection Report plays the role of being the certifying document except in the case of final payment on any contract and in the case of interim payment on Time and Materiel (T&M) contracts. T&M contracts invariably cause the invoice to be forwarded to the Technical Representative to sign Stamp A (see Figure III-10) on the face of the invoice. The certification is as stated on the stamp. In the case of other types of contracts, interim payments are certified by the Contracting Officer--sometimes with, and sometimes without, the availability of an Inspection Report. Payment may or may not be delayed at this point.

The information in the Inspection Report that is the deciding factor for the Contracting Officer is the check-off box on contractor performance. If it is satisfactory or above, Contracting Officer certification is made by signing Stamp B on the face of the invoice.

For final payments, a more certain determination is made. The Contracting Officer needs to be assured that all articles and services under the contract have been delivered. The Final Inspection Report is

the basic source of information. If the Inspection Report is unclear in this regard, additional information will be requested of the Technical Representative.

2.3.6 Contract Administration

Contract Status Information

The nature of availability and content of technical and financial information for R&D makes efficient contract administration extremely difficult, if not impractical.

The requirements for reports from the contractor derive from the basic agreement and/or specific requirements called out in the contract schedule. Another source of information for the Contracting Officer flows from the Technical Representative's Inspection Report. How these sources add up to less than a desirable amount of information for the Contracting Officer may be seen by examining their content and application.

The Basic Agreement (which is superseded by any specific call out in the schedule) requires the following:

. "Technical Reports - A final report shall be made at such time and in such format as the Technical Representative shall specify. Technical progress reports should be prepared in the manner normally practiced by you (the contractor), and submitted directly to the Technical Representative in accordance with his instructions. A copy should be mailed to the Contracting Officer."

. Contract Status Reports (applies to CPFF contracts over $50 thousand, or of six months' duration, and all CPIF contracts) - "Monthly reports to the Contracting Officer at the end of each month as of the end of the month, showing:

1. Percentage of contract complete.

2. Percentage of target costs expended.

When this report represents a deviation of 15% from the original projection, reasons shall be cited. Failure to submit may result in delay in payment. Original to the Contracting Officer. Copy to the Technical Representative."

The Inspection Report provides the Contracting Officer with the Technical Representative's estimate of the contract completion in percent, schedule information, and a technical narrative on progress, with emphasis on incentive aspects. The Technical Representative's estimate of whether the contract will complete on schedule and within costs is also included. The procedure gives rise to some information problems.

According to a description of the practice, an Inspection Report is required on Fixed Price Contracts only if progress payments are requested by the contractor. (A matter of the original contract language).

No financial report is required of the contractor according to the basic agreement in the case of a Fixed Price Contract.

No specific rule exists for technical reports to be included in the Schedule. In many cases it is not called out, or is called out only according to an individual Technical Representative's preference.

Consider a Fixed Price Contract in which no progress payment is involved:

> There is no formal Inspection Report. There is no report indicating amounts expended. The Contracting Officer would appear to be in a knowledge vacuum as far as progress on the contract is concerned. Presumably at the end of the contract some report from the Technical Representative is made in order to certify for final payment, although no routine is prescribed.

The opinion was held that because the contract was Fixed Price, there was no entitlement to detailed financial information and indeed that case is rather well established. However, discussions in both OL and each of the technical components did not reveal that there was any routine manner by which Fixed Price Contracts were measured for progress. The fact that the contract is Fixed Price does not mean that the Government is not entitled to reports of technical progress. In the existing procedures, the Technical Representative frequently does know what the technical status is through visits and in some cases through informal written reports. The fact that the Contracting Officer may very well not know anything about the status from contract date until delivery

is made makes proper administration doubtful. The requirement for technical status reporting by the contractor is left to the Technical Representative. But no mechanism exists for such information to reach the Contracting Officer in a routine manner. Contract administration stated, "We don't have a good way to monitor Fixed Price Contracts."

The same situation exists in the case of CPFF contracts under $50 thousand, or of less than 6 months' duration. The dollar value and performance period are not always adequate criteria for establishing the requirements for obtaining such information. The end product of the contract could be extremely important. Lack of such information contributes to the possibility of over-runs occurring without adequate, early knowledge.

2.3.7 Work Order/Task Order Routine Under Basic Agreement

Basic Agreements are no-fund agreements with contractors, usually for three years, against which Task Orders and Work Orders are written. The Basic Agreement establishes terms and conditions and sets forth provisional billing rates. A Task Order is a funded document constituting a contract, in which the Basic Agreement is incorporated by reference. A Task Order may be specific or open-ended. A specific Task Order calls for a definite schedule of goods or services to be supplied at a contract price. An open-ended Task Order is for a general category of work and a definite total price (which may be amended from time to time), against which Work Orders, calling for specific goods or work, are written.

Technical Representatives negotiate Work Orders directly and independently of OL except that cost and fee is inserted by OL in the process of forwarding a confirming Work Order document to a contractor.

OL records indicated 103 current Task Orders with 98 contractors, for a total of [redacted] budgeted, of which [redacted] had been obligated at the time of this study. Approximately 400 Work Orders have been written against the following number of Task Orders:

	Task Orders
TSD	61
OC	21
DDS&T	7
[redacted]	7
OSA	3
NPIC	1
Other	3
	103

25X1 [redacted] [redacted] 25X1

25X1 [redacted]

The purpose of the Work Order Routine is to provide a quick reaction capability to procure engineering services, studies, spare parts, modifications, replacements, and R&D when detailed specifications are not available and quick turn-around is desired. It is possible that the "quick turn-around" criteria is not being observed.

Costs are "examined" by OL/CAS but no analysis is performed. A file is maintained to show unobligated balances. Office of Finance receives copies of Work Orders. Inspection Reports advise of technical progress. No financial reports are required of contractors except in the case of CPFF contracts in which the 80% expended point notification is received.

Because there is no actual limit on the dollar value which may be expended by this method and no financial status information, the method represents procurement without adequate management control as far as OL is concerned.

2.4 Management Controls

2.4.1 Recurring Reports

The Procurement Division is outstanding in accumulating statistical data descriptive of the division's activities. Exhibit C describes 15 individual recurring reports prepared for top management. The procedures used in processing requisitions provides visibility into individual procurement actions in process to every level of management.

From the standpoint of providing management with the specific information necessary to provide acceptable products in terms of performance, cost, and schedule, management control is less effective.

For example, among the 15 reports, only one, "Report of Past Due Requisitions", is aimed directly at the immediate responsiveness of

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the system. The remainder of the reports are quite largely devoted to information which is less dynamic, and related to workload activity.

Certain pieces of information are not available, or if available are not presented in timely fashion on a periodic basis.

2.4.2 Consolidated Contractor Information

There is no one repository in the Agency for contractor identification, performance, and clearance information. This is a severe disadvantage for several reasons, namely:

- Separate and unnecessarily different procurement policies may be applied to the same contractor.
- Duplication of Agency effort may take place in establishing clearances and basic contracts.
- Source selections do not bring to bear the total Agency knowledge and experience.
- Negotiations do not bring to bear the total Agency's strength of contractor knowledge.
- There is no product or service breakdown by contractor. Therefore, procurement of a product is made without total background knowledge of with whom the Agency is already dealing for that type of product.
- In R&D contracting in particular, duplications have occurred in which a contractor was approached for work already under contract to another.

The Office of Logistics has a list of 1419 different contractors with whom the Agency is doing or has done business and who are "cleared". Individual technical components maintain lists. Security maintains lists. The lists are not reconciled nor in all cases are they complete. Yet, complete and accurate lists are needed because knowledge of the total amount of business going to a single contractor can be a positive Agency factor in negotiations and administration.

Exhibit B, which was prepared during the study, is a compilation of contractors being utilized, and is a start in the direction of

more useful information. Shown in the exhibit is the list of currently active contractors and an indicator of what components are using them. Additional work is necessary to complete the information base and to institute the procedures for its up-dating and use.

2.4.3 Contract Status Reporting

It was observed consistently that obtaining information on contract status was troublesome because either the available information was inadequate, or because the technical and financial status information was not being examined as a whole. Status information is now derived from:

- Inspection Reports - A documented form executed by the Technical Representative on a 60-day basis.
- Contractor Technical Progress Reports *
- Contractor Financial Status Reports *

Contractor Reports

The basic contract language sets forth requirements for contractor reporting, (technical and financial), which is superseded by specific technical report requirements set forth in the contract schedule. The Technical Representative establishes the requirement for this latter requirement.

There is no consistent policy concerning what these requirements should be. The popular philosophy is that contractor reports should be held to a minimum. One Technical Representative on a project that exceeded $1 million stated that he didn't want any written reports, and that he was content to rely on his continuing close contact with the contractor. No issue is taken with the proposition of minimizing documented reports. Indeed, requirements for documentation beyond what is needed and what can be assimilated is costly and unnecessary.

However, the need to be served by proper status reporting is the Agency's need to properly manage projects. Certain minimum information is necessary for such management. In many cases, a practical minimum is not attained.

* The exact language of the basic contract is discussed in Section 2.3.6.

It has been observed that technical milestone reporting has been started in the DDS&T. This practice is heartily endorsed as representing the minimum need. Two factors are worthy of note on this subject.

. Percentage complete as a measure is frequently a nebulous factor, and can be meaningless. Whether a particular milestone has been successfully reached is definite.

. Whatever the status is regarding technical progress, only when it can be viewed together with an estimate of the dollars necessary to complete the job is the entire measure wholly meaningful.

Currently the two necessary pieces of information are obtained inconsistently and are not brought together for management consideration. As long as Technical Representatives are indifferent (or uninformed) toward financial status because it is considered a procurement responsibility, and as long as contract administrators do no more than check a box on a report which indicates "go-no-go" on technical satisfaction, delays and over-runs can be expected to occur without warning.

Inspection Reports

The Inspection Report was originated several years ago by the Office of Logistics. It answered a serious need. However, the volume of R&D work has grown greatly since then and the Inspection Report content leaves much to be desired.

. The requirement for the Technical Representative to pass judgment on the contractor's financial status is not entirely reasonable. The Technical Representative does not have access to accurate information nor is he usually trained to interpret financial data which may be offered to him by the contractor.

. The single check mark indicating over-all contractor performance (unsatisfactory, satisfactory, average, above average), is too gross a measure and frequently leads to erroneous conclusions (reports of "above average" when delivery is months behind).

2.4.4 Management Information System

Especially lacking is the capability to extract from the mass of information in contract files the kind of data needed to improve total contract performance by permitting management to anticipate problems and direct their efforts to the cases that need it. As an example, control cards indexed by contractor exist in a tub file and contract files of documentation are maintained, (Technical Representative Inspection Reports and contractor reports are included).

Not extracted from the mass of information are such meaningful reports as:

- A list of all delinquent contracts, or contemplated delinquents.
- A list of contracts in which over-run is contemplated.
- A list of contracts which are over-run.
- A consolidation of over-run funding needs.
- A list of contracts on which Inspection or contractor reports are delinquent.
- A list of contracts in which performance is unsatisfactory.
- A list of inter-contract dependency records which provides information on how Contract A (in good shape) may be affected by Contract B (delinquent, or about to be); (i.e., when A is dependent upon B).

The manual system employed makes it impossible to extract needed information in a reasonable time and for reasonable cost. As an example, a request to obtain a list of current contracts by number, for a particular component represented a disruptive and time-consuming task and was withdrawn. Likewise it was not possible to readily extract a list of TSD contract numbers. During the course of the study, a "task-force" effort was observed (including section chiefs) working to obtain fundamental information on grants by laboriously searching and handling each card and file.

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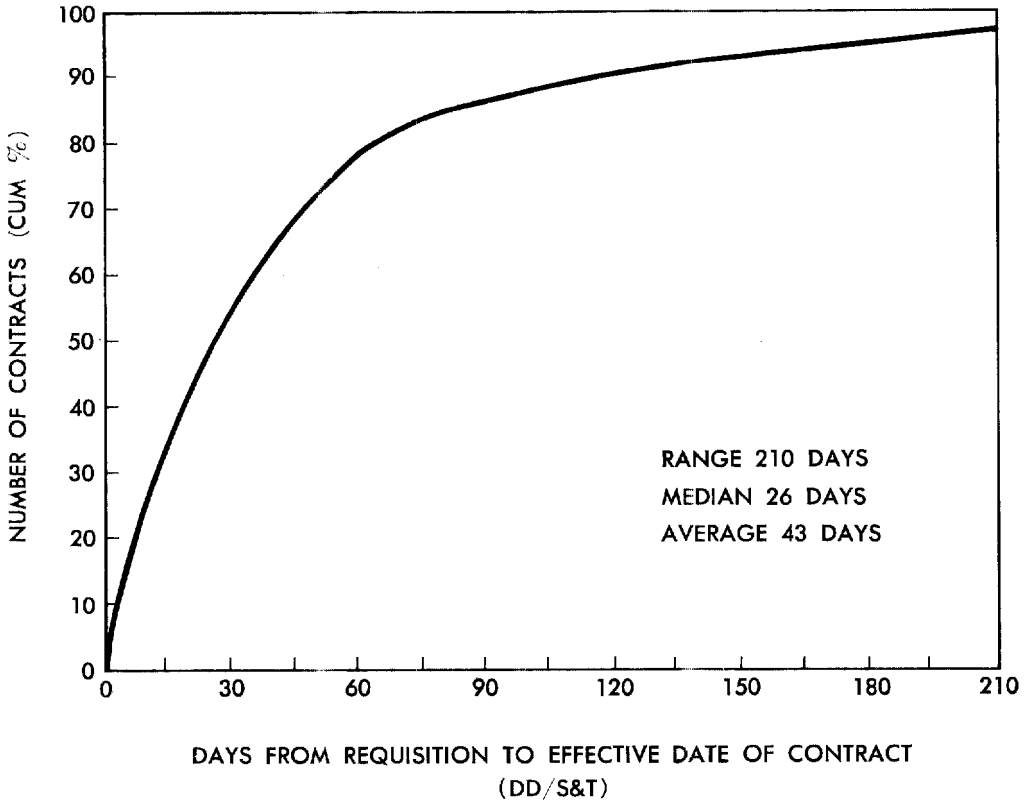
CONTRACT PLACEMENT



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The need for information in contract administration to permit management by exception is extreme. Hampered by the unavailability of such information, officers are committed to simply reacting to problems after the fact. Further, and most important, the need is not an isolated need for automation in OL. The need is for a Procurement Management Information System of which the contract administration need is only a part. Chapter V treats the subject of procurement management information as a whole.

2.5 Responsiveness

2.5.1 Quick Reaction

Each of the technical components were of a single opinion concerning the quick reaction capability of OL, which was considered to be good. Examples were readily given to illustrate that when the situation was an especially urgent one, and a special request was made, the reaction was always positive. Quick turn-around times of one day or less from component request to a verbal agreement with a contractor were cited. No further assessment of quick reaction response of the system seemed necessary in view of the unanimous opinion.

2.5.2 Negotiation

One measure of responsiveness is the length of time involved in negotiation activities, all other factors being equal. Many factors enter into the time involved in a particular transaction. Each case has its own peculiarities. The time to negotiate and effect a contract is primarily, but not solely, a measure of OL/PD. As an example, the completeness of the product description in the requisition is a factor outside the responsibility of OL/PD but can be a contributor to delay.

A measurement of the time involved between the issuance of a requisition and the date of contract effectiveness for contracts of record in the DDS&T data base (covering all active contracts plus those completed in FY 1966) is shown in Figure III-11.

The range is very broad, 0-210 days.
The average (numerical) is 43.2 days.
The median is 26 days.

As may be seen, 50% took less than 26 days, 50% took more. Correspondingly, 25% took 10 days or less, and 25% took 55 days or more.

The significance of the term "contract effective date" should be noted. In many cases a negotiation (a meeting of the minds) occurs and the contractor is given notice verbally or in writing to proceed. The actual executed contract may not be in existence for several weeks (30 to 90 days). The contract is dated effective as of the day authority to proceed is given. This is not an unusual practice but it is a potential source of difficulty, depending on the thoroughness of the negotiation and the degree of definition of the product or service being procured.

2.5.3 Contract Administration

The fundamental contract administration responsibility as established in procurement policy (Section VII 3.b.5. [redacted] is to secure compliance with contract terms and delivery. The measures of such compliance are performance (did it meet specifications?), schedule (was it delivered on time?), and cost (was it delivered within estimated costs?).

Performance of the end product, per se, except on a casual basis, was not a measurement included in the scope of this study.

An excessive number of contracts are delivered substantially late. Extensions in time are granted frequently, which in many cases do not result from increases in scope nor any relaxation in the original required date. The degree of late delivery is treated under the discussion of individual technical components and is summarized in Chapter III, Section 1.3.1.

A review of currently active contracts and contracts on which delivery was completed during FY 1966 established that of 78 DDS&T contracts scheduled to be completed, 61 were delivered late or are currently substantially behind schedule.

2.5.4 Examples of Procurement in Practice

Three cases were reviewed and are presented to illustrate excellent results of which Agency talent is capable, together with some undesirable results for which the procurement system is responsible and which are more probable than not to be produced in the long run. The three cases are listed below and expanded upon on the following pages.

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- The [redacted] represents a technical/procurement team effort which produced good results on a complicated program. The program was not without problems but they were solved in a timely fashion to the Agency's benefit. The reasons why this worked, how it differs from the usual, and why it cannot become a usual procedure under the present system are examined.

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- The [redacted] illustrates the consequences of divided responsibility in establishment of requirements, source selection and contract award activities which were major contributors to long delays, increased costs, and a waste of Agency time and talent.

25X1

- The [redacted] illustrates the consequences of divided responsibility in contract administration and involvement of the contractor to compensate for an inadequate information system, each of which were contributors to delays, increased cost and an inadequate product.

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[redacted]

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[redacted]

2.6 Summary of Findings - OL Procurement

2.6.1 Divided Responsibility and Its Consequences

There is a division of procurement responsibility between OL and technical components. The combined activities of these two functions are not as a whole under management control. The division of responsibility adversely affects the responsiveness of the procurement system by resulting in:

- "Precooking of deals" in the technical components which makes negotiation in OL quite largely perfunctory and ineffective.
- A limited amount of cost analysis.
- A high degree of sole source procurement which casts doubts on the reasonableness of costs.
- Very limited time for negotiations precipitating hasty decisions and uncoordinated negotiations.
- Delays in contract negotiation and execution.
- Uncoordinated technical and financial management of contracts.

2.6.2 Responsiveness

Quick reaction to urgent problems on which special appeals are made is good.

When a program, [redacted] is given unusual attention, the capabilities and reaction are very positive. Such performance comes 25X1

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25X1 [redacted] [redacted]

at the expense of regular procurement and cannot be sustained for more than a few programs nor for long periods of time.

The time taken to negotiate contracts is reasonable if no issue is taken with technical component recommendations. The time becomes excessive when issue is taken with source, price, or terms.

Contracts in back-log for settlement represent a relatively modest total in dollar value, but contain a large number of small, long-standing issues which are undoubtedly irritating to contractors.

An excessively high number of contracts are delivered behind schedule.

2.6.3 Negotiation

The substance of negotiations is, relatively speaking, unbalanced with emphasis on rates and fee, with the main body of costs included in labor and material categories being subject to little or no scrutiny.

Negotiations are most often one sided in terms of Agency participation. Participation by Technical Representatives and audit personnel is infrequent.

The number of Cost Plus Fixed Fee Contracts is high when considered in terms of the procedures and capabilities to administer such contracts.

2.6.4 Contract Administration

The amount of work involved in handling changes, amendments, and routine paper administrative activities, together with inadequate contractor and Inspection Reports, precludes effective administration.

The vast majority of contracts are delivered behind schedule in spite of numerous extensions in time.

Technical progress and financial status information is inadequate and not used in conjunction for management decision.

Management information for contemplating problems and managing by exception is not available to contract administrative managers.

Contract over-runs are numberous but not precisely known in dollars because of lengthy delays in establishing final dates and a lack of discipline in defining changes in scope which masks the true figures.

2.7 Recommendations for R&D and Related Production Procurement

It is recommended that consideration be given to the development and implementation of a plan for a Research and Development Procurement System which shall include three principal elements.

- Centralization of R&D Procurement and Related Production Procurement.
- Modification and addition to procedures.
- Design and implementation of an R&D Procurement Management Information System.

These recommendations are not mutually exclusive. The benefits of implementation will be maximized only if the plan encompasses all three elements. Actual implementation, however, cannot, from a practical point of view, occur at one point in time. A schedule for implementation must be a part of the implementation plan.

Centralization of R&D and Related Production Procurement

It is recommended that consideration be given to centralizing all responsibility for Agency procurement (with the possible exception of TSD contracts) of R&D and related production under the Deputy Director for Science and Technology.

Such a centralized function would have the following characteristics:

- An R&D procurement office managed by an individual reporting directly to the DDS&T.
- Procurement functions oriented to system and product lines.
- Continuation of OSA/OSP procurement functions as system-oriented entities within the R&D procurement office.

. Life cycle responsibility maintained in procurement personnel teams for continuity from negotiation to settlement of contracts.

. Joint technical, procurement and audit personnel participation in negotiation activities.

. Contract auditors assigned to participate as team members in procurement activities.

Further Considerations for TSD Procurement Centralization

The expected benefits of centralizing R&D procurement under the DDS&T are not as immediately clear for TSD as they are for other components. Several factors need further examination in order to reach conclusions on the probability of increasing responsiveness and effectiveness of procurement by such centralization:

1. The degree of similarity of TSD products to those products for which centralization is recommended needs to be determined.

2. The degree of commonality of contractors needs further examination. There is some commonality. We determined that seven of the top ten TSD contractors, (who account for nearly 50% of expenditures), work also for other technical components. In terms of numbers of contractors, however, nearly 60% of TSD contractors are exclusively TSD's.

3. The special security requirements of some of TSD's work is a factor but is outside the scope of our study.

4. The separate consideration being given to consolidation of R&D management coordination is an important factor.

The dollar volume of expenditures for R&D in TSD is sufficiently large to warrant consideration of procurement being accomplished other than by the centralized function which is recommended. The necessary depth of examination could not be achieved in our study for items 1 and 2 in the time available. Items 3 and 4 were not within the scope of our study. A balanced consideration of all these factors is needed as the basis for conclusions.

Rationale for Centralizing R&D Procurement

On the Basis of Expenditures and Origin

Procurement of R&D is already largely centralized in the DDS&T. Reference to Chapter II, Section 1.0 will recall that [redacted] of R&D expenditures are currently being made by DDS&T. Correspondingly, [redacted] of R&D expenditures originate in DDS&T. The Procurement Division of the Office of Logistics, rather than representing centralized procurement, has become a decentralized fraction of Agency R&D procurement. By virtue of total Agency R&D expenditure growth and distribution, OL is responsible now for [redacted] of R&D procurement.

It is significant that the existing centralization of both expenditures and origin of R&D remains in proportion even if the Air Force portion of the NRP funds were to be discounted. [redacted] It is important to take note of this fact in order that the recommendation be recognized as applicable to purely Agency R&D considerations and not one which would find little basis if a major change in NRP system responsibility were to take place in the future.

On the Basis of R&D Management

It was made known to the study team that consideration was being given to a consolidation of over-all management of Agency R&D. The recommendation to centralize responsibility for procurement of R&D is wholly consistent with this management consideration. Correspondingly, consolidation of R&D management responsibility without centralization of procurement responsibility is likely to emphasize the division of responsibility which now exists between R&D management and procurement management.

Modification and Addition to Procedures

It is recommended that procurement policy and procedures be revised, supplemented and published to encompass all Agency R&D

procurement. Of particular importance are:

Solicitation of Proposals

All R&D proposals should be solicited through the R&D Office of Procurement.

Evaluation of Proposals

Proposal evaluation should conform to a minimum Agency standard (to be established). The standard should establish the content of the evaluation and not the mechanics for accomplishment. Evaluation should combine technical, procurement and audit functions.

Approval for Obligation

Consideration should be given to the establishment of a Contract Review Board (CRB). The function of the CRB shall be to review proposed contracts of $250 thousand or more to insure that Agency policies pertaining to type of contract, source approval, dollar value, and special terms and conditions are being followed or exceptions to these policies in certain cases have proper foundations.

For contracts of $250 thousand or more, the findings of the CRB shall go forward for approval of the expenditure and the boundary conditions under which it is to be negotiated. The findings of the CRB constitute a pre-award review for the DCI.

Operational Requirement Procedure

Consideration should be given to the establishment of an Operational Requirement Procedure which establishes the operational needs in specific categories. A distinction should be made between approval of a project in terms of its relationship to operational need and the merits of the individual project's relationship to fulfilment of the need. Such a procedure would aid in the elimination of duplication and allow for concentration on project merits. The Goals and Planning Objectives serve this purpose now, but are very broad descriptions. It was difficult for technical people to relate a particular contract to a Goal or Objective.

Evaluation of Contractors

Consideration should be given to the establishment of a central repository for information on the performance of contractors which, among

other data, should contain an Agency record of the contractors' history in terms of cost, schedule, and performance.

Contractor Reports

Consideration should be given to the establishment of Agency standard requirements for both technical and financial reports by contractors. Appropriate variations should account for varying degrees of dollar value, duration, and importance as well as contract terms and conditions. Most importantly, the requirement should consolidate technical and financial status information from the contractor and provide estimates-to-complete in dollars and time.

Contract Status Reviews

Consideration should be given to the establishment of a periodic review of contracts identified by the management information system as being or about to be "off track". Such reviews should combine technical, procurement and audit functions.

Design and Implementation of an R&D Management Information System

The R&D Management Information System recommendation is incorporated in the recommendation for an Agency Procurement Management Information System in Chapter VI, Section 4.0.

3.0 ASSESSMENT OF PROCUREMENT BY DDS&T/OFFICE OF SPECIAL ACTIVITIES (OSA)

3.1 General Procurement Background

OSA procures major aircraft systems and supporting sensor sub-systems. Procurement of systems and procurement of sub-systems is carried out quite differently in terms of procedures in OSA. In assessing procurement during this study, these procurements were treated separately. Procurement of sub-systems by OSA and procurement of R&D by OL can be compared in terms of responsiveness. System procurement, on the other hand, is distinctly different in terms of number of contracts, dollar size, and contract duration and does not lend itself to comparison with procurement by OL. In the following section on Responsiveness, comparison of OSA sub-system procurement and procurement by OL is made.

An assessment of the procurement system within OSA requires special attention to the chronology and objectives of their principal programs. This is true particularly as regards R&D procurement because of the close and sometimes difficult-to-segregate relationships of R&D, production, and product improvement. It is therefore desirable to present the general background understanding acquired on which the assessment is based.

During the period 1960 to present, OSA has been engaged in the development of four major aircraft programs: OXCART, KEDLOCK, EARNINGS, and TAGBOARD. The chronology, content and relationship of the Air Force are briefly as follows.

The OXCART (A-12) program is the development and operation of a reconnaissance aircraft successor to the U-2. Ten aircraft were produced. The program is operational.

The USAF expressed interest in procuring a modification of the A-12. The Agency subsequently commenced the KEDLOCK program (YF-12). This is a fighter/interceptor version which includes major modification such as the addition of missile launch and fire control capabilities.

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Following this was the EARNINGS (SR 71) program. The USAF requirement was for a multi-sensor aircraft of new configuration. Six aircraft were produced in this development program which can be considered test beds in relation to subsequent additional procurement of twenty-five, three of which have been delivered against a scheduled completion in June 1967.

TAGBOARD (M21) followed next. This USAF-sponsored program consists of two YF-12's modified to launch 25X1
a drone (D21), twenty-nine of which were ordered and delivered.

The EARNINGS (SR71) aircraft requirements were increased, and twenty-five additional are under contract, three of which have been delivered with completion scheduled for mid-June 1967.

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OSA ORGANIZATION

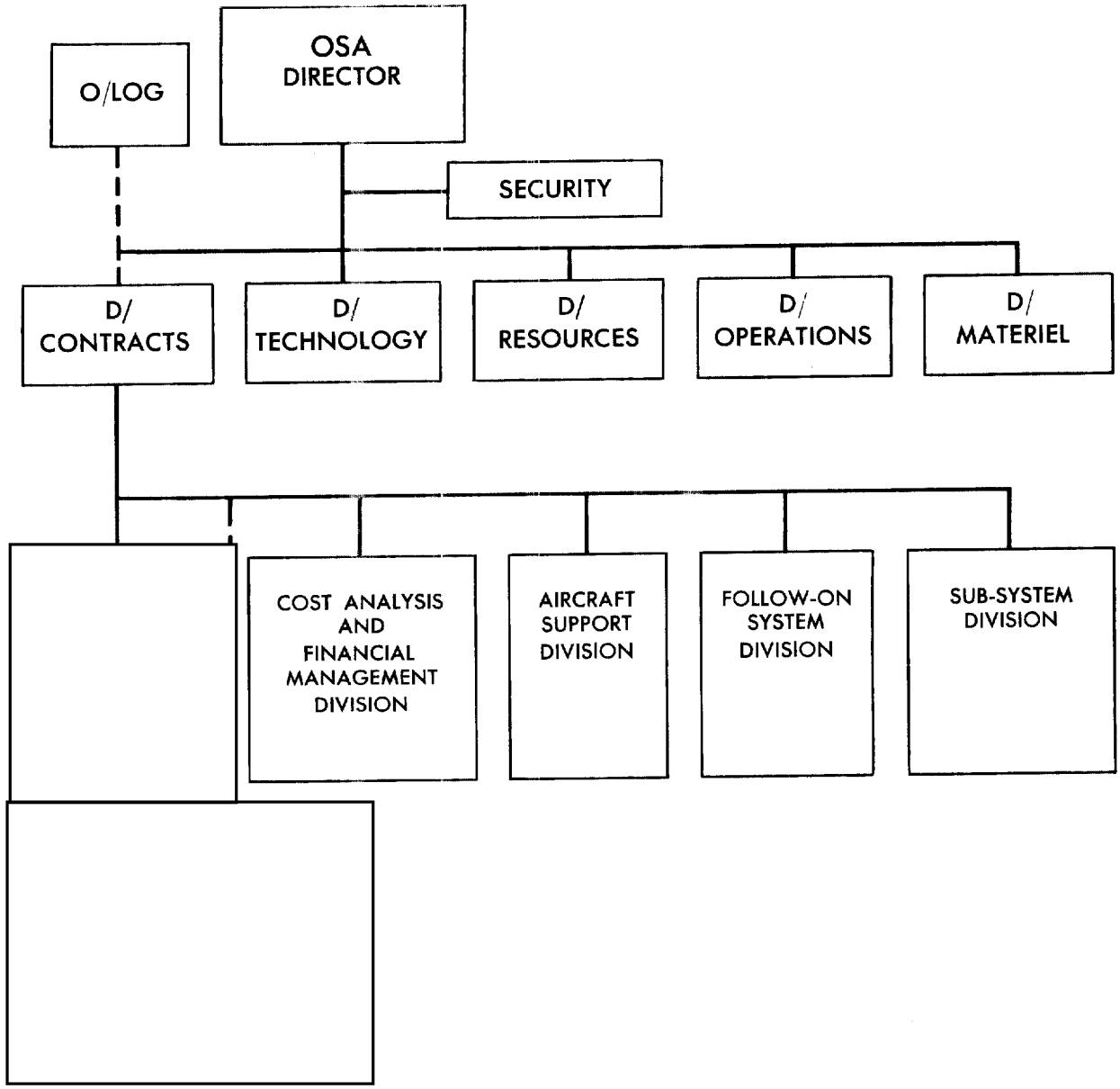

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Figure III-17

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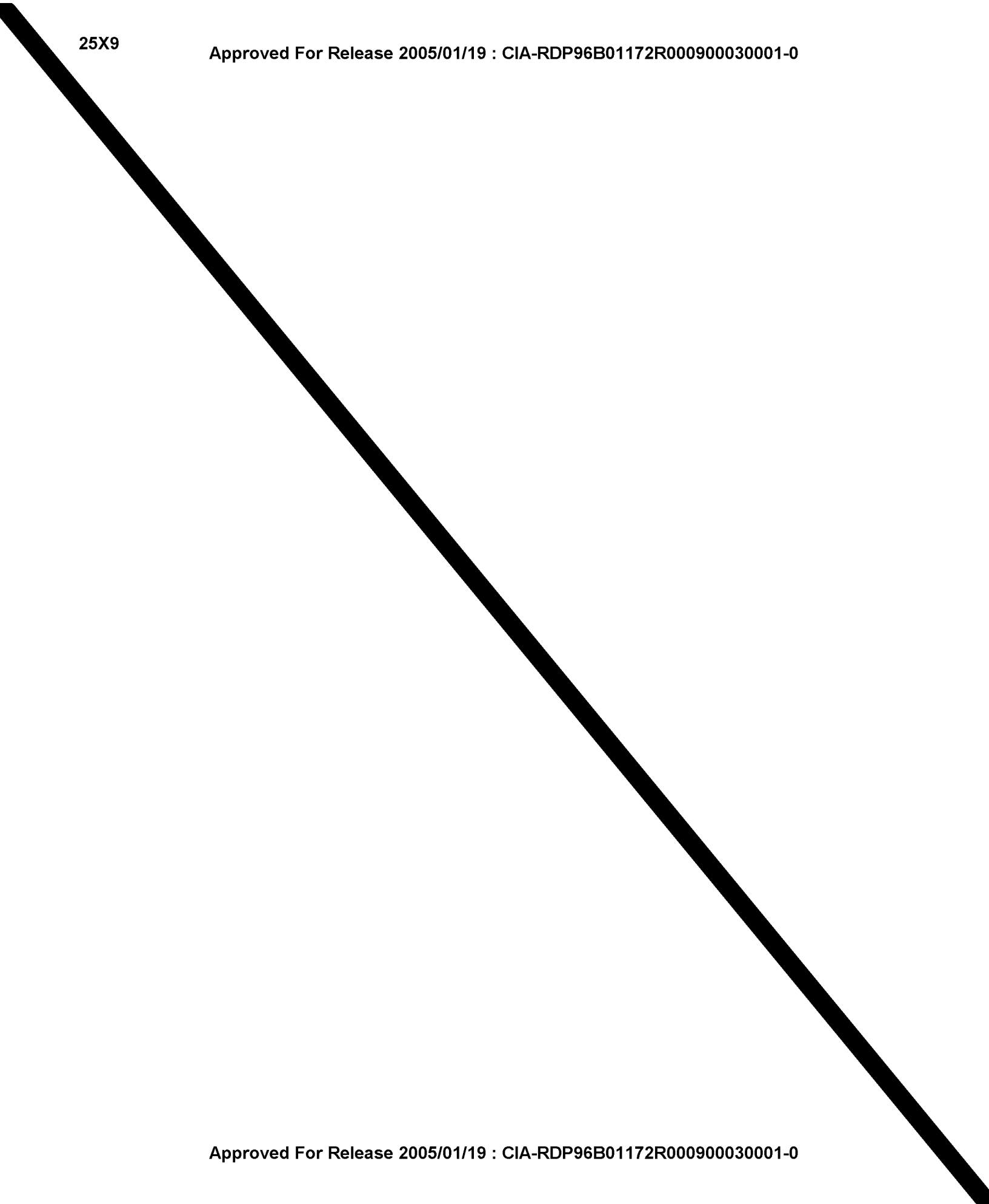

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SUPPORT CONTRACT STRUCTURE

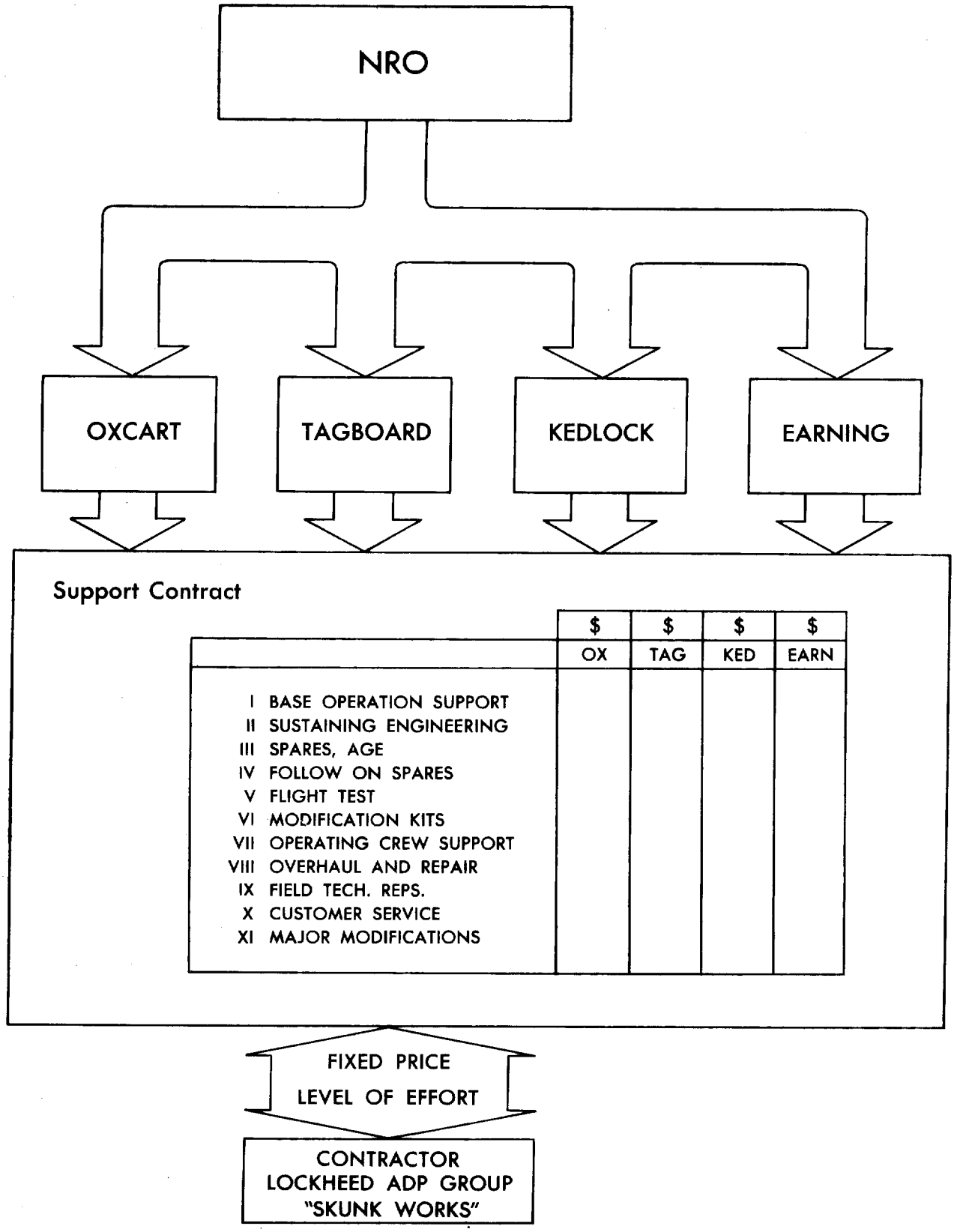

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Figure III-15

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NATIONAL RECONNAISSANCE ORGANIZATION

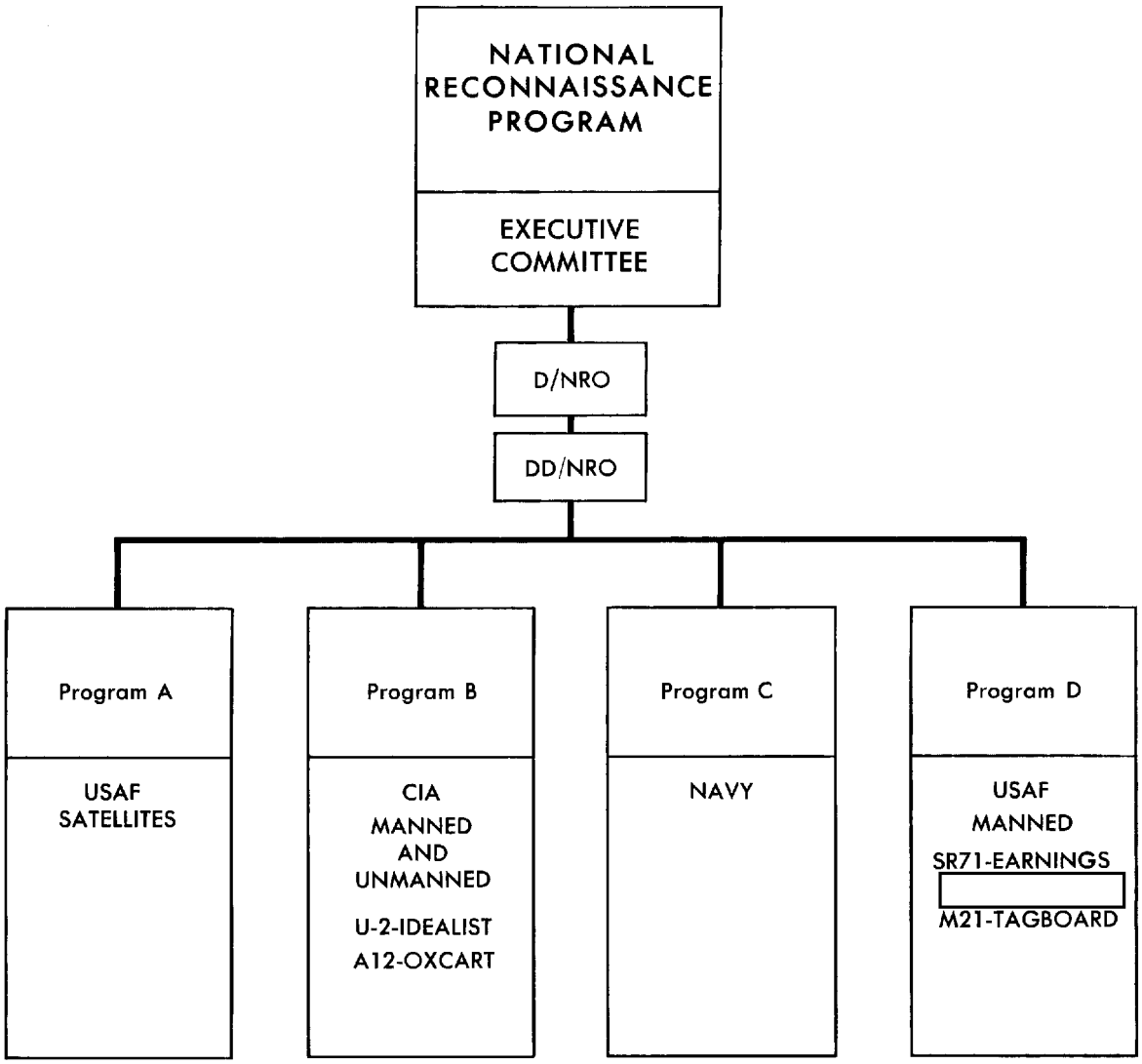

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Figure III-14

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Approved For Release 2005/01/19 : CIA-RDP96B01172R000900030001-0

July 1966

MEMORANDUM FOR: The Inspector General

SUBJECT : A Study of the Agency Procurement System

Working closely with representatives of your staff, we have completed a study of Agency procurement organization, procedures and practices. This report contains our findings and recommendations

Summaries of our findings and recommendations may be reviewed in Chapters II and VI respectively. Detailed discussions concerning procurement and inventory management with particular emphasis on the differences between directorates, components, and divisions will be found in Chapters III and IV. Recommendations pertaining to organization realignment and the need for an information system will be found in Chapter V.

Unusual Activity Influence

This study was undertaken during a period of extremely heavy activity in the Far East. That particular mission has provided a heavy influence on the reaction of the Agency's procurement and logistics support systems as well as the related financial and auditing functions. We were acutely aware of this influence throughout the study and have made great effort not to permit it to affect our conclusions and recommendations. Rather, we were able to use it as a measurement of how effectively the various systems continue to operate in such circumstances.

Cooperation

This report contains many criticisms. However, we feel strongly that the readers should consider these as criticisms of systems and not of personnel. Among the many industrial and governmental units with which we have been privileged to associate, we cannot recall one which contains more sincere, intelligent, and dedicated personnel than are found in the Agency.

A STUDY

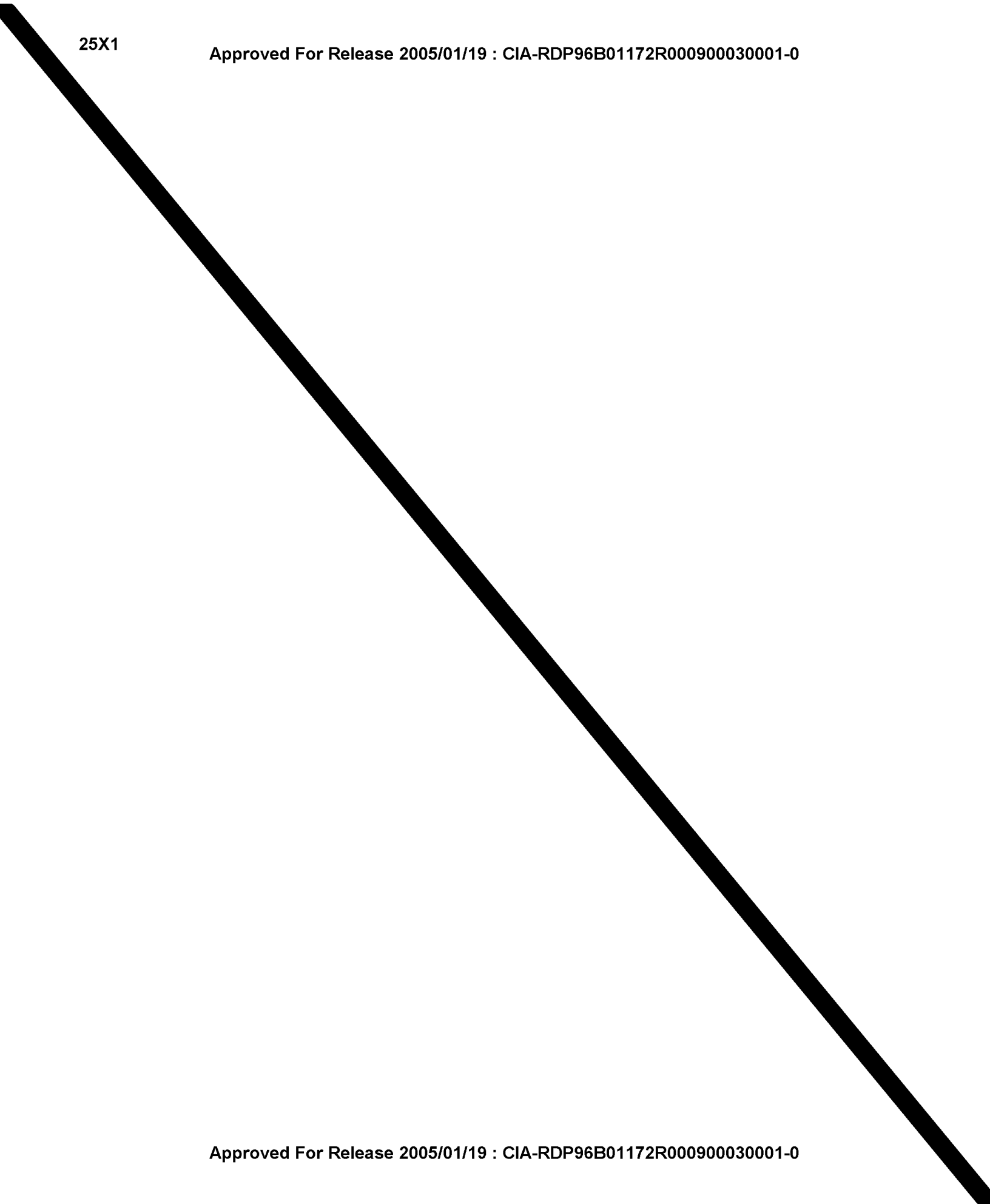
of the

PROCUREMENT SYSTEMS

of the

CENTRAL INTELLIGENCE AGENCY

July 1966



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3.4 Procedures

3.4.1 Major Systems

The procurement of major systems is different from other system, sub-system, and component procurement in magnitude, complexity, and frequency of occurrence. The procedures involved may be expected to fit the particular situation and to change markedly in detail from one program to another. The number of distinct, different, major aircraft systems procured by the Agency is four: (U-2, A-12, YF-12, SR-71). There is really no procedure, per se, for such procurement except in very broad generalities.

The procedures which were followed in the procurement of OXCART (A-12), and which are similar to those used in IDEALIST (U-2), were reviewed and may be summarized as follows:

. Funded studies were executed by Lockheed and Convair to prepare preliminary design proposals.

. A joint evaluation of the proposals was made by senior-level personnel in DOD, USAF, and CIA. The decision to award a contract to Lockheed was concurred in by the President.*

. The administration of the contract was based upon placement of maximum responsibility and authority in the contractor and minimizing usual documentation and reports.

Negotiations and contract administration of major systems is very much a team effort, involving the Contracting Officer, Technical Representative, Auditor, and Security representative. The negotiation routine was examined in a step-by-step fashion as were the procedures in contract administration. The procedures were found to be most satisfactory. Because major system procurement is not a frequent occurrence and since each system, because of its role and dollar magnitude, becomes the subject of special management attention, this report does not document the details studied except to record the main features to which those details were seen to contribute.

* See Appendix, Exhibit I for a summary of the source selection activity.

. There is a balanced technical-procurement-audit function approach to negotiation.

. Cost analysis is carried out thoroughly.

. Adequate contractor reports are produced, including computerized monthly reports of expenditures against plan, commitments, obligations, and estimates to complete.

. Program status reviews at the system level are carried out periodically with multi-function participation for top OSA management.

3.4.2 Support Systems

The support or sub-system procurement procedure follows the same general pattern for ORD, OEL, or NPIC.

Initiation of the project starts with an informal, non-documented request from the technical component. A meeting is usually held during which the OSA aircraft Technical Representative, the component Technical Representative, and the negotiator make initial plans. Proposals and cost quotations are, in most cases, independently solicited by the technical component. The OSA negotiator is generally not deeply involved in the selection of source. (One exception in the example of an OEL program was cited in which the bidders conference technique was employed).

The only formal request to DC, SSD, is in the form of a memorandum and Form 1716 which transfers funds from the participating technical component to OSA. 25X1

Precontract audit service is performed [redacted] through field offices.

3.5 Management Controls

The administration of support contracts involves technical reporting which varies somewhat depending on the technical component involved.

No standard contractor technical progress reports are required of contractors except as individual components require. These are received by the Contracting Officer and distributed to the Technical Representative in the component.

25X1

Technical reports by the Technical Representatives to the Contracting Officers are not required although NPIC (alone) sends them anyway.

Financial reports by contractors are standardized. They are received by the Contracting Officer and not normally distributed to the Technical Representative. The content of financial reports consists basically of expenditures to date, commitments to date, and estimates to complete, and are required routinely on a quarterly basis.

The administration of contracts in most cases has the undesirable feature of separate technical and financial management. Except in an after-the-fact way, problems relating to contract progress and the possible need for re-direction are not brought to management attention. The early, joint participation of procurement and Technical Representative brought about by the common aircraft Technical Representative bond is a favorable factor. It undoubtedly is the principal contributor to the well-recognized speed with which contracts are negotiated through OSA as compared to OL. However, the atmosphere of informality and close personal relationship between Contracting Officer and technical component does not continue to as great a degree in the administrative area. Contractor technical reports are not a serious input of information to the Contracting Officer and financial reports are not provided to the Technical Representative. This division of information, together with the lack of any routine technical reports from the Technical Representative creates a situation in which the most favorable product, cost, and schedule cannot normally be achieved.

Certification for payment on all but the final payment is virtually an automatic action. Invoices are sent by the contractor directly to OSA/Finance. The disbursement process is started and completed without substantial Contracting Officer involvement. Copies of invoices are received by the Contracting Officer, but no correlation with technical progress is made. The 15% normal withholding on final payment until thorough certification is made is not a thoroughly adequate procedure. At least the reasonableness of interim invoices should be certified by the Contracting Officer.

The need for improvement in certification is particularly true for Procurement Authorization Requests (PAR). PAR consists of the establishment of a basic contract which is funded and calls for goods and services under a very broad description of scope. A technical component independently issues Work Orders to contracts against the basic contract. The limitation for such authorization is $25 thousand in any one transaction,

with no limits on the number of transactions, (except, of course, when money runs out). The basic contract may be increased from time to time. With nothing but final certification being made and the contract, in effect, never ending, no certification is very likely to ever occur.

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3.6 Responsiveness

3.6.1 Major Systems

The responsiveness of the major system procurements for aircraft in terms of meeting Agency objectives in a timely fashion is excellent. Twenty-nine months to first aircraft roll-out and a total of 50 months to a successful Mach 3.2 flight are unquestionably laudable achievements. The fact that some important operational intelligence results were achieved by the aircraft even during this development phase leaves little doubt as to responsiveness on this score.

The nature of the procurement makes the usual performance, cost, and schedule measurements difficult to apply quantitatively. Moreover, comparison with other programs beyond very broad ones can be made only with difficulty. The first is true because R&D was combined and paralleled with production efforts. One cannot simply and meaningfully measure final delivery with original contract due date, because major decisions tantamount to changes in scope by usual military standards were made readily and frequently during the course of the work. The minimization of documentation masks these activities for exact reviews. This is stated not to discredit the procedure, but rather to note the nature of the difficulty in applying precise measurements. The second--comparison to other military programs--is to be made with caution. The Agency program involved a small number of aircraft to be operated under ideal conditions, (as compared to combat conditions), and maintained by highly specialized civilian crews, as compared to routine military maintenance.

In the final analysis of system responsiveness, comparisons to other programs is in many ways irrelevent, in spite of the near similarity of the performance characteristics of the aircraft. It was not considered within the scope of this study to make such an aircraft-system-to-aircraft-system comparison in order to measure the responsiveness of the OSA procurement system. No such detailed analysis was attempted,

although documented comparisons prepared by others were studied. Rather, an assessment was made which attests to:

. Delivery achievement, which is very favorable when compared in general terms to usual aircraft procurement.

. Performance characteristics, which met objectives.

. Early and important limited operational capability, prior to final operational date.

. A management control system, which provided prompt visibility into major technical and financial problems and provided a basis for continuous control decisions over costs which exceeded original estimates.

3.6.2 Support Systems

Responsiveness of the OSA procurement system for sub-systems (those for the R&D support provided by OEL, ORD, and NPIC) is more easily measured and can be compared to procurement by OL.

In negotiating contracts, the OSA system proves faster, (see Figure III-7). For example, on the basis of procurements in FY 1966, the average time for negotiation is one-half that of OL procurement. The range of times is considerably shorter--one to 40 days as compared to one to over 200 days. Fifty percent of OSA procurements are accomplished in less than 15 days, as compared to 31 in OL. The procurements are of equal complexity. There is little doubt that the OSA system is fast.

Contract delivery is more favorable in procurement through OSA than through OL. Although fewer contracts were included in the measurement of OSA (because only a few had been completed) than were included in the measurement of OL procurement, the delivery was significantly better. For example, half the number of contracts (in OSA) were delivered on time. The range and average degree of late delivery was also significantly better, as can be seen in Figure III-7.

There is, however, an almost complete lack of technical reports to the Contracting Officer from the Technical Representative. Reports of financial status by the contractor are more comprehensive than those usually encountered in OL contract administration. However,

the examination of financial and technical status information is done independently by the Contracting Officer and Technical Representative respectively and represents a potential problem area.

The only factor that appears to act as a safety valve for the loose Contracting Officer-to-Technical Representative relationship is the common denominator of the aircraft program Technical Representative. Support programs that get into trouble are brought to Contracting Officer attention more readily because of their affect on aircraft programs whose Technical Representative is close at hand.

3.7 Summary of Findings

Except for contract administration, all other phases of major system procurement (source selection, negotiation, etc.) could be examined only as historical data since there is no current procurement. The procedures followed indicate well-integrated functional participation in negotiation and Presidential approval of the selection of source.

By all practical measures the system responded well to production aircraft system needs of the Agency.

In the administration of current major contracts, adequately detailed technical and financial status information is received and is given joint procurement, financial and technical examination.

Sub-system procurement by OSA is faster in the negotiation phase than procurement by OL.

Sub-system contract delivery is considerably more on time than delivery on contracts administered by OL.

In contract administration of sub-system contracts, technical progress information and financial status information is not jointly assessed and represents a potential problem.

4.0 ASSESSMENT OF TECHNICAL PARTICIPATION IN PROCUREMENT

Visits were made to the administrative offices of the DDS&T, ORD, OEL, TSD, NPIC, and OC in order to assess technical participation in procurement.

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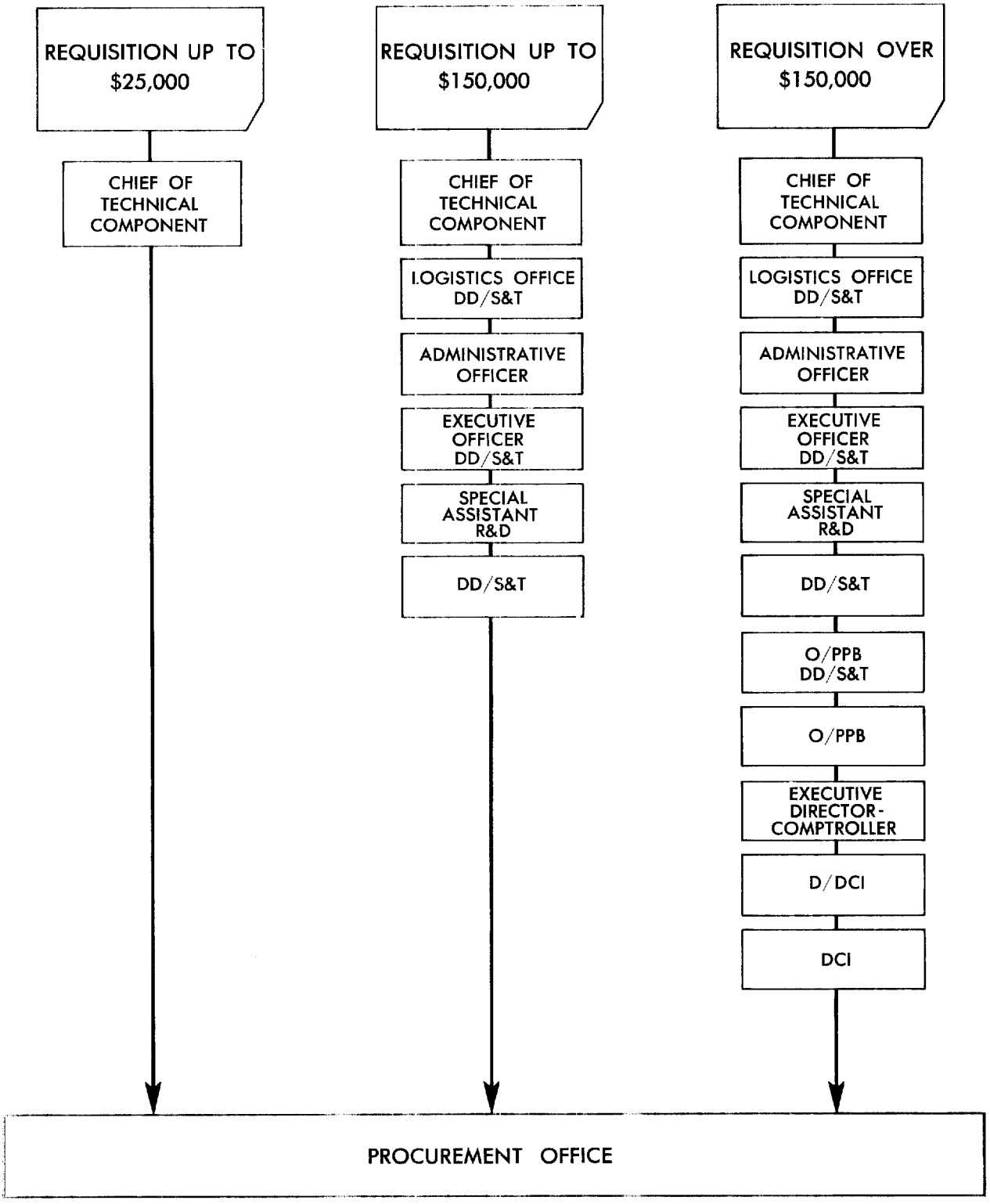
DD/S&T REQUISITION APPROVAL ROUTINE



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4.1 Deputy Director for Science and Technology (DDS&T)

Three aspects of R&D procurement were examined in the administrative offices of DDS&T: Program Approval, Contract Statistics, and the R&D Management Information System.

4.1.1 Program Approval

The general procedures for management approval prior to contracting for R&D are identical for each technical component of DDS&T whether procurement is to be made by OL or OSA.

Technical components solicit proposals, evaluate them, select a source and prepare a requisition for procurement of the R&D program. A package of documents including a memorandum addressed to OL (setting forth a request to contract, the contractor, and the available funds), together with a requisition and supporting documentation such as the contractor's proposal is forwarded for approval. Approval is made at successively higher levels of management depending on the dollar value of the program.

Figure III-18 shows the approval chain for the various dollar levels. When approved, the package of documents together with a signed approval slip is forwarded to the procurement office (OL, OSA, or OSP) for negotiation of the contract.

It has been learned, since we examined these procedures, that several changes within DDS&T have been made in procedural details. Time did not permit re-examination. The general procedure, however, is understood to be much the same.

Approvals of requisitions prior to submission to procurement require succeedingly higher levels of management approval depending on the dollar value as is shown in Figure III-18*. It should be noted that the approvals made are based on a proposed plan frequently involving a single

* Approval by the Special Assistant to DDS&T includes detailed technical assessment of the program. Recent instructions to technical components delineate the nature and format for presenting material on programs for approval.

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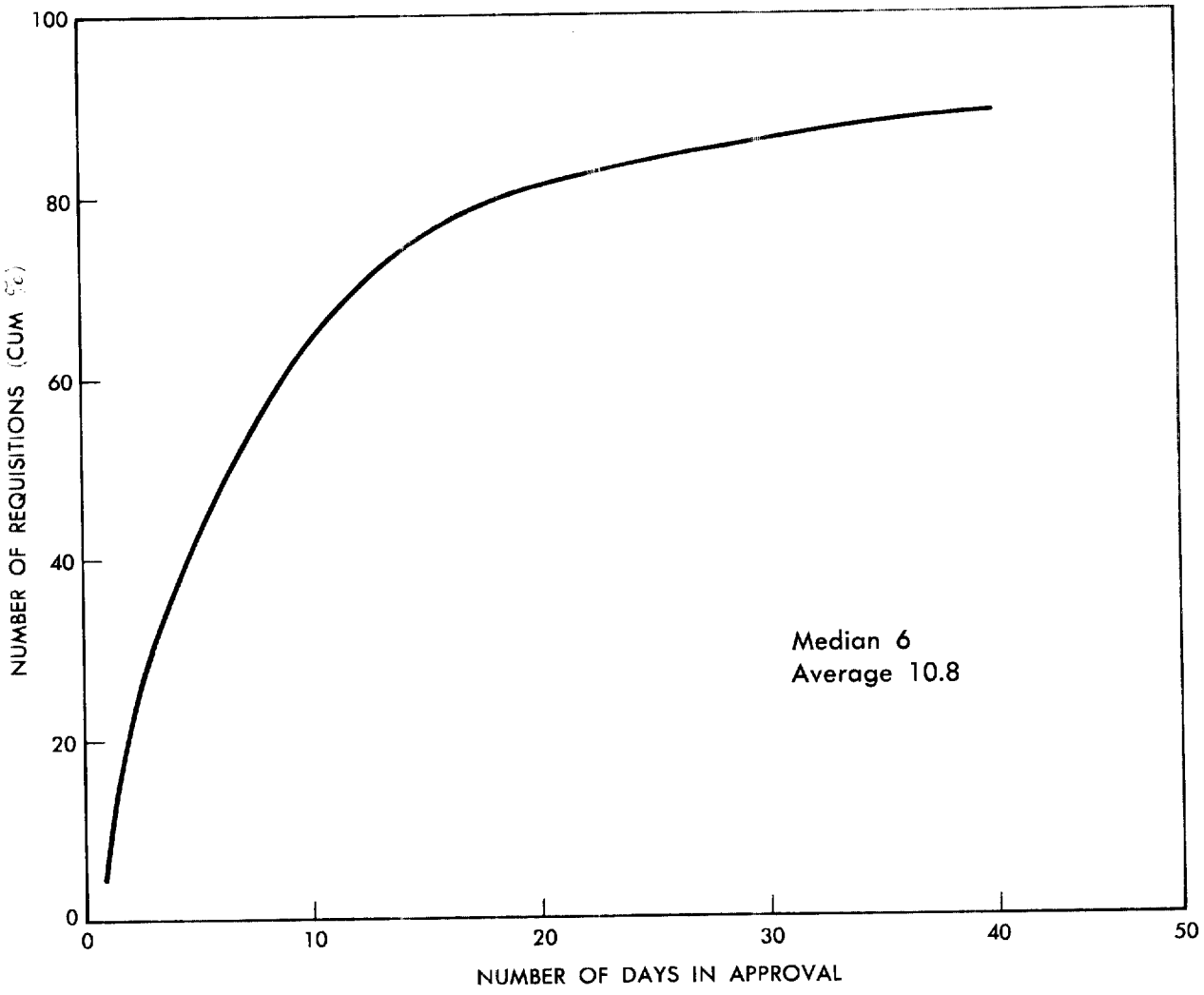
DD/S & T REQUISITION APPROVAL CYCLE



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contractor and a particular type contract. It does not follow automatically that the resultant contract will be according to that plan. On occasion the contractor will be different as will the type of contract. This occurs because final decisions on these matters are made in OL (Procurement Evaluation Committee), subsequent to the approvals of management, at the DDS&T, DDI, and DCI level.

The amount of time involved in processing projects for management approval is relatively short. As can be seen in Figure III-19, 50% of the number [1] are processed in fewer than 10 days, with the average under 11 days.

4.1.2 DDS&T Contract Statistics

All Active Contracts
as of
17 March 1966

25X1

TYPE OFFICE ($ thousands)

[redacted]

Note: (x) indicates number of contracts

1. An examination was made of all contracts of ORD and OEL which were recorded in the computer runs in late March 1966 25X1

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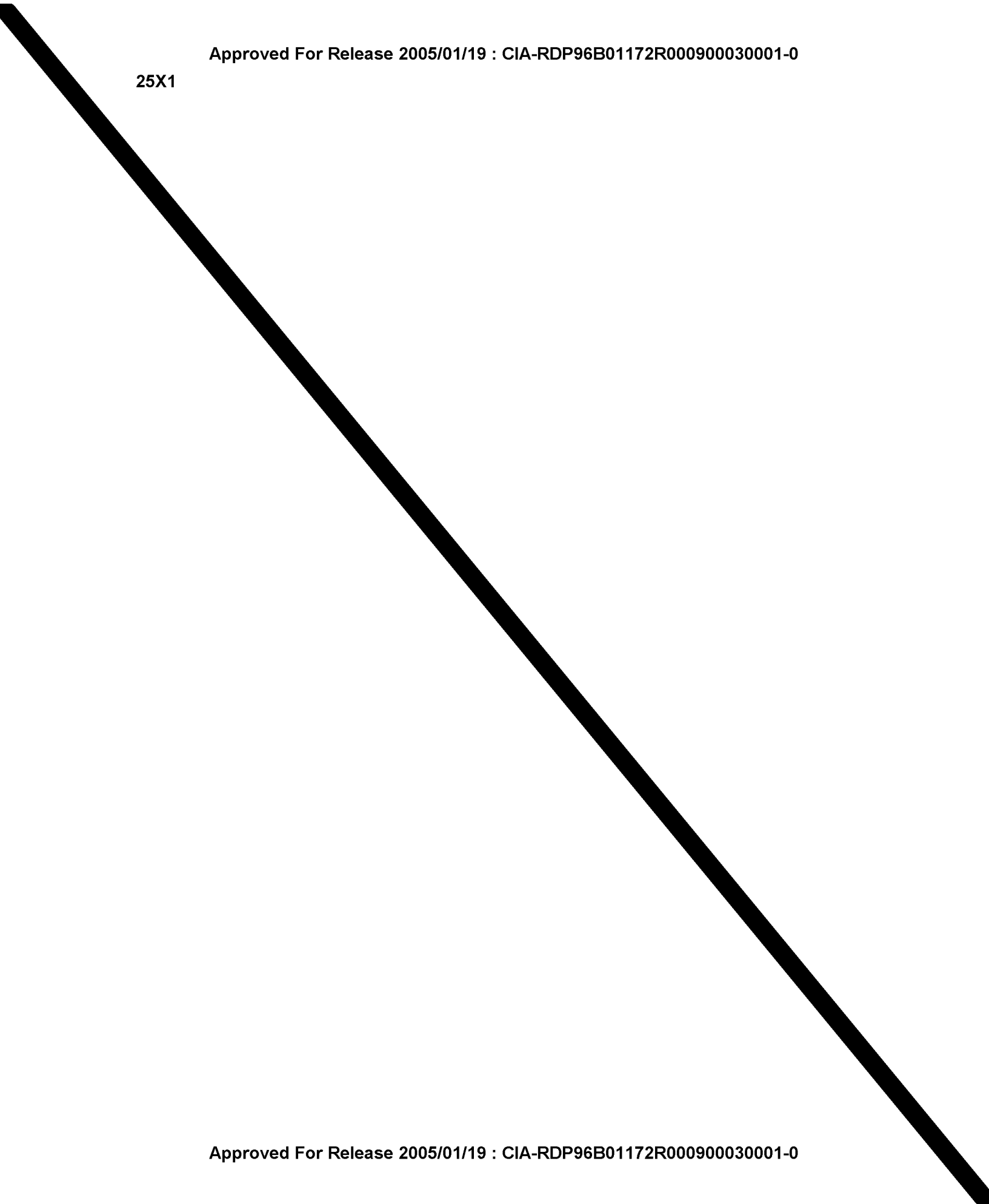

Figure III-20 graphically displays the relative amount of dollars associated with the various type contracts.

4.1.3 Research and Development Information System

General Background and Description

The information system on which management of R&D is based is in a state of transition from manual to machine methods. A body of contractual information exists in three places:

The Files	A manually maintained file of contract and associated documents filed by contractor and requisition number.
The Cards	A card-peg board visual display, manually updated which summarizes important dates and actions by component pertinent to contractor processing and administration and thru a peg board display indicates certain major requirements (such as Inspection Reports) and due dates.
Computer	A machine data base of information including all critical information contained in files 1 and 2 and, in addition, certain other statistical data.

The computer system is in the process of being installed.* The files and cards are still retained and are being used in day-to-day operation. These sources of information available to DDS&T management were examined for content and function.

The computer system was used by the study team to retrieve information for the purposes of obtaining data useful to the measurement of the procurement system response and also to assess the content and validity of information being made available to DDS&T management relative to R&D activities.

* Changes and improvements in the system are being made constantly. Some of the detailed comments which follow may not be entirely applicable. The general comments do apply.

Observations were made which are reported on in terms of data available, use of the system, and problems identified.

Data Available

As a first step an attempt was made to understand the definition of each of the headings corresponding to the data which was called for in the system. Exhibit G in the Appendix lists the data headings and the understanding which resulted from discussion and examination of existing published definitions. Considering the body of data as a whole, it was noted that personnel directly concerned with the system in DDS&T were well versed on the definitions of the headings. The understanding was not complete, however, in the operating organizations from whom much of the data must originate.

While understanding of what is meant by each of the headings was collected for the purposes of this study, it is noted that there is no updated documentation of definitions for general use. Validity of data in-put is dependent to a large extent on a clear understanding of what is wanted. During the course of discussion, several detailed questions of format and content were raised and adjustments are understood to be in process to clarify them. Some remain, however, because they cannot, or should not, simply be changed without coordinating efforts. Notable among such troublesome questions are those noted immediately below.

Contractual Dates (Items 17 and 18)

Some confusion and doubt exists concerning the usefulness and true meaning of the dates. For example, the negotiated date is supposed to indicate the date on which the contract is negotiated. There did not appear to be any recorded information which would indicate such a date and, on examination, it was clear that such a date was not the date of significance being sought. Similar lack of clarity exists in regard to effective date. The date being entered is the date from which the contractor can legally charge to the contract as differentiated from the date on which the contract is executed.

Engineer Reports (Item 48)

By mutual agreement between technical component personnel and DDS&T personnel, the date entered as "Completion Date" is taken as the date of the Final Inspection Report. "Completion Date" is intended to be the date on which final delivery is made and may differ widely from the date on which a Final Inspection Report is prepared.

Percent Complete (Items 41 and 50)

Item 41 calls for an estimate of the completion percentage against each individual milestone. Item 50 calls for an over-all percentage completion estimate. While both are useful and meaningful, it could not be determined just what basis was being used to arrive at these estimates. This resulted in some question as to the relationship of the two measurements.

Contractor Performance and Evaluation (Items 46 and 49)

Evaluation, Item 46, is a qualitative (excellent to poor) assessment of progress on each milestone. Contractor Performance is a similar measure of over-all contractor rating. Based on examination of certain Inspection Reports, it is unclear what relationship between these two measurements exists.

Information Not Available

Contractor Reports - Technical

It was observed that reports of technical progress frequently were not required. However valid the lack of this requirement based on the individual circumstances of the case, neither during examination of the data system nor in subsequent discussions in the operating components, were any firm criteria noted upon which decisions were made to eliminate such contractor reporting.

Contractor Reports - Financial

Conspicuously absent from the body of data is an estimate to complete expressed in dollars.

Contractor Performance

The measures expressed for evaluation of contractors is currently in qualitative terms. No simple and direct indication appears which answers the straightforward questions, (for a completed contract): Did he deliver on time? Did the product meet specifications and perform? Was the contractor within estimated costs? Also, as can be seen in the discussion of the detailed examination of various files of Inspection Reports which follow, "Above Average" reports have been made on contractors who have delivered late and were over-run in costs.

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Extensions in Time

The latest date only is shown in Item 20 representing a current required date. It would be meaningful to carry the chronological sequential extensions which are granted on each contract as an indication of schedule performance.

Inspection Reports (Form 1897)

Form 1897 was introduced over five years ago by OL. The requirement that it be submitted on a 60-day basis was undoubtedly a substantial improvement in collecting management information over the previous arrangement which involved only a final memo-type report.

A general observation is that the form is not being adjusted to accommodate the more extensive information being called for in the computer data base. For example, Form 1897 requires a yes or no answer to the question, "Is the contractor on schedule?" The computer data base requires a percentage estimate of completion for each of several milestones. The form does not provide a medium for such reporting and yet stands as the only mechanism by which such information is introduced. Similar questions arise in regard to other data such as percent of work completed and over-all contractor performance. Items such as these, seemingly of relative minor importance, can be the very ones which, left to individual interpretation, either become meaningless or contribute to misinterpretation.

The specific piece of data concerning the probability of the contractor remaining within the allocated funds (yes or no) is worthy of special attention. The data is questionable from the standpoint of validity and adequacy of its usefulness. The source for this information is the Technical Representative. Whatever formally reported financial information is available from contractors is delivered to the Contracting Officer. Discussion with technical people reveal that such information is not normally available to them. (Indeed, one source indicated that it was not within his prerogative to have it.) The Technical Representative is then confronted with obtaining information on which to base his yes or no comment in an informal and less than thorough manner. The manner, as reported in several sources, amounts to the contractors' generalized comments.

The data itself does not seem to meet the real needs of management. Knowing simply whether or not a contractor "will probably remain within funds" is useful but usually too qualitative. General practice indicates

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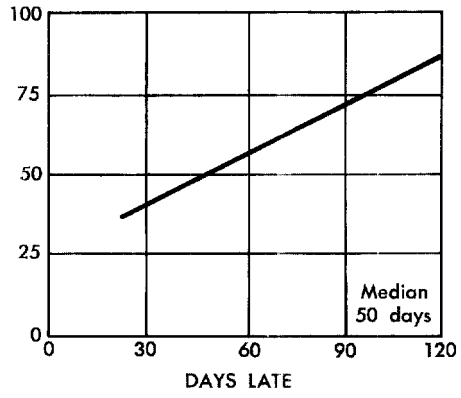
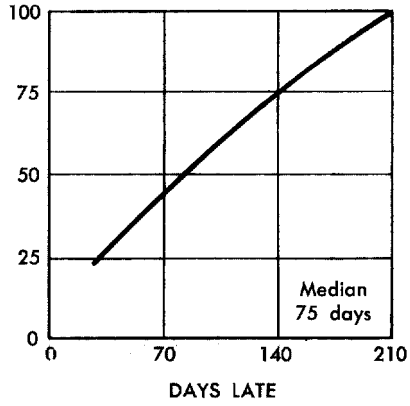
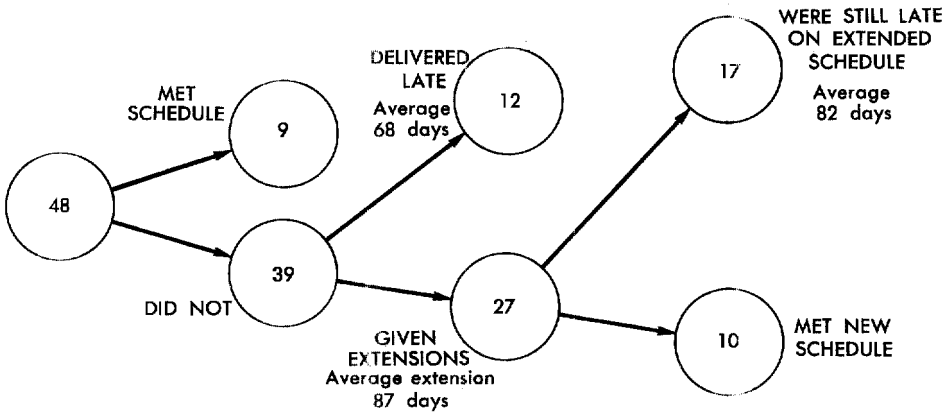
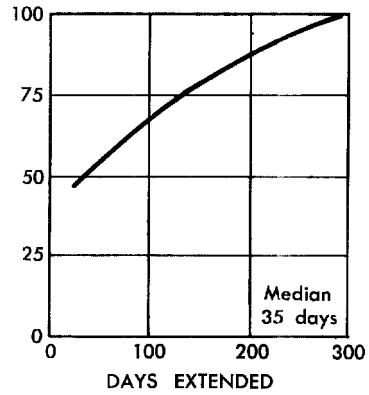
DDS&T CONTRACT DELIVERY RECORD (THE 48 OEL AND ORD CONTRACTS COMPLETED IN 1966)

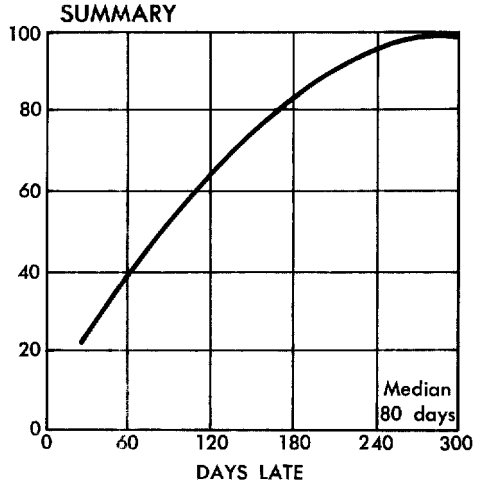








SUMMARY



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Based on Originally Stated Requirements of 48 Contracts

- 19% were delivered on time.
- The average delay was 90 days.
- Over 60% of those given extensions were still late.

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that the relation of technical accomplishment to fund expenditures and obligations and a sound estimate of funds to complete is most meaningful.

Inspection Reports on Fixed Price Contracts

It was understood that Inspection Reports are not required on Fixed Price Contracts. The reason advanced is that because of the fixed price nature the Government is not entitled to detailed information from the contractor. While certain details of financial information may not be expected it is equally true that information to measure technical progress is usual and necessary information. It appears that a blanket policy of "no Inspection Reports on Fixed Price Contracts" eliminates some vitally needed information.

Further, there is lack of understanding on the application of the policy quite aside from the policy itself. As is explained in the section following, Use of the System in Practice, Inspection Reports are being required by OL on many Fixed Price Contracts.

Use of the System in Practice

Information Retrieved

The computer based information was used to retrieve information on Contractor Performance and on Current Status of Inspection Reporting. Computer runs were readily supplied which listed by component the Completion Date (Item 19) or the Extended Date (Item 20) and the Actual Date (Item 21). Differences in days were determined in order to determine delivery performance. The data obtained in shown in Table 1 and a graphical representation of the variances is shown in Figure III-21. Likewise, differences in Inspection Report due dates and actual dates were obtained and are similarly shown in Table 2. It is useful to examine the results from the standpoint of the information system. The results were as follows.

Table 1 - Contractor Performance

Office	No. of Contracts	No. Late	Percent Late	Avg. Days Late
OEL	23	15	65	60
ORD	25	18	72	52

Table 2 - Inspection Report Status

Office	No. of Contracts	No. Having Late Insp. Repts.	Avg. Days Late
OEL	33	30	180
ORD	91	69	90

Subsequent discussion with DDS&T personnel raised questions concerning the validity of the information collected. The paragraph immediately following treats the question of validity. However, it is important to note that to whatever extent and for whatever reasons the data should have been different, the results shown above are those which were available to DDS&T management from the computer system.

Validity of Contractor Performance Information

Recognizing the transitional state of the information system between manual and computerized methods and the additional possibility that information might have been incorrectly entered into the machine system, an examination of the corresponding data in the manual system was undertaken. Both the file and the card file were used as a source of information on a random selection of a few contracts. The results did not indicate that the computer data was incorrect. Rather they indicated that in several cases one could not determine what the completion date actually was, or that the completion date was later than that indicated by the computer run.

Four representative sample cases which were examined in the file and in the cards are shown in the Appendix, Exhibit E. In three cases it could not be determined when, or if, delivery occurred. In one case delivery was indicated as being several days later than was indicated by the computer run. Ample time was spent with DDS&T personnel and the OL representative in detailed hand examination and discussion of each case to insure that no misinterpretation of the manual files was made.

It is important to distinguish between problems which are solely and directly related to any transfer from manual to mechanized information systems and those which are inherent in the system itself. It appears that problems exist in the fundamental system, (manual or mechanized) in regard to proper input of data.

Validity of Inspection Report Status

An assessment of the information collected from the computer run in regard to Inspection Reports by DDS&T personnel indicated that Fixed Price Contracts were included in the data and caused erroneous conclusions to be drawn. The point was made by DDS&T personnel that reports are not required on Fixed Price Contracts. Although the machine run indicated due dates for such reports against Fixed Price Contracts, it was contended that these cases did not involve delinquencies. Aside from the question of whether the lack of such a requirement in these contracts is desirable, a large number of such contracts do indeed indicate that Inspection Reports have been made.[1]

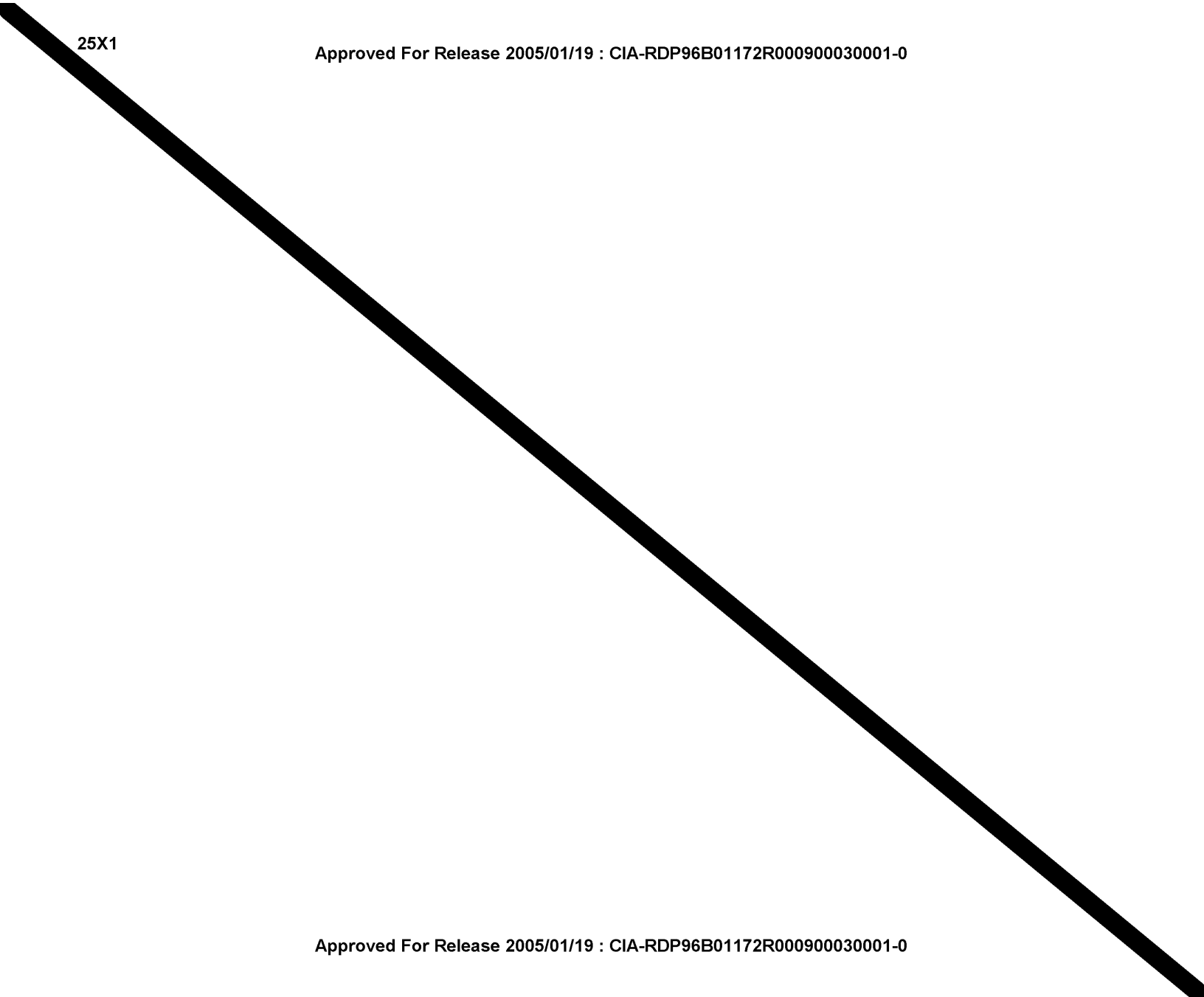
As an example, OEL Fixed Price Contracts were examined in this regard and the following determined:

	Budget Control No.	Required Dates Shown	No. of Reports Made
1.		yes	3
2.		yes	3
3.		yes	1
4.		yes	1
5.		yes	2
6.		yes	2
7.		yes	1
8.		yes	1
9.		yes	2
10.		yes	1
11.		yes	3
12.		yes	3
13.		no	1

Flexibility of the Computer System

As currently used, the system appears to be limited to a sort, list, total and format capability. To obtain more use from the system and indeed to permit it to function as it is expected to function, some simple extension in programming is desirable. For example, if the system is to flag problems such as indicating which active contracts are behind schedule, it will be necessary to perform the simple arithmetic necessary to subtract actual dates from due dates and list differences. As now configured, time-consuming manual computations are necessary

1. The question of Inspection Report requirements is confused. The subject was examined in OL and is treated in Chapter IV, Section 2.3.6.



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to determine such data. What is needed is a simple run listing only those contracts which show delinquencies and the extent to which they are delinquent. Such information is valuable at the project level, the component level, and the DDS&T level. It is extremely doubtful that, with the mass of limited data now confronting people, extraction of the kind of information which enhances management by exception will be forthcoming in timely fashion. Similar "difference" data is desirable in several areas such as Inspection Reports, contractor reports, funding approval, funding obligation, contract negotiation, and contract amendments.

The subject of management information system design is treated in Chapter VI, Section 5.0, where an Agency procurement system is discussed, of which the R&D Management Information System is a part.

4.2 Office of ELINT (OEL)

4.2.1 Organization

25X1

[redacted]

4.2.2 Statistics

25X9

25X1 The FY 1966 R&D budget [redacted] In addition, approximately [redacted] was budgeted for support of the NRP with procurement through OSA/OSP.

Number of Contracts

Active projects of record numbered 88, as follows:

Negotiated in FY 1966	12
In OL	10
Scheduled for FY 1966	7
Prior to FY 1966 statistics	59
Total	88

As of 17 March 1966, the distribution of active contracts by type of contract was as follows:

Type	$ (thousands)	% of $
CPFF		
Grants		
CPIF		
FP		
FPI		
FPR		
T&M		
Total		

*Does not include orders placed with other Government agencies.

Contractor Distribution

Contractor distribution, considering all contracts for FY 1963, 1964, 1965, and 1966 was as follows:

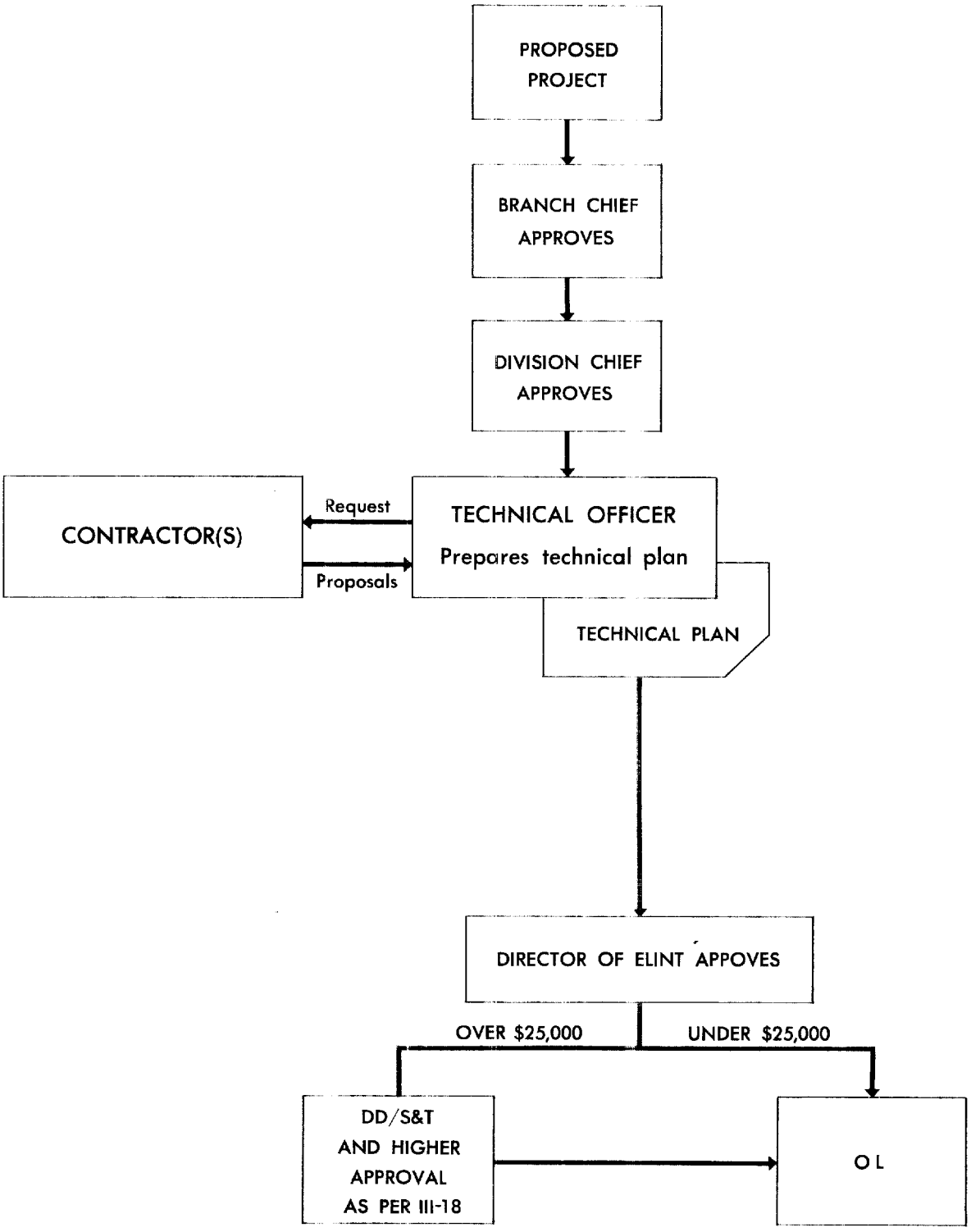
Total number of contractors 33

The top ten contractors were:

Contractor	$ (thousands)

110 a

REQUISITIONING PROCEDURE-OEL



54074 6-66 CIA

25X1

4.2.3 Procedures

Requirement Establishment

A proposed project, starting with varying degrees of formality, proceeds through the branch and division level for informal, preliminary approval which includes the assignment of a Technical Representative. The procedure is shown in Figure III-23. The Technical Representative is responsible for defining the program, soliciting proposals, evaluating proposals and preparing a Technical Plan for procurement.

Technical Plans are submitted at weekly Program Review Board (PRB) meetings, attended by the Director of ELINT, Deputy Director for Systems and Development, as well as division, branch, and other personnel as appropriate. Approval of the Technical Plan is made at the PRB meeting. Subsequent approvals are as previously shown in Figure III-18 according to standard DDS&T procedures.

The question of sole source procurement was addressed by examining 68 contract records over the last two fiscal year procurements. Of the 68, those in which more than one proposal had been received was 13, or 19%. Of those that were multiple proposal considerations, seven were examined in detail to determine the extent to which they were truly competitive. In each of the seven cases, the procedure was exemplary. Detailed, well-organized specifications were sent out. Documented evaluations supported the source selection. [redacted] the development of a high gain microwave antenna, is described briefly below as typical of the level of detail found in all seven cases. 25X1

Typical Specification 25X1

(1) RFP went out [redacted] 25X1

(2) The specification to which each bid was detailed according to this outline:

(a) Scope
(b) Technical Objectives
(c) Level of Effort Required
(d) Relation to Other Programs
(e) Requirements
(1) Electrical Performance
Frequency Bands 25X1
Band Pass Filtering

Gain
VSWR and Impedance
Beam Width

(2) Mechanical Performance
Size
Weight
Fittings

(3) Quality of Design
Choice of Components
Environment

(4) Acceptance Testing
Gain
Radiation Pattern Measurement
VSWR
Mechanical

(3) Proposals were received which covered a rather wide dollar spread:

25X1

(4) Documentation revealed that a detailed technical evaluation took place. [redacted] was technically acceptable and was selected on the basis of being the low bidder.

25X1

Contract Negotiation

Contract negotiations are carried out by OL or alternatively through OSA or OSP in the case of programs which are in support of the NRP. The general pattern is the delivery of a procurement request to OL, including a requisition, covering memorandum expanding on the requisition, copies of technical proposals, quotations and supporting documentation. Negotiations generally do not include technical personnel.

Contract Administration

The Technical Representative who was responsible for the preparation of the requisition carries on with responsibility for the technical administration of the contract. Periodic (60-day) Inspection Reports are prepared by the Technical Representative based on personal visits or phone calls to the contractor. Although not applicable to all contracts yet, contract reporting on a milestone basis was most evident in OEL. Percentage complete and expenditures expressed as a percentage of funds available corresponding to each milestone is beginning to be reported. A small number of contracts are reported on this basis as seen in the DDS&T computer runs.

4.2.4 Management Controls

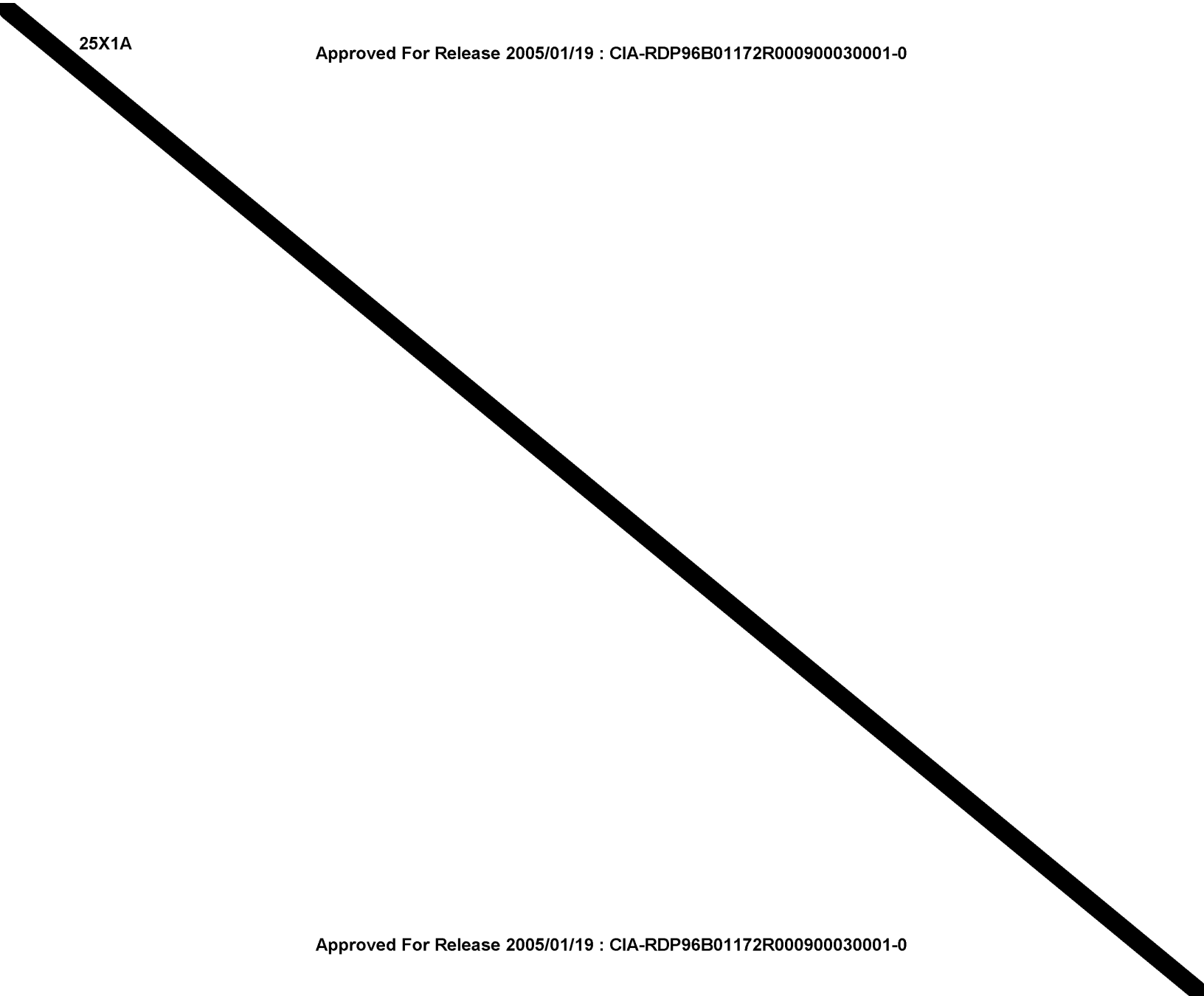
A review of the PRB meeting minutes revealed a well documented record of close management scrutiny of prospective programs for procurement. The weekly PRB meeting appears to be well run. Agenda is documented prior to the meeting. Placing problems before management seems a straightforward and well established procedure. Minutes of meetings reflect thorough examination of prospective program plans prior to commitment. Management approval of projects occurs at the meetings and the minutes document the decisions. The date on which a technical program was launched could be determined from the records as could its progress toward completion of a requisition. Specific pieces of data requested were readily retrieved from the manually maintained files. The operation gave every evidence of good technical management.

In the matter of contract administration, it was observed that financial status information was not routinely available for review of program status. There was a recognized need to strengthen the area of contract administration. Based on several discussions at all levels, it was evident that much thought has been given to the matter.

4.2.5 Responsiveness

The DDS&T computerized data base was used to measure contract delivery response. Subject to the potential errors in the data base iteself, it appeared that several contracts in FY 1966 were delivered late. (Please refer also to Section 4.1.3).

The preparation of requisitions was easily measured from available data and disclosed an efficient 30 day average for processing time.



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25X1 [redacted] [redacted] 25X1

4.2.6 Summary of Findings

. Procedures and their execution appeared excellent in the area of technical management.

. Requirement establishment was well documented with well written specifications.

. Proposal evaluation was well documented with evidence of good competition in several cases. In total, over a three year period, however, the amount of sole source procurement appeared relatively high. It was observed, however, that a high percentage (approximately 50%) of the sole source procurements were in tasks of product extensions and modifications types in which the practicality of competitive procurement could be logically questioned.

. The CPFF contract ratio is considerably lower than the Agency ratio.

4.2.7 Recommendations

It is recommended that a routine contract exception report be included in the weekly PRB meeting. The extent of information necessary is dependent on recommendations made subsequently in Chapter VI, Section 2.0 on management information systems. However, it would be well to identify and format the OEL data needs now in terms of milestone progress, schedule and projections of estimates to complete.

4.3 Office of Research and Development (ORD)

4.3.1 Organization

The ORD is organized as illustrated in Figure III-24. The total number of personnel [redacted] The number of technical personnel who are assigned projects to which procurement is related [redacted] The organization is, in part, a product of a logical consideration of the intelligence process as a system. The basic system "flow diagram" of the process as used by ORD is as shown.

25X1 25X1

Significantly, a weakness or imbalance in the intelligence system (the analysis of data) was pointed out. It should be noted that organizationally, Analysis is separate and performed in-house to a large

25X1

25X1 [redacted] [redacted]

extent. Logic Storage Processing, Transmission Link, and Receive-Record Data Reduction are the analytical parts in the process as shown in Figure III-24. Equally significant and pertinent to the systems orientation of ORD is the point made that in serving other components "getting people to take the systems approach to problems" is a continuing task.

Tied closely with the subject of the system oriented organization of ORD is the subject of Agency goals. It is worthy of note that Agency goals as currently expressed cross divisional organizational lines in ORD, and require the translation of Agency goals to divisional goals.

4.3.2 Statistics

. The R&D Budget for FY 1966 was [redacted]

. Number of Contracts

Active contracts of record numbered:

Negotiated	82
In OL	49
In process	9
Scheduled for FY 1966	50
Active Prior FY 1966	117
Total	307

. Type of contracts

As of 17 March 1966 the distribution of active contracts by type of contract was as follows:

Type	$ (thousands)	% of $
CPFF	[redacted]	
Grants		
CPIF		
FP		
FPI		
FPR		
Cost		
Total		

* Does not include orders placed with other Government agencies.

. Contractor Distribution

Contractor distribution considering FY 1963, 1964, 1965 and 1966 is as follows:

25X1

Contractor	$ (thousands)

4.3.3 Procedures

Requirements Establishment

Requirements are generated in (1) ORD itself as a natural extension of existing tasks or newly conceived, (2) within DDS&T components or (3) from other Agency components external to DDS&T. Requirements take no special documented form and range from informal verbal inputs to documented memorandum requests.

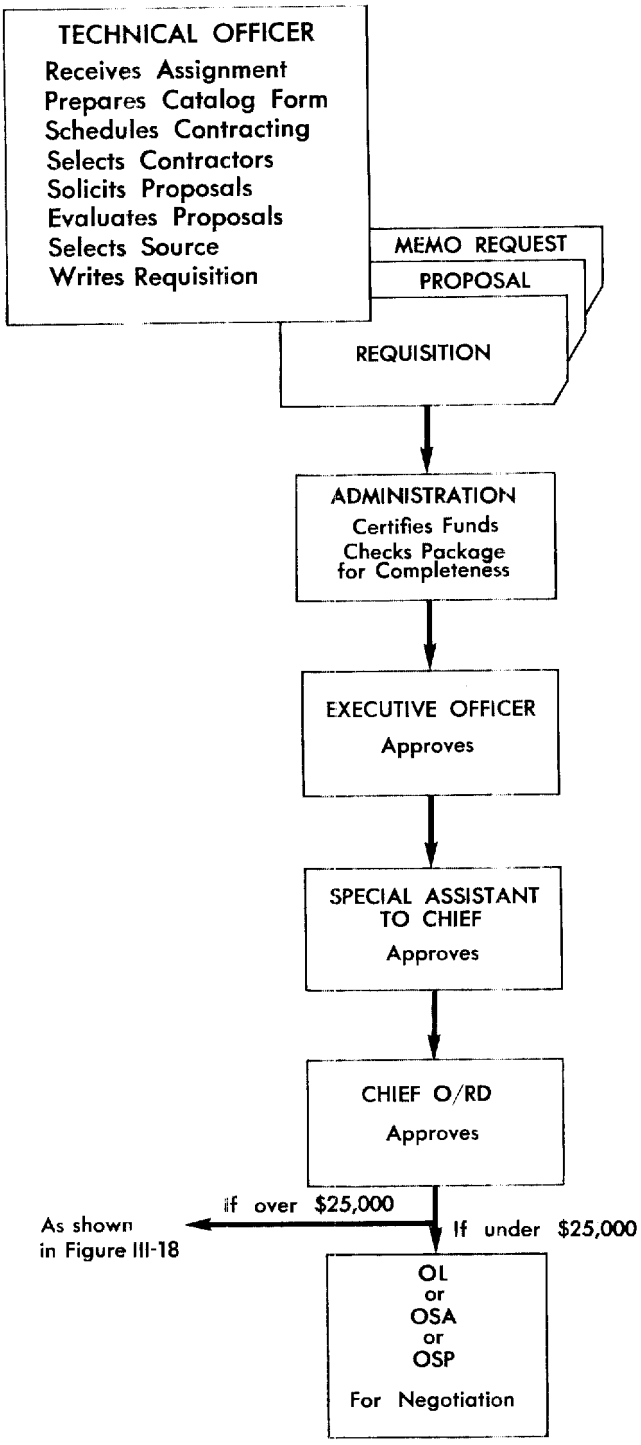
A project oriented assignment is made in which the preparation of the requisition through the entire contract cycle is assigned to a single Technical Representative.

Contractors are preselected from a group of well-known suppliers and proposals are solicited. Alternatively, a sole source is pre-selected. Both technical and cost proposals are received and evaluated in ORD. There is infrequent participation by OL in this activity. The exception occurs when a new contractor is involved and security clearances and basic contract negotiations are involved.

No individual OL negotiator or Contracting Officer is assigned to ORD.

116a

REQUISITIONING PROCEDURE O/RD



54151 6-66 CIA

25X1

A completed requisition and covering memorandum is forwarded to OL for negotiation. The procedure in ORD is illustrated in Figure III-25. After approval by the Chief of ORD, the approval cycle is as shown previously in Figure III-18, depending on the dollar value.

Contract Negotiations

Negotiations are carried out by OL/PD following the receipt of the requisition. Participation by personnel from ORD is infrequent. The requisition invariably reflects the previous technical and cost evaluations. Virtually never are proposals solicited through OL.

Contract Administration

The Technical Reprssentative who has responsibility for preparation of the requisition (and contractor contact) is responsible for the technical administration of the resulting contract. Great reliance is placed on personal contact with contractor, especially on the larger projects. A minimum of technical reporting is required of contractors. The degree of reporting detail is to a large extent dependent upon the requirements of the individual Technical Representative.

Financial information was described as being a matter for the Contracting Officer. As a general rule, financial reports are not reviewed by the Technical Representative. No estimates-to-complete are received. The 60 day Inspection Report is made by the Technical Representative.

Examination in the Radio Physics, Optics, and Audio Physics offices disclosed the following concerning procedures and practices:

. Procurement on special requests to OL is good. Action is fast.

. There is reported to be an inadequate number of people to follow all contracts closely.

. Feedback on the progress of negotiations is slow or lacking.

. Negotiations are considered to be carried out with less than fully experienced people.

Corrective Actions

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- "Savings" obtained by OL in negotiating contractors down in price with corresponding reduction in work content are not always advantageous. This is true particularly near the end of the fiscal year, because funds are "lost" to the Reserve Fund.

- A copy of the contract is hard to obtain--"Sometimes takes five months."

- Cost control feedback is weak.

- Financial reports go to Contracting Officer.

- Estimates of funds necessary to complete projects are not received from the contractor.

- Written reports from contractors are not required except in very brief form.

- Emphasis is on ordering an operational prototype in the first contract with subsequent use of phasing on complex projects.

- Emphasis is on personal contact with contractors as opposed to formal reporting.

- OL response to visiting new contractors is inadequate.

4.3.4 Management Controls

Management controls come about to a large extent by personal involvement of top management on programs of major importance. Management procedures in procurement activities is straightforward, sequential, management level approval for requisitioning.

In contract administration, the division of responsibility between technical and procurement personnel was particularly in evidence. Emphasis is placed on the informality of status reporting requirements and reliance on personal contact with contractors. Reports on financial status are not, in general, combined with technical status information for management purposes. It was pointed out that contract monitoring stresses the available technical manpower.

4.3.5 Responsiveness

The length of time involved on pre-contract activities, in establishment of requirements and preparation of requisitions could not be measured. This is because the start time (such as assignment of Technical Representative) was not recorded routinely. Estimates, however, were made of the program approval cycle time in ORD which compared favorably with all other technical components. Contract delivery performance was measured by extracting data from the DDS&T computer data base. The results indicated a large number of contracts on which extensions in time were granted and which were also delivered late. Section 4.0 provides details on the subject of contract delivery in DDS&T or which ORD data is included.

4.3.6 Summary of Findings

. Procedures and their execution from a technical standpoint appeared to be good.

. Contract delivery shows a general pattern of lateness but the degree is not excessive.

. Close personal management attention is given to major programs.

. Informality in dealing with contractors is emphasized.

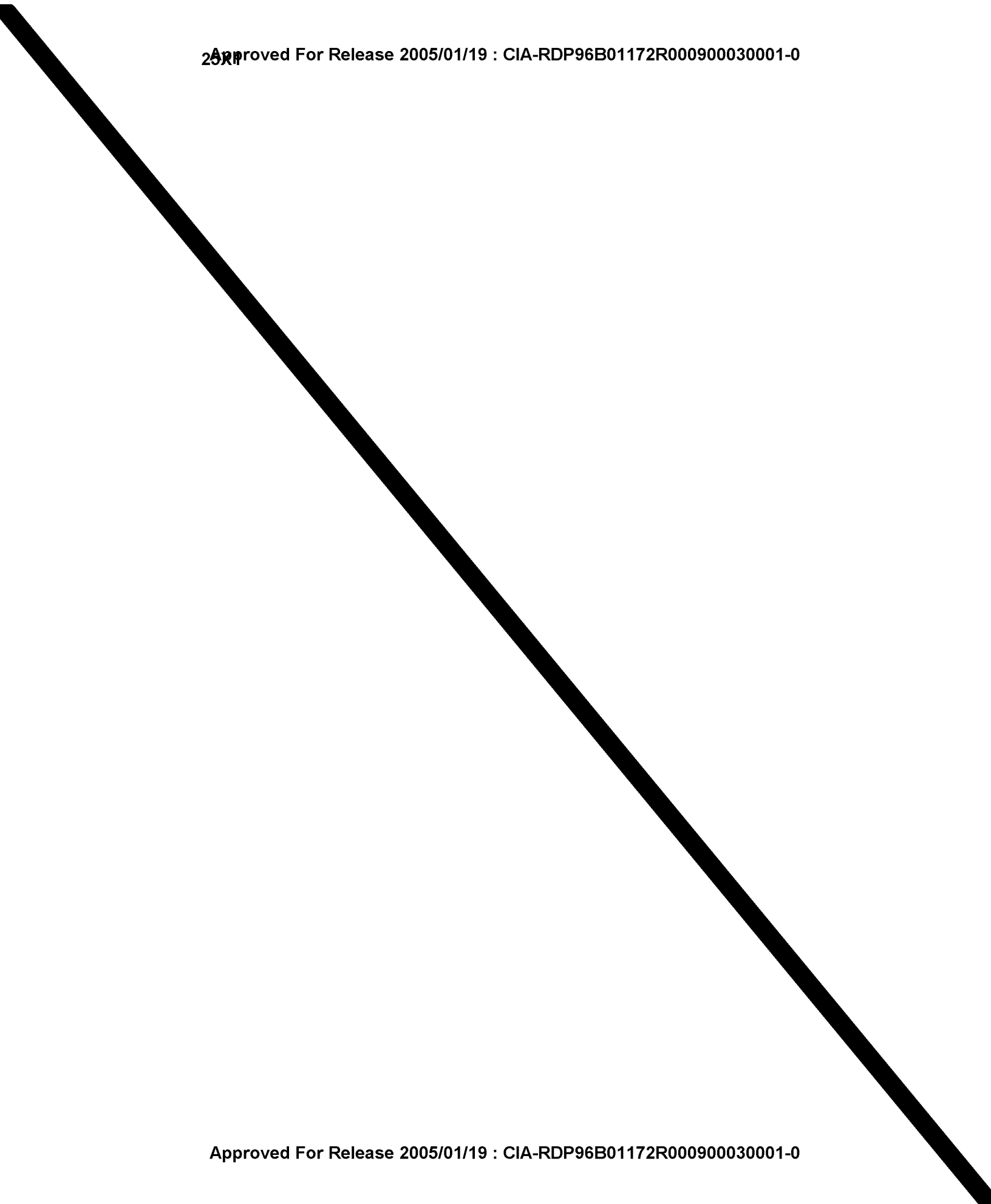
. Concentration on technical issues predominates. The total aspect of contract administration is second-most. Technical and financial status information is not considered routinely or collectively for management decision.

. The reliance on personal contacts with contractors as a medium for collection of status information burdens available manpower.

4.3.7 Recommendations

The general recommendations on availability of management information covered in Chapters II and VI apply.

It is recommended that consideration be given to relieving the burden of contract monitoring on a personal basis by supplementing



the information input with written contractor reports. A general recommendation has been made in Chapter VI on contractor reporting requirements which seem particularly applicable to ORD. The informal close technical atmosphere need not be destroyed by the requirements for written reports. With the relatively large number of active contracts (114), it seems sensible to increase reporting written requirements.

4.4 National Photographic Interpretation Center (NPIC)

4.4.1 Organization

The Assistant for Plans and Development is responsible for research and development and relates to the NPIC organization as shown in Figure III-26. The Development Branch is responsible for conducting research in photographic exploitation equipment and the monitorship of its procurement. The Exploratory and Research Laboratory Branch operates an exploratory laboratory for the investigation of basic photographic and optical phenomena and advanced techniques in photography, chemistry, optics, and electronics. Also assigned to this laboratory is the responsibility for equipment maintenance and service for NPIC. The Development Branch carries responsibility for precontract investigations (work involved in establishing requirements), requisitioning, and contract administration.

The Assistant for Plans and Development also provides technical support and administrative secretarial support to the National Committee on Photographic Exploitation Equipment (COPE). This organization consists of representatives from USAF, USA, USN, SAFSS, CIA, DIA, and ISCIG.

4.4.2 Contract Statistics

The Contract Status Report at the time of examination showed 63 current active contracts in P and D. Of these 40 were labeled R&D.

. By type of contract these were broken down as follows:

Type	
CPFF	
CPIF	
FPR	
FFP	
T&M	
Cost Share	
Total	

25X1

25X1

25X1 [redacted] [redacted] 25X1

. By customer distribution:

Ten contractors account for 70% of total current business. The total number of current contractors is 35.

$ (thousands)

25X1 [redacted]

4.4.3 Procedures

During FY 1966, a five year program was developed and the appropriate portion submitted as part of the FY 1966 budget. Operating divisions were visited during a one-week period and the inputs of operating personnel incorporated with those of the P and D Staff to shape the total program. The projects resulting from this effort were grouped into 15 categories, each being made up of either a specific large project or a collection of smaller related projects. Examples of the categories are:

Human Factors
Automatic Stereo Scanning
Image Analysis
Modulated Light Imaging Systems
Automatic Target Recognition
Unconventional Imagery Systems
Systems Integration

It was the intent to work with one contractor as the prime contractor responsible for each of the categories.

Research and Development objectives were prepared for each category and several potential contractors invited to a bidder's conference

25X1 [redacted] [redacted] 25X1

121a

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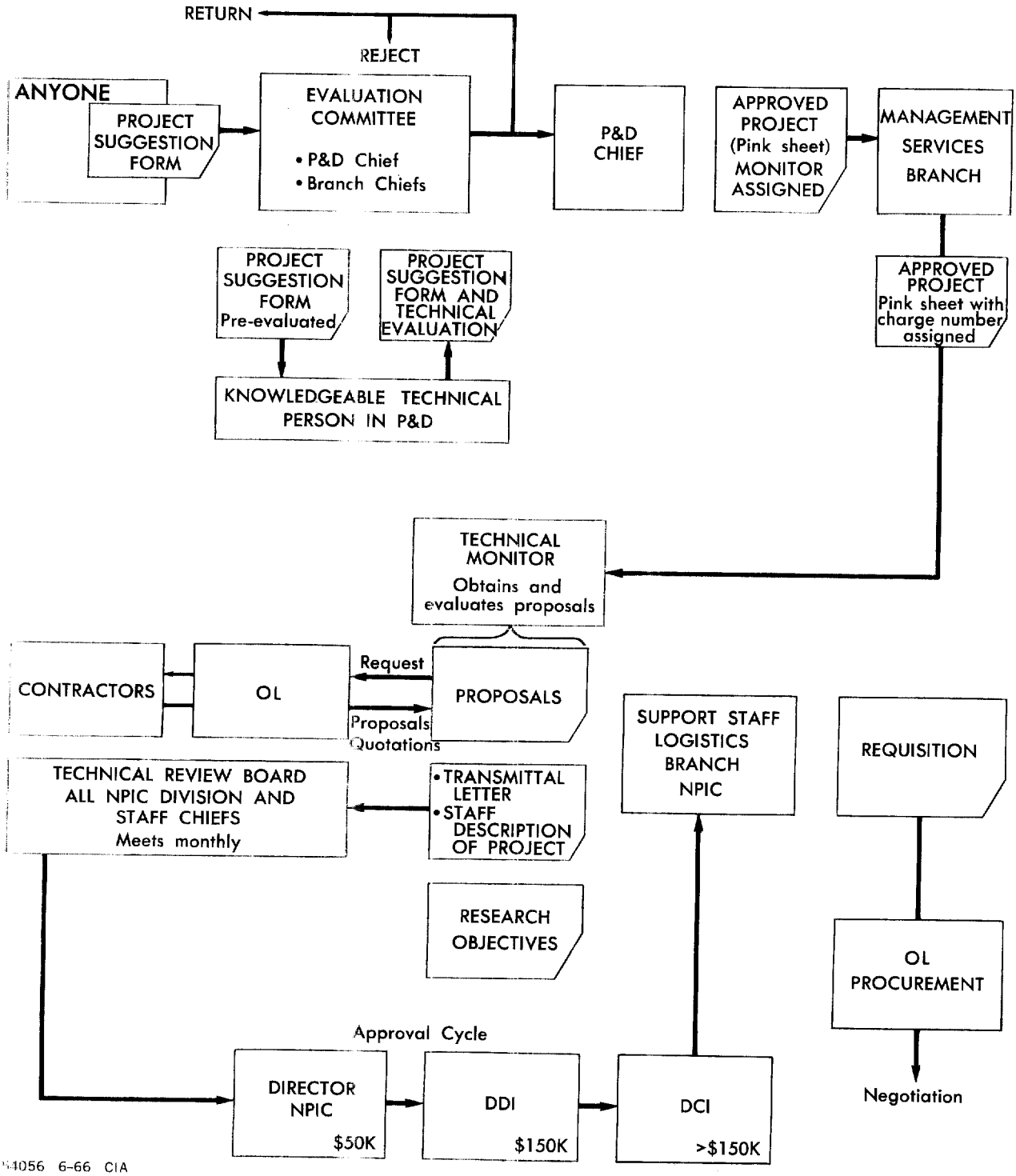
NPIC P & D PROGRAM CYCLE



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SECRET

25X1

held in conjunction with OL personnel. Attendees were invited to submit proposals on the basis of a verbal briefing and on a program information sheet prepared for the occasion. Six bidders conferences were held between 22 September and 2 December 1965. The response was as follows:

Category	Contractors Solicited (No.)	No. Proposals Received	Price Range ($thousands)
Human Factors			
Automatic Stereo			
Image Analysis			
Modulated Light Imaging			
Auto. Target Recognition			
Unconventional Imagery			
Total			

25X1

The procedures employed in what might be considered the usual procurement of R&D as compared to the 5 year program is illustrated in Figure III-27. At the time of interviews, this procedure was in the initial stages of implementation.

The objective, as explained, is to control the projects entering the system for procurement by formalizing the participation of P and D management and technical assessment.

Once approved by P and D management, a Technical Representative is assigned who solicits proposals through the Office of Logistics, carries out an evaluation and presents a proposed course of procurement action to a Technical Review Board. Subsequently, if approved there, it is forwarded through the usual higher management approval chain depending on the dollar size of the contract contemplated.

With all approvals obtained, a requisition is prepared and forwarded to OL for negotiation and contract execution.

Alternatively, procurement for R&D in support of the NRP is processed through the Office of Special Activities (OSA). No difference was noted in the procedures preceding requisition if procurement was to be through OSA as opposed to OL.

While the procedures described show all solicitation of proposals taking place through OL, in practice a great many unsolicited proposals

are received. The records indicate:

Unsolicited Proposals 1966

	# Received	#Evaluated	#Rejected	#Accepted
Nov.	12	57	7	5
Dec.	27	72	0	9
Jan.	47	110	25	7
Feb.	6	84	27	3
Total	92	323	59	24

Both technical and cost proposals are received and evaluated.

The requisitions forwarded to OL include supplementary information on source and cost which have been predetermined.

In the vast majority of cases, the requirements are described in terms of the contractor's proposal which is included by reference in the contract. It was stated that "specifications are not written." This was borne out in the examination of several examples.

Contract Negotiation

Contract negotiations are carried out by OL. An OL negotiator with Contracting Officer approval authority for contracts up to $50 thousand is assigned part time to NPIC. Contracts are negotiated for the most part without participation of the Technical Representative. In the cases of long range programs (15 categories) there was joint technical-procurement preplanning of bidders conferences and negotiations.

Contract Administration

Technical Representatives are assigned to contracts for administration and monitoring purposes. The assignments vary from one or two contracts per individual, to as many as fourteen or fifteen. Inspection Reports are made on a scheduled, 60-day basis. Frequent trips are made to maintain contractor contact.

123a

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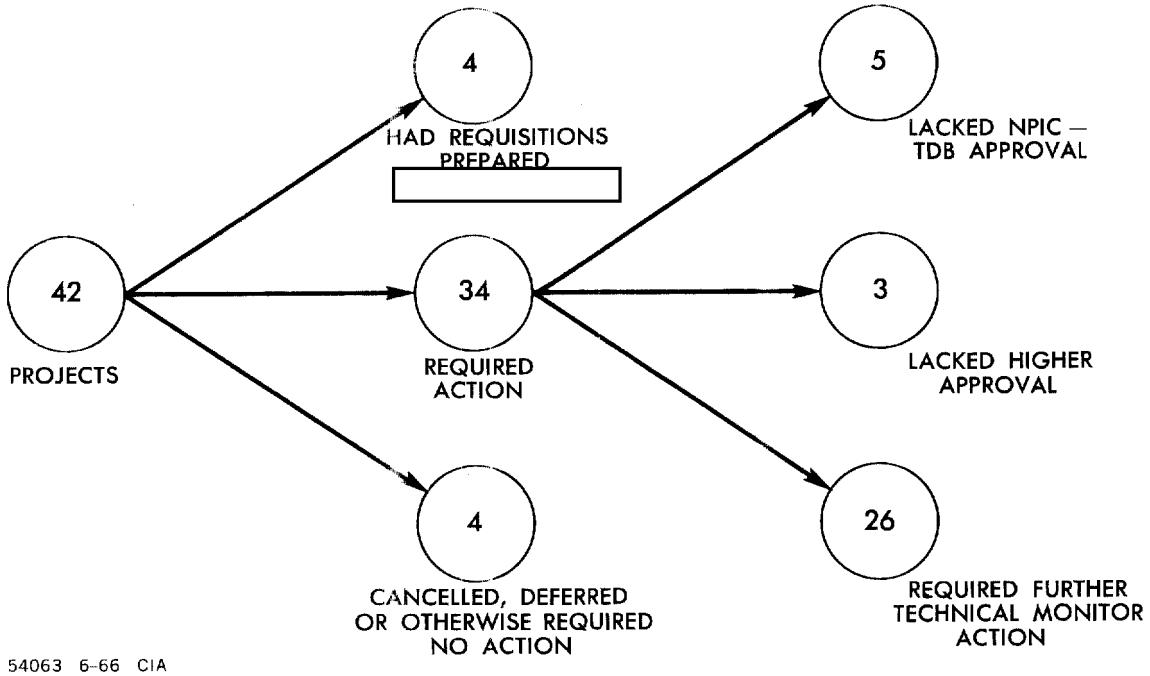
III–29

NPIC REQUISITION STATUS (DATA AS OF 3/8/66)



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25X1

III–30

NPIC – APPROVED BUDGET – FLUCTUATIONS IN FY 1966

[redacted]

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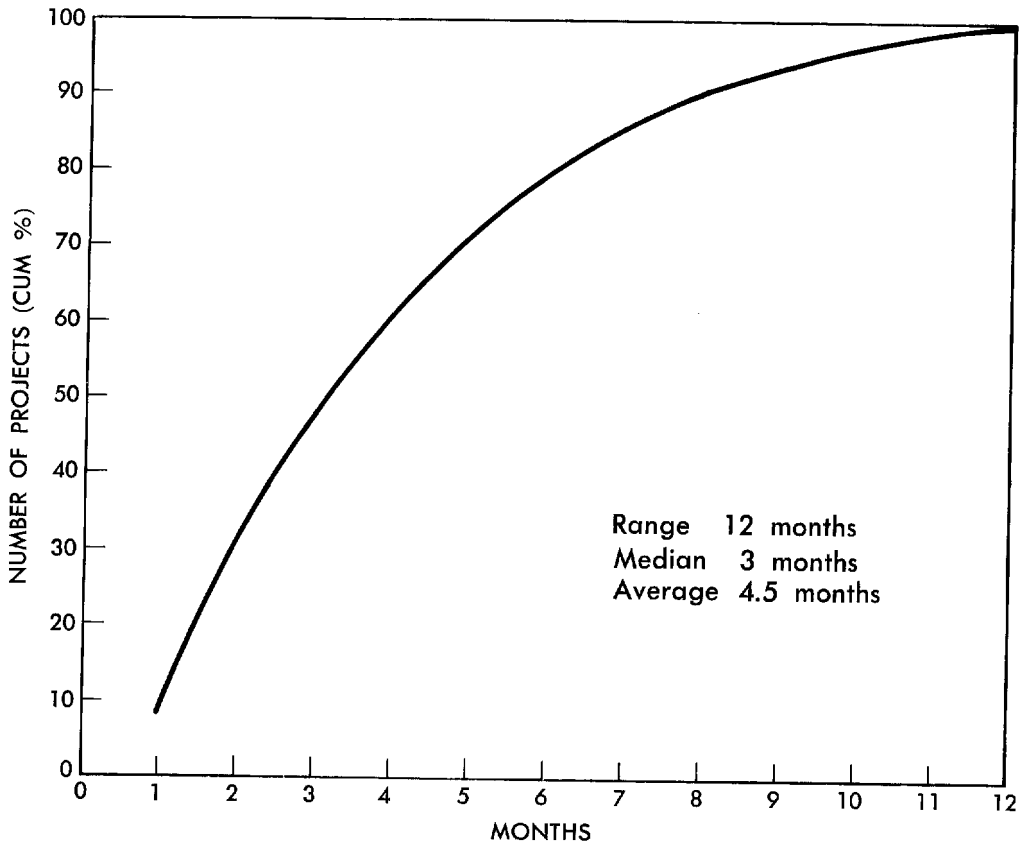
25X1

[redacted]

GROUP 1
EXCLUDED FROM AUTOMATIC DOWNGRADING AND DECLASSIFICATION

CONFIDENTIAL

NPIC REQUISITION PREPARATION TIME



Time since assignment of project engineer thru 3/8/66.

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CONFIDENTIAL

25X1

25X1 [redacted] [redacted] 25X1

4.4.4 Management Controls

The new procedures for the establishment of requirements and the preparation of documentation for procurement previously shown in Figure III-29 will provide a measure of control by involving P and D management. This had apparently been lacking previously. The new procedure places both P and D management and the Technical Requirements Board in a position of reviewing each project going forward for procurement. Management visibility is certainly established in this way, providing a means for management to pass judgment on proposed actions.

The excessive number of contracts in which delivery is substantially late indicates a lack of management control over the execution of R&D contracts. Contract [redacted] indicates the lack of project management control on a particular contract. The question arises of how succeedingly higher levels of management are informed and how they control the total number of projects. Two periodic reports to management were displayed during interviews: the P and D Staff Project Status Report and the NPIC Contract Status Report. The former provides, on a project-by-project basis, a date entry for each of a series of milestones from assignment of Technical Representative to contract date for procurements in process. It also shows dates for last contact with contractor, the delivery due date, an estimated date and a completion date. This manually prepared, monthly report provides a rudimentary level of information. But it is at least an indicator which should bring to management attention contracts on which delivery is slipping and which require further examination.

4.4.5 Responsiveness

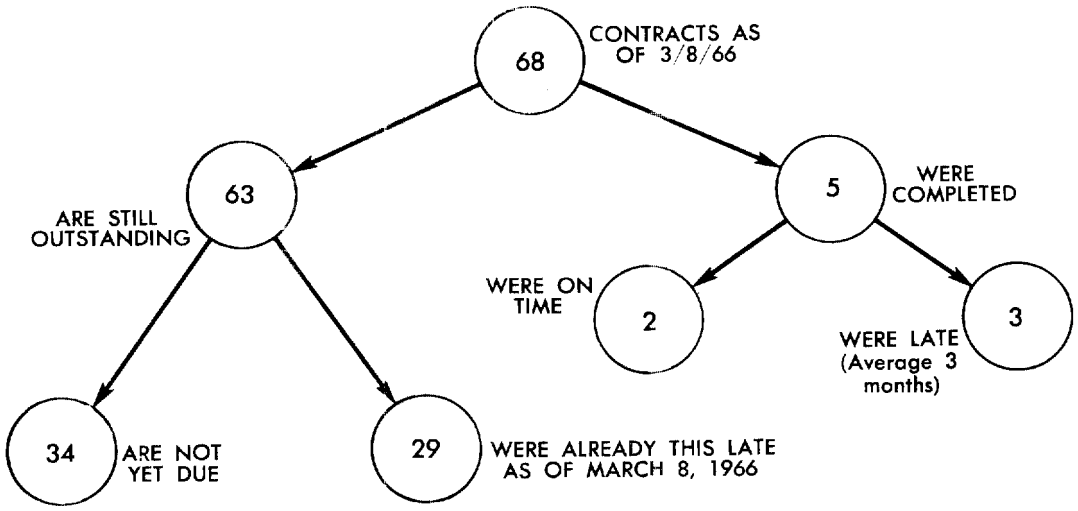
Requisition Preparation

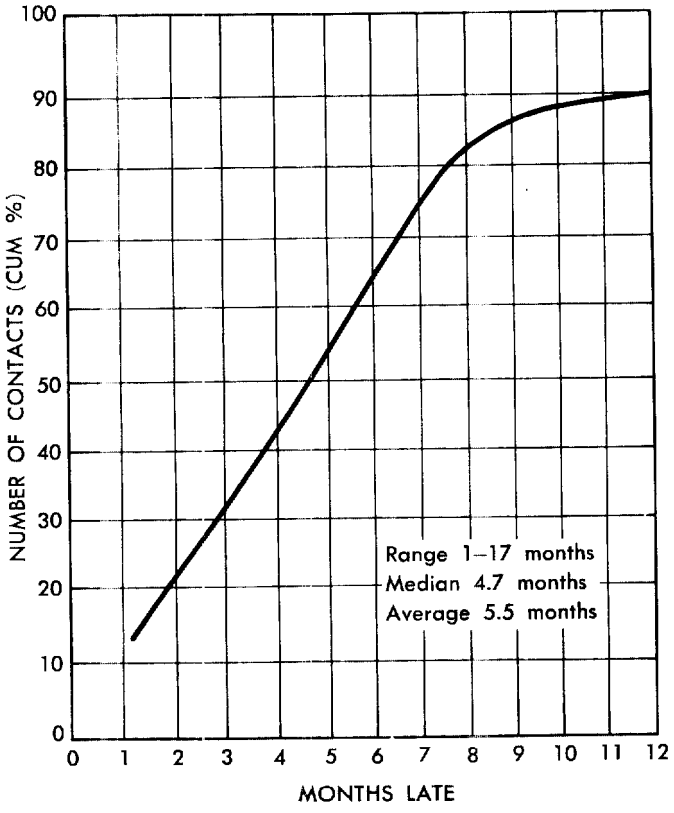
The amount of time involved in the preparation of requisitions after the assignment of a Technical Representative appears particularly high. For example, as shown in Figure III-28, half of the identified projects have been assigned for more than five months and are still in various stages of progress toward a requisition. The one primary contributing factor which was pointed out was that of management approval. An examination of the Pre-Contract Status Report of 8 March 1966 was made to identify the hold-up points in the process. The milestone dates recorded in that report are:

1. Assignment of Technical Representative
2. Completion of Program Objectives

25X1 [redacted] [redacted] 25X1

NPIC CONTRACT PERFORMANCE





IN TOTAL:

- 94% of contracts scheduled are late in delivery.
- 1 contractor delivered on time so far in 1966.

54055 6-66 CIA

3. Receipt of Proposals
4. Preparation of the R&D Catalog Form
5. Technical Review Board Approval
6. Management Approval
7. Requisition
8. Contract

Examination of the state of progress based on dates recorded may be summarized by reference to Figure III-29. This indicates that in terms of numbers of projects, only about 20% of the total number were at the approval stage, and nearly 70% required action of another nature. In terms of the number of dollars involved, approval delays play a more important part. Based on program estimates of cost, the eight projects which required management approval accounted for approximately [redacted] nearly 65% of the total budget of [redacted] Approximately [redacted] or about 26% of the budget dollars, is associated with the 26 projects for which responsibility still rested in P and D.

Reference to Figure III-30 is revealing and is offered as an illustration of a major contributor to the delay problem in general--the fluctuating budget. Planning, and consequently progress on individual projects, based on a budget whose "approved" amount varied throughout the year as did this budget was suggested as the major procurement problem. It was explained that the vast majority of individuals' time had been spent in writing and re-writing justifications for the total R&D program in support of the requested budget.

Contract Performance

A study of the latest available reports provided information on the status of contracts from the standpoint of delivery. This information has been summarized in Figure III-31. The lack of on schedule response of contractors is excessive in terms of the number of contracts which are late. The amount of delay time is substantial. It should be noted especially that the total delay picture is as of 8 March, and that the final late delivery on these contracts will be greater than shown, depending on how soon after 8 March they are completed.

4.4.6 Summary of Findings

Long Range Program

The Long Range Procurement Program is an attempt to make the procurement of R&D more orderly and more competitive. It

represents, in principle, a significant improvement over the extremely informal, short-term approach which was described as being employed prior to FY 1966.

An examination of the substance of the program was made by reviewing in detail the Program Objective and the Bidder's Briefing procedures for one of the 15 categories of work. Automatic Target Recognition was chosen.

The technical requirements called out in the Program Objective make a selected contractor totally responsible for a very broad general scope in each category. For example, the contractor shall:

- Consult with Government
- Be totally aware of progress in the state-of-the-art
- Conduct studies to define tasks
- Investigate man-machine relationships
- Investigate previously developed techniques
- Address R&D effort to implementation of automatic systems

The Program Information Sheet provided to prospective bidders defines the scope for Automatic Target Recognition as:

> "The scope.....will ultimately lead to development of an operational exploitation system which will successfully provide the interpreter with automatic aids and devices for target recognition and other related interpretation tasks. This effort will require.....analysis, feasibility studies, breadboarding, testing and engineering development."

The expressed philosophy of the effort requires the prime contractor to "manage all aspects of the R and D of target recognition which are commensurate with advances in acquisition systems and exploitation requirements."

It was explained that the information provided to prospective bidders (including an estimate of the dollar level contemplated) was left on the very general level. It was felt that a knowledgeable contractor needed no more detail in order to write a proposal.

The management responsibility for Automatic Target Recognition R&D then is to be given to one contractor. Likewise, each of the other categories will have a contractor manager.

It is observed, however, that the several "categories" in themselves constitute an Interpretation System which in itself must be managed. While a Systems Integration category has been identified as one of the 15 categories, procurement is proceeding first on individual categories which are sub-systems of the over-all system.

. The over-all integration of the several prime category contractors is left for the time being to P and D management. The selection and placing under contract the over-all Systems Integration contractor is left until some later time. No one individual in P and D is technically responsible for the whole Integration System. Rather, individual Technical Representatives will be overseeing the individual category contracts.

. The contracts which have been negotiated just recently include language which recognizes the contractor integration problem, but does not represent a solution to the entire systems integration problem. The contract language simply commits the contractor to (a) working with associate contractors in the future, and (b) participation in panel discussions.

. The work statement of the contracts include the contractor's proposal, the Briefing Aid Information Sheet by reference, and also a composite statement to supplement the reference material.

. The contracts [1.] are to be Cost Plus Award Fee type [2.] in which the subjective judgment of the Contracting Officer will establish the final fee between 6-11% based on "performance", "management", and "cost". OL/PD agree that contract technical requirements lack specificity but that assurance was given by NPIC that the incentive measurements can be made.

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1. Since visiting NPIC, it has been learned that as of the end of May 1966, contracts have been negotiated for 3 of the 15 categories--Automatic Stereo Scanning, Image Analysis, and Unconventional Imagery.

2. An incentive on cost.

Requirement Establishment

Technical requirements placed on contractors are drawn in very general terms. Contracts in most instances reference the contractor's proposal as the "specification."

Solicitation of Proposals and their Evaluation

Formal solicitation of proposals to a specification is rare. A large number of unsolicited proposals are received. Selection of sources on this basis is invariably sole source. Evaluation of proposals is not made according to any specific set of criteria.

The exception in respect to solicitation of proposals was the Long Range Category projects (i.e. Automatic Target Recognition, etc.), in which several contractors responded to the same general requirement.

Contract Administration

Technical changes are made frequently during the course of contract performance which, together with the looseness of specifications and generalization of requirement statements, provide the basis for potential over-runs, delayed delivery, and a lack of basis on which to judge acceptability of the final product.

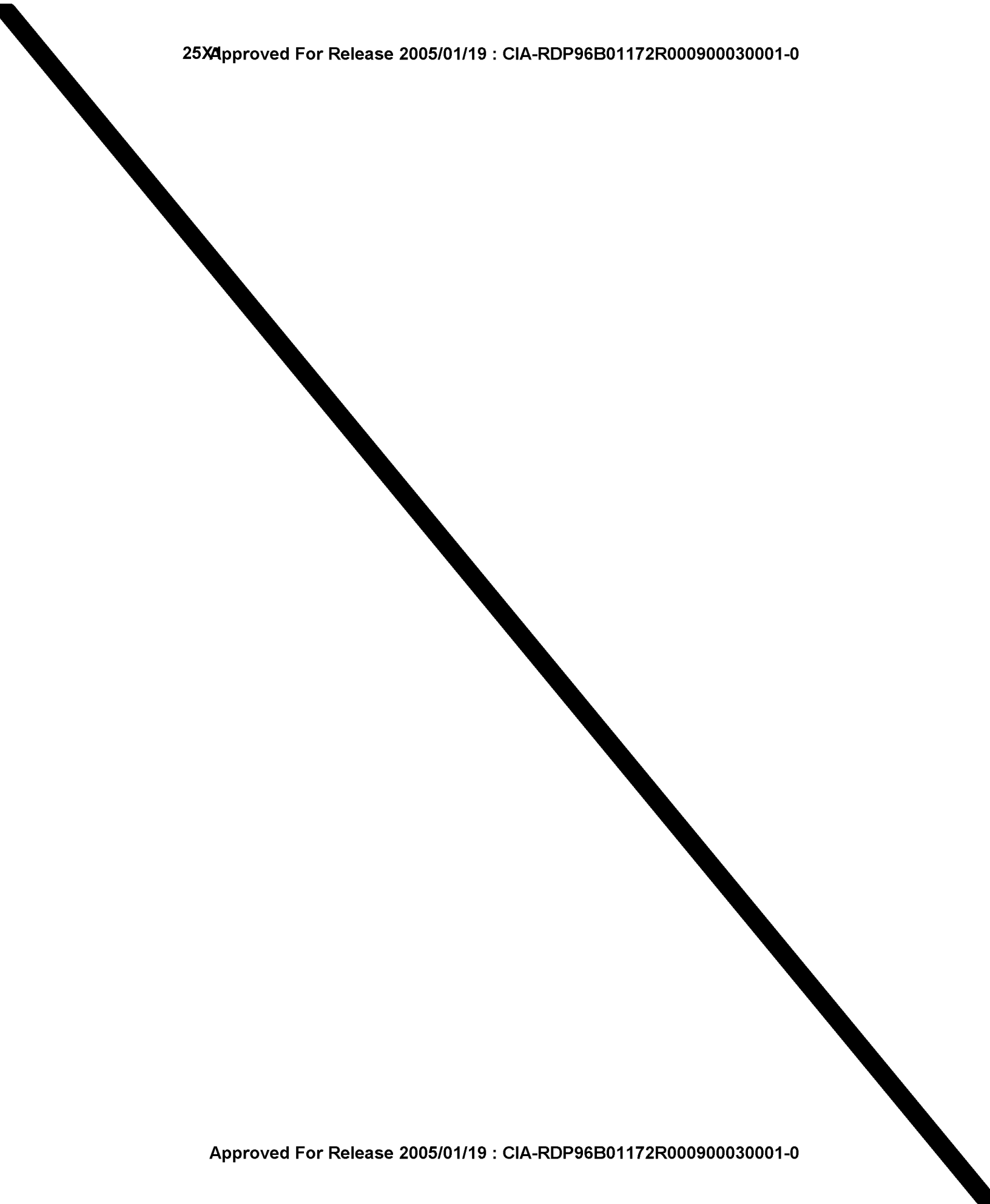
Information for management of contracts is inadequate. Reports of technical progress by contractors is not examined and judged jointly with financial status information.

4.4.7 Recommendations

. It is recommended that attention be given to the plan for managing the NPIC Long Range Program. There is need for a single individual to take responsibility for the life cycle of that program.

. The prospective Systems Integration contract should receive attention. Individual sub-systems should not proceed long without system design guidance.

. The general recommendations regarding division of responsibility in Chapter VI, Section 3.0 apply.



4.5.3 Procedures

Requirement Establishment

Sources of requirements are DDP divisions, Office of Security, Project Engineers, and the Technical Requirements Board. Recommendations for projects are submitted to C/D&E. A Program Booklet is prepared and becomes the basis for committee decision action. A meeting, for establishment of the recommended budget, is attended by area division personnel, C/TSD, DC/TSD, and D&E management personnel. A budget estimate is prepared as a result of the deliberations of this group.

Responsibility for an individual project is assigned to a Project Engineer who establishes the detailed requirement for procurement.

Technical proposals and cost proposals are solicited and evaluated and a source selected prior to submission of the requisition to OL. The description of a typical case in Audit Physics was given.

- A small select group of contractors are asked to review a given problem and submit, informally, their comments on possible approaches to a solution.

- The results of this input are reviewed and one or two contractors are asked to submit a technical and cost proposal.

- The resultant proposals are evaluated and a contractor selected. Proposal evaluation does not involve formally established criteria but is done on a case-by-case basis.

- Little price analysis is performed. No means for formal cost analysis is available.

General specifications applying principally to manufacturing have been prepared which are supplemented by particular specifications included in the contracts. General specifications were observed, such as General-Electronic Equipment, Workmanship Standards, Preparation of Technical Manuals, Drawings and Associated Lists, Environmental Requirements, and Manufacturing-Testing-Packaging specifications. Discussions at the branch level indicated that in R&D efforts performance specifications are used exclusively.

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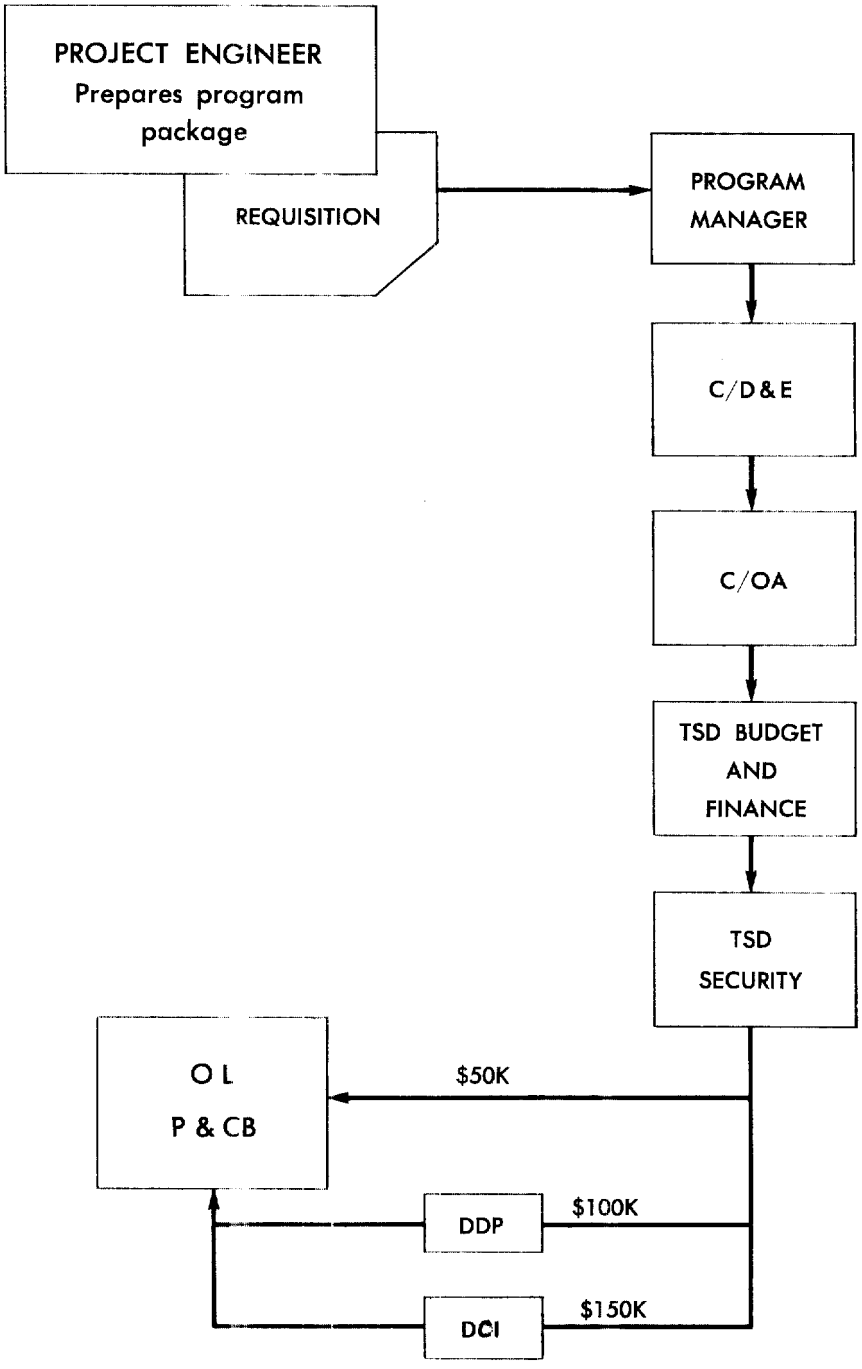
TSD REQUISITION APPROVAL CYCLE



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The approval of individual projects for procurement prior to presentation of a requisition to OL is as shown in Figure III-33.

The number of sole source procurements is high. In eleven months of FY 1966, 280 of 283 contracts negotiated were on a sole source basis.

Negotiation

Two personnel from OL/PD are assigned to and physically reside at TSD. Contracting Officer authority up to $50 thousand is delegated to one of these individuals. Responsibility for negotiation of contracts rests in the assigned Contracting Officer. The actual designation of authority is not decision-making authority, but rather only contract signature authority. The reader is referred to the discussion of the particulars regarding authority appearing in Chapter II, Section 2.1, where the point is made that only limited advantages accrue to the assignment of procurement people in this fashion. This is true because the review and approval routine within OL remains the same. Physical distance has been added as well as time by retaining the final decision authority on all transactions within OL/PD.

Discussions in the branches indicate that contract negotiations are frequently made by phone. Participation by technical personnel is not consistent, but the close physical proximity of procurement and technical personnel does provide a certain amount of collaboration.

Frequent use is made of verbal authorizations to proceed with contractual work and formalization of contracts is carried out at a later date.

It is noted that infrequent participation of the assigned procurement personnel occurs in contractor selection, proposal solicitation and source selection. The procurement function, as is the case in technical components in which there are no assigned procurement personnel, remains very much an in-series activity.

Contract Administration

Administration from a technical point of view is the responsibility of the Technical Representative who prepared the requisition. Inspection Reports are prepared on a 60-day schedule, largely on the basis of telephone contact with contractors (which is to be expected with some 400 active contracts). Technical reporting by contractors is largely a

matter of discretion on the part of the Technical Representative. Generally documented technical reports are minimized in content and reliance is placed on personal contact.

Financial reports are not generally reviewed by the Technical Representative. The matter of financial status is quite largely considered a "logistics" responsibility. There is no routine in practice which brings both technical and financial status information together in one place at one time for management consideration.

4.5.4 Management Control

Management has recognized the need for improvement in the matter of activity and status reports, and the corresponding need for having information available for early identification of potential problems. A Management Information System is in the process of development and automation is planned.

Currently, the practice in the management of contracts is a personal management review of the 60-day Inspection Reports by C/D&E. This procedure consumes considerable time in reviewing projects on which no management attention is required because the status is satisfactory. In effect, then, this level of management is determining the exceptions (which need attention) by individual examination of each case. The time of the contract review is determined by the Inspection Report due date of individual projects. This in turn means that, at any given point in time, no total picture is displayed for management. The information being examined is the technical status. Financial status information, including estimates-to-complete, is not simultaneously available. Specifically, the Inspection Report provides a yes or no indication by the Technical Representative as to whether the contractor will complete the task within the obligated funds. The basis for this opinion cannot, in the vast majority of cases, be well founded. The Technical Representative does not have contractor-furnished financial information available to him through contractor reports because adequate information is not demanded by contractual requirement, and,further, because financial reports by and large go to the Contracting Officer only.

The management information system contemplated has proceeded to the establishment of a format for the D&E data base.* An

* A category identification of the pieces of information to be included in the data base.

information system design has not been made. The data base format examined carries information in the two general categories of project status and project funding.

Casual review and discussion prompts the observation that considerable additional design is necessary for the accomplishment of an effective system. As an example, it is understood that the information system now conceptualized will produce an output report by project containing information under 28 headings, grouped as Status and Funding information. Fourteen of the 28 pieces of information are purely identification data,(project number, title, category, name, contract number, task number, etc.). Of the remaining pieces of data, three are dates which indicate progress in getting the project under contract, (i.e. Panel approval, TSD approval and contract date). For contract status, a required delivery date and the extended required date is indicated together with a single entry for the level of contractor performance,(unsatisfactory, average, above average, etc.).

Project funding information calls for an amount of over-runs in dollars and seven pieces of identification information,(voucher number cost center, task number, etc.).

It is suggested that this data base is not adequate for management's needs and should be re-examined as part of a thorough system design effort. Some suggested inadequacies are:

- For status of projects, the initiation date (assignment of a Technical Representative) is needed as a minimum to afford a measure of progress in activities prior to a requisition, ("date out of TSD"). As now designed, one would know only that a project was in process but not specifically how it was progressing.

- No specific information is included to assess progress and indicate problems before they occur. For example, only when the required delivery date has been reached or an over-run has become a matter of fact is it reported.

- It does not appear possible to obtain from the data base such needed information as:

1. A list of all current contracts which are behind schedule.
2. A list of contracts,which,-on the basis of estimates-to-complete, are going to over-run and the contemplated extent.
3. A delinquency report on Inspection Reports.

In summary, the recognition of the need for better information has prompted good initial efforts to obtain it. It appears that the approach being taken has not included some traditionally recognized prerequisite steps in system design. One inherent reason perhaps is that the information considerations so far have been limited to information now available and have not approached the problem from the standpoint of what is needed for management control and decisions.

4.5.5 Responsiveness

Information to measure responsiveness by examining the time involved in various activities could not be retrieved from existing files without unreasonable effort on the part of TSD personnel. There was no reluctance to make the effort. The decision not to require this effort was the study team's.

It was estimated that the average time for preparation of requisitions was thirty days. This compares favorably with time being spent in other technical components.

No measure of contractor performance was made for the same reason--uneconomical availability of needed information.

4.5.6 Summary of Findings

TSD has the largest number of contracts of any of the technical components [redacted] and the smallest average contract size, (50% under [redacted]. This represents a sizeable contract administrative load. The current management information system has been recognized as being inadequate to the task and preliminary steps have been taken to improve the situation by planning to computerize the existing data base. It appears that the information system efforts have been devoted to concern over a master output report rather than utilizing generally accepted approaches to systems design.

Source selection of contractors has been an annoyance. The issue is one of selection of a source on a technical basis which is unacceptable to OL for such reasons as accounting practices or difficulties in auditing and negotiating. The number of cases in which this occurs is relatively small (2%) as estimated by TSD management. This estimate appears entirely reasonable. The top ten contractors who do virtually all the work include well-recognized companies who are currently doing

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OFFICE OF COMMUNICATIONS

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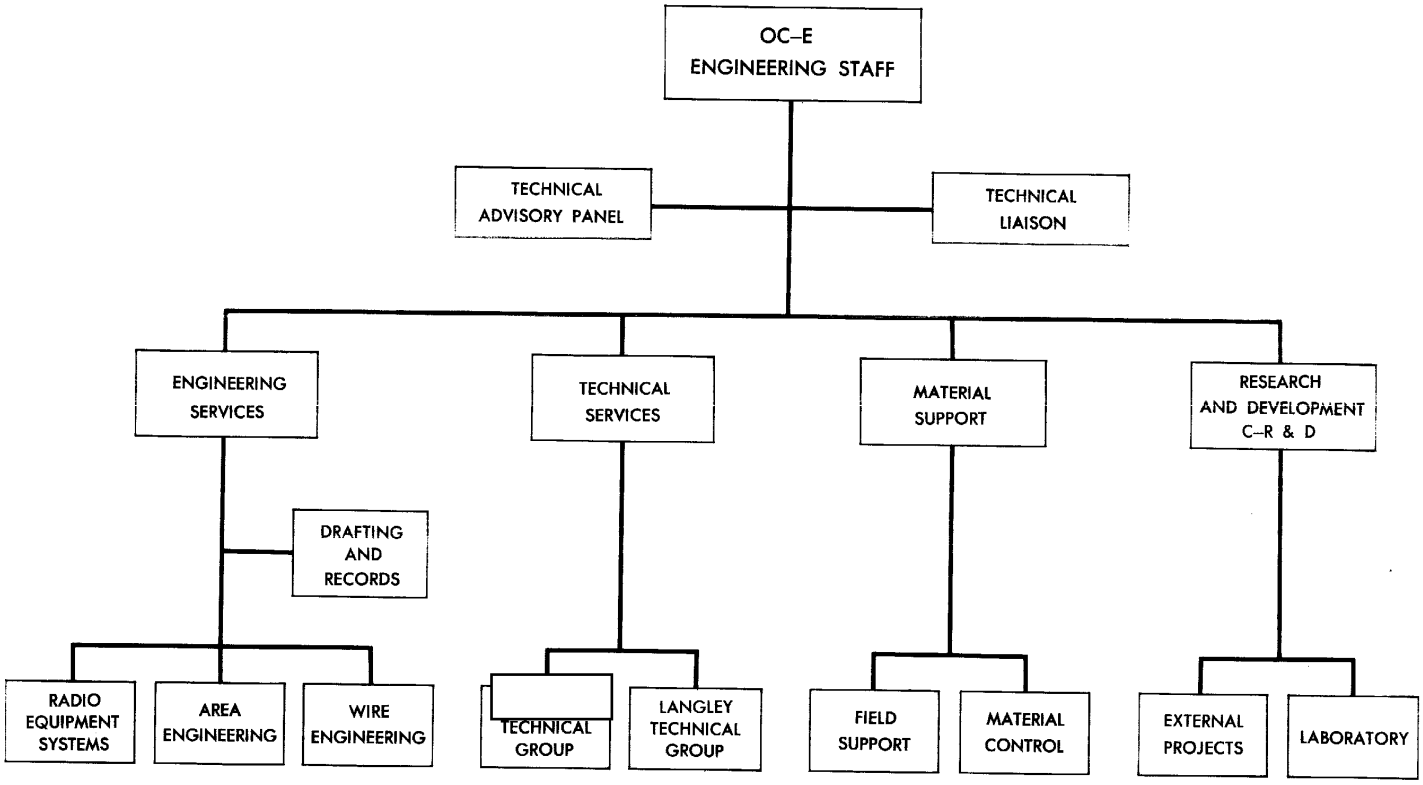

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substantial business with DOD and are not problems in this connection. Technical Representatives interviewed suggested that in some of the troublesome cases, the technical selection of the source was more for convenience than necessity and that earlier planning and communication with OL was in order.

CPFF contracts account for nearly 80% of the current contracts. The desire for this type of contract was explained on the basis of the necessity to make frequent changes in technical direction and the impossible delays involved in the mechanics of formal contract changes in other methods of contracting.

The sensitive nature of many of the products being developed imposes unusual security requirements. As a consequence the amount of utilization of R&D talent in other technical components of the Agency is less than it might otherwise be.

4.5.7 Recommendations

It is recommended that consideration be given to applying the principles of information system design which are set forth in Chapter VI, Section 2.0 and that the TSD Management Information System design be coordinated as a part of total R&D management information needs.

It is recommended that the need for reliance on contractors who have been found to be unsatisfactory for other than technical reasons be closely examined. TSD management should require more explicit evidence that these few special cases do indeed represent critical needs and that other sources have been tested. Moreover, qualification of sources should be established prior to technical involvement to the point where delays are inevitable.

4.6 Office of Communications

4.6.1 Organization

The Research and Development group has responsibility for both in-house and contracted efforts. The relationship of this group in the Office of Engineering is shown in Figure III-34. The External Projects Section consists of [redacted] Engineers whose responsibility it is to contract with industry for design development and production of communication equipment.

The Laboratory consists of [redacted] of these are co-op students. The primary mission is design, development, and limited production of highly complex clandestine communication equipment. The Laboratory also serves as a quick reaction facility to meet urgent operational demands on a highly secure, immediate response basis.

4.6.2 Statistics

Top Ten Contractors	$ (thousands)
[redacted]	

Type Contracts	$ (thousands)	%
CPFF	[redacted]	
CPIF		
FP		
FPIP		

Number of Contracts

Total number current contracts = 20

Size of Contracts (See also Figure III-35)

Range	[redacted]
Median	
Average	

4.6.3 Procedures

Requirement Establishment

Research and Development projects are assigned to [redacted] engineers in the External Projects Section for definition of the requirement and the requisition for procurement. The responsibility continues with the same individual throughout the contract life cycle.

When a requirement is received in the R&D Branch, a decision is made whether it will be handled internally or externally. The general guidelines used in arriving at this decision are as follows.

- For internal handling:

  (1) All analysis and appraisal.

  (2) Design of advanced "state-of-the-art" equipments where limited production is anticipated or where the time element is critical.

  (3) [redacted] projects, where a high degree of security must be maintained, there is short lead-time and only a few equipments are required.

- For external handling:

  (1) Where the time element is not critical, a long lead-time can be tolerated and a relatively large number of equipments are to be produced.

  (2) Where it is necessary to take advantage of highly specialized engineering or technical talent that is not available internally, (usually a study type of contract).

Handling Internal Projects

For internal projects the following procedure is followed. The laboratory reviews the requirements and assigns them to Design, Fabrication, or Analysis & Appraisal, as appropriate. In the case of a completely new product, all lab facilities become involved. Minor (special) gadgets) and crash programs may be handled by [redacted]

Analysis and appraisal is conducted on all lab-designed equipment plus commercial and external project developments, thus providing the capability for accurately determining characteristics of the latest equipment, state-of-the-art development, operational features, and conformance to specifications and published standards.

Handling External Projects

External projects are handled as follows. At the inception of a new program, a detailed technical specification is prepared, delineating the various parameters necessary to describe the system or item of equipment. This specification is forwarded to OL, along with the necessary approvals and a list of contractors from whom proposals are desired. When the proposals are received in response to OL solicitation, they are reviewed by the R&D Branch for technical responsiveness, likelihood of success, utility of the resulting equipment, materials cost, utilization of manpower, and total cost. OL then initiates a contract, based upon the recommendations of the R&D Branch. During the course of a contract, R&D engineering personnel closely monitor the progress of the contractor through personal visits, telephone calls, and written technical progress reports. The contractor is redirected in his efforts whenever it appears that the result of his efforts would not be operationally useable, even though technically correct. Arrangements are made by the Technical Representative.

Upon delivery of this equipment, the Technical Representative makes the necessary arrangements with the R&D Laboratory for a detailed technical evaluation of the equipment by the R&D Laboratory 25X1 to determine its technical characteristics and conformity to specifications.

Competitive Procurement

The nature of the competitive procurement was examined. Only two of the twenty current contracts were on a sole source basis. 25X1 which is representative of competitive contracts, involved:

- A parallel feasibility and specification preparation study with two contractors. (In this case, preparation of the specification exceeded the existing capabilities in-house.)

- A bidder's conference was held with seven contractors.

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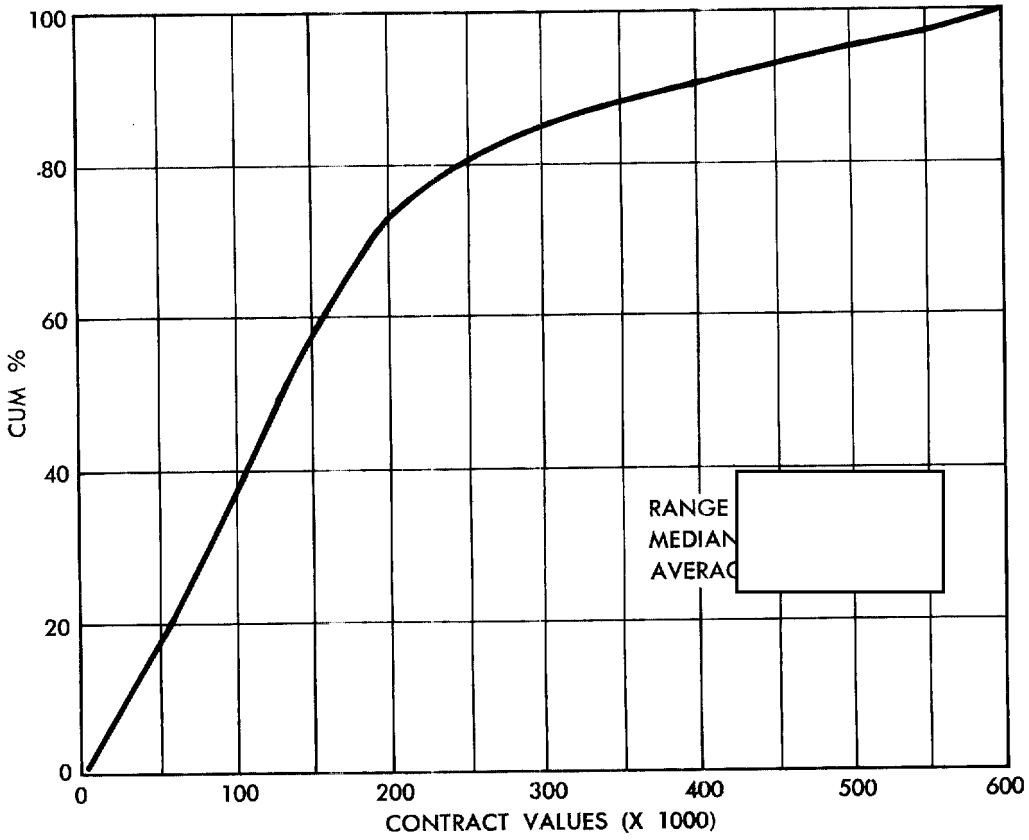
OFFICE OF COMMUNICATIONS

III–35

Number of Contracts vs. Dollar Value



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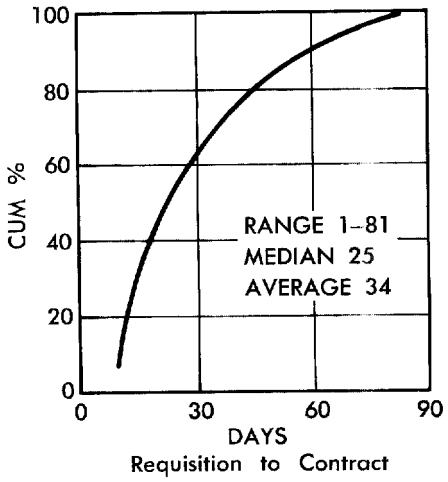
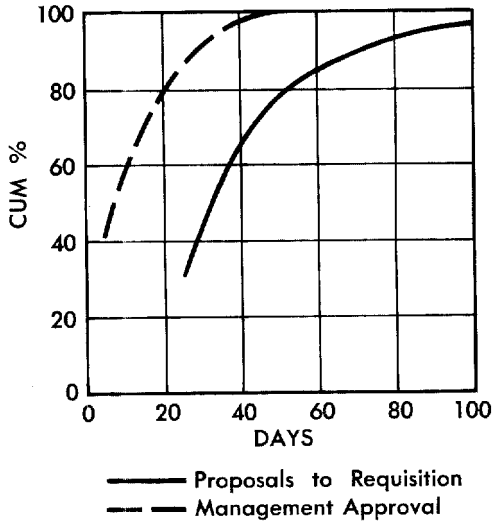
III–36

Negotiation Time



III–37

Requirement and Approval Cycle



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25X1

- Five contractors submitted proposals on the set of specifications.

- Prices ranged from 25X1

- Documented proposal evaluation illustrated a thorough technical trade-off analysis.

- The low bidder was technically acceptable and was awarded the contract.

25X1

- The winning contractor was not one of the two who engaged in the initial specification preparation.

Few contracts for parallel initial studies are written primarily because of budget limitations. is, however, in other respects truly representative of the competitive nature of the large majority of R&D procurement. Several other examples of specifications were examined and found to be explicit and comprehensive. 25X1

Contract Negotiation

Contract negotiation follows the usual pattern. The requisition and supporting documentation is forwarded to OL for negotiation of the contract. Technical participation is infrequent. The relatively high level of detail in the description of the product or service required is a positive contribution to this phase of procurement.

The time from request (requisition) to contract establishment is less (by half) than the usual time involved in R&D procurement. Figure III-36 illustrates the negotiation time involved. The time involved in requirement establishments and management approval is shown in Figure III-37.

Contract Administration

Contracts are administered from a technical standpoint by the individuals of the External Projects Section. Inspection Reports are prepared on periodic visits to contractors' sites. Inspection Reports are made on the usual 60-day minimum basis.

Technical reports from contractors are not standardized but fitted to the individual needs of the project, usually on a monthly basis.

25X1

25X1

Financial reports from contractors are not, as a matter of practice, used as a project management tool. To a large extent financial reports are considered the responsibility of the Contracting Officer. The question of financial status is not ignored, but there was general agreement that better contract management could be achieved if technical progress and financial status information was more in balance for management decision.

Only a few of the current twenty R&D contracts had required delivery due dates which had been reached at the time of this study. Those on which extensions have been made and those on which delivery was due were completed as follows:

25X1

Contract	Orig. Date	Ext. Date	Comp. Date	Mos. Late
	12 Aug 66	30 Sep 66	-	-
	5 Feb 66	-	1 Mar 66	1
	March 66	-	March 66	0
	30 Jun 66	-	20 Jul 66	1

The sample number of contracts is small, but indicates that all current delivery is essentially on time. Upon request contract performance information in detail was prepared promptly, which gave delivery history information as far back as FY 1963. The sum total of that history indicated that 36% of the contracts experienced some delay over requirements. Fifty percent of those late were late by less than 51 days. The average delay was 85 days.

4.6.4 Management Controls

The relatively small number of contracts and close personal contact of management with the pursuit of R&D has generated no apparent need for very extensive documented management reporting systems. The establishment of requirements and preparation of requisitions relatively early in the fiscal year attest to the lack of problems controlling the work involved in this phase.

A management program book, by Technical Representative for each assigned project, is maintained. The status of each project is described and is updated on a quarterly basis. A card file is also maintained,

with project detail information and is the basic reference tool. This base of information is manually maintained and is strictly a form of reference.

The day-to-day problem anticipation and identification is entirely dependent upon personal inputs from the individual Technical Representatives. The system works well by several measures:

. All status information requested by the study team was immediately available in detail.

. There is no significant backlog of requisitions to be placed. Order placing takes place early in the year compared to the Agency's general situation.

. Contract deliveries are essentially on time.

. The objectives are being met within budget. (The obligations placed were within [redacted] when observed in early June 1966, with a minimum of reprogramming.)

4.6.5 Responsiveness

The time taken to obtain and evaluate proposals and prepare a requisition for procurement is as shown previously in Figure III-37 and appears entirely reasonable.

The sample of contracts on which delivery was due in 1966 was small, (two contracts). Delivery occurred within thirty days of requirement in each case.

Historically, delivery on contracts is somewhat better than the general Agency record. Approximately one-third of contracts over the last three years have experienced late delivery, with the average delay less than ninety days.

4.6.6 Summary of Findings

The Office of Communications was found to have close personal management control over the technical aspects of R&D procurement. The small number of contracts does not present a complex problem. The management need for information is well served by the existing manual

system with one exception. The financial status of contracts needs to be known more promptly and more thoroughly and should be integrated with the technical status information.

4.6.7 Recommendations

It is recommended that adequate contractor reported information on financial status be made available to management. No other recommendations are offered other than those included in Chapter VI, which treats the general problem of divided responsibility in contract administration.

5.0 CONTRACT AUDITING

Contract auditing, price and cost analysis are performed by a number of divisions, staffs and individuals throughout the Agency. OL contracts are audited by the Industrial Contracts Audit Division (ICAD). OSA and OSP contracts are assigned [redacted] an internal OSA auditor. In addition, the Audit Staff (assigned to the Inspector General), reviews the work [redacted] frequently reviews OSA/OSP contractor records and procedures.

5.1 Industrial Contract Audit Division (ICAD)

This division (ICAD) of the Office of Finance, DDS, is responsible for the price and cost analysis, pre-award survey, interim and post audit functions on OL contracts similar to those performed by the Defense Contract Audit Agency (DCAA) for the DOD. They have an added responsibility of post auditing Firm Fixed Price Contracts (FFP) which is the responsibility of the General Accounting Office (GAO) for DOD contracts.

5.1.1 Overview

We reviewed working papers and related procedural documents of several selected contracts. With two minor exceptions, we found the procedures, working papers and reports to be excellent.

Despite this, there are some problems which this staff faces which we believe can be overcome by changes in organization and better communications with Technical Representatives in the components and with Contracting Officers.

5.2 Problem Identification

Specific problems encountered in the ICAD follow. Recommendations which we believe will correct these matters are contained in the next section.

Cost Analysis

ICAD personnel are not currently equipped to undertake cost analysis of labor or machine hours proposed by a contractor. While they are in a position to perform and do make excellent rate and price analyses, the industrial engineering knowledge attendant to cost effectiveness and analysis is not available.

Burden Rates

To avoid duplicating audit activities undertaken by DCAA at contractors' plants, ICAD accepts overhead rates determined by DCAA. However, Agency contracts often do not warrant carrying full plant overhead rates which contain total depreciation of machinery, cost of plant service departments, etc. This is because Agency production is often segregated in a portion of a plant. In these cases, a lower overhead rate might be justified by an Agency examination.

Negotiation Sign-Offs

When an ICAD auditor has raised certain questions concerning the adequacy of a contractor's records, financial position or cost figures, a Contracting Officer is permitted to override these objections without acquiring the auditor's consent, referring differing opinions to higher authority for decision, or documenting his reasons for not satisfying the auditor's exceptions.

In a contract with [redacted] a contractor proposal for an FPR type contract in the amount of [redacted] thousand was reduced to [redacted] as a result of an ICAD pre-award analysis. Without auditor concurrence or higher authority approval, the contract was negotiated at [redacted]

ICAD had also pointed to the inadequacy of this contractor's records. Subsequently, the Contracting Officer wrote the following to

25X1 [redacted] [redacted] 25X1

the contractor:

> "The accounting procedures which are presently in being in your organization have been deemed sufficient by our auditors to obtain the information required for final settlement of the contract."

A review of the contract and ICAD files revealed no evidence of sign-off or auditor approval. However, the Contracting Officer states that the auditor was present at the negotiations and agreed to the statement.

In a contract [redacted] the auditors have consistently objected to the contractor's accounting methods and records. The contractor refuses to accept any cost type contracts which will require appropriate records. 25X1

The contractor will not cooperate with the auditors and has, among other things:

(1) Charged principals' salaries directly to this contract and to overhead on others.

(2) Projected labor rates for personnel not employed.

(3) Recovered substantial amounts of commercial research expense through its overhead pro-ration methods.

25X1 Twenty-eight percent of this contractor's business for the past three years has been Agency business. The contractor realizes profits [redacted] before taxes.

Yet, despite the obvious implications of doing business in this manner (over the strong objections of OL and ICAD), "business" continues.

FFP Post Audits

Standard Government and DOD contract terminology has been modified in Agency contracts to permit ICAD to audit FFP contracts in lieu of a General Accounting Office (GAO) total review. However, some difficulty has been experienced with contractors who refuse to

25X1

25X1 [redacted] [redacted]

permit ICAD to make such audits. In one case which the GAO inadvertently reviewed, a [redacted] profit was realized by the contractor.

Apparently, contractors do not understand and have not been properly educated in this matter.

Assignment

Because auditors are not assigned to specific negotiating teams, problems exist in communications and consistency.

Auditors are burdened by the necessity to brief separately negotiators, contract administrators, and contract settlement personnel. The organizational structure in OL makes this necessary.

In a contract with [redacted], a negotiation was undertaken for a Fixed Price, Level of Effort contract with an agreed overhead billing rate of [redacted] ICAD expressed concern during our review whether this rate was redeterminable. A review of the OL file revealed an excellent, comprehensive letter to the contractor explaining that the rate was redeterminable downward based upon audit reviews prior to final settlement. This information had not been transmitted to the auditors.

The majority of Agency contracts are negotiated with recognized companies also doing business with DOD. Thus, extensive pre- and post-audit problems are not encountered. However, these companies are familiar with the DOD team approach which includes combined technical, procurement and audit capabilities. It would appear that the contractors do not necessarily obtain the same impression of teamwork in Agency procurement activities.

Organization

Because both ICAD and OL report to DDS, the DDS to some extent is "auditing himself". While it is true that various units of the DDS are reviewed by the Audit Staff/IG, conceivably the question could be raised concerning how independent and effective the ICAD can be if it does not report to a directorate or official who does not have responsibility for procurement. Auditing is a control and not a support or service function.

In addition, there is some degree of organizational inconsistency in having certain contractors audited by ICAD, others by Audit Staff, and some by both.

5.3 Recommendations

Pre-award studies embodying price or cost analysis can be of considerable benefit to the Agency in its subsequent relationships with contractors only if the Technical Representative and the Contracting Officer work as a team with the auditor. Moreover, the auditor's recommendations pertaining to poor accounting procedures and records, inadequate financial position and similar matters must be given heavy consideration before and during contract negotiation or the Agency will inevitably face contractor problems together with unnecessary administrative and contract costs, as it already has in some cases.

We believe that changes in organizational status, more effective discipline in contract negotiations, minor changes in procedures and additional resources are required to strengthen this function. Our recommendations are:

5.3.1 Industrial Engineering

At least one trained and experienced Industrial Engineer should be placed on the T. O. of the division. Such a person would be in a position to review the reasonableness of both estimated and actual labor and machine hours in the contractor's records. Currently, ICAD is equipped to review only labor rates.

5.3.2 Burden Rates

We recommend that the ICAD undertake its own overhead analyses of contractors' records where it is apparent that Agency contracts are confined to segregated locations or facilities in contractors' plants.

5.3.3 Sign-Offs

We recommend that Contracting Officers not be permitted to sign-off contracts until the specific findings and objections of the auditors are resolved to the satisfaction of the auditors or the Contracting Officer has documented his reasons in writing.

If agreements involving amounts of $x[1] or more cannot be reached at this level, then the matters should be taken to the Contract Review Board[2] for settlement.

5.3.4 Contractor Education

We recommend that contractors be educated concerning the role of Agency auditors in post audits of FFP contracts.

Inasmuch as the Agency does not necessarily desire to bring such matters to costly and perhaps overt litigation, the implications of the post-audit clause should be reviewed specifically with the contractor during negotiation and his acquiescence and understanding assured. If agreement is not attainable, cost, incentive, or FPR type contracts should be examined as an alternative.

5.3.5 Assignment

We recommend that auditors work closely with contracting procurement teams and that specific auditors be responsible for specific contractors. This should minimize communications difficulties and misunderstandings and considerably improve negotiations and contract costs. Moreover, the auditor is prepared to pass judgment on contractor cost and funding progress during interim inspections, whereas the Technical Representative is not. The opportunity to combine separate procurement, technical and audit files into one contract file should provide considerable administrative easement and improve communications.

Auditors should be an integral part of a negotiation or termination meeting. Moreoever, it is desirable for auditors to know the peculiarities, systems and records of contractors on a continuing basis to minimize the problem of communicating their knowledge of a particular contractor to several negotiators, administrators and terminators dealing with the same contractor.

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1. The dollar amount of such discrepancies to be taken before the CRB can be determined only by extensive (frequency distribution) analyses of contract files. Limitations of time did not permit such an analysis during the study.

2. A recommended body, (see Chapter II, Section 2.7).

5.3.6 Organization

We recommend that the Table of Organization be reviewed to determine the desirability of transferring ICAD personnel and functions to a component which is not directly concerned with procurement. One possibility of increasing their independence is to transfer this responsibility to the Audit Staff/Office of Inspector General. Auditing should be viewed as a control rather than a service function.[1]

With auditors assigned to procurement teams and specific contractors, the Chief, Audit Staff will continue to be in a position of monitoring ICAD techniques on a continuing basis. He (or his designated representative) should be called upon to arbitrate differences which arise between Technical Representatives, Contracting Officers and auditors which comprise the contracting teams when such matters are referred to the Contract Review Board.

It would appear that the Chief, Audit Staff would also have more flexibility in designating contractor audit responsibility in cases where OSA, OSP and other components are doing business with the same contractor through OL.

Inasmuch as the Audit Staff currently reviews [redacted] 25X1
25X1 [redacted] OSA contractors as well as reviewing contractors' records at their plants, it appears logical for Audit Staff to manage the same function for other contracts in addition to those of OSA and OSP. It appears unnecessary and inconsistent to have more than one contract auditing group.

5.4 Audit Staff

The Audit Staff has been given responsibility for reviewing
25X1 [redacted] on OSA and OSP contracts administered by the Agency, whereas other Agency contracts are audited by ICAD. In addition OSA has its own experienced auditor to trouble-shoot contracts and perform cost analysis, etc.

1. While not within the scope of our study, our contacts with many of the functions of the Office of Finance leads us to believe that the entire DDS organization should probably be reviewed to determine which are truly service functions, which are control functions and which components are comprised of both. The Office of Finance would appear to be one component, in particular, that should be subjected to such review.

Internal operational and financial auditing techniques utilized by the Audit Staff/Office of Inspector General were not within the scope of our review.

5.4.1 Findings and Problem Identification

We are satisfied that Audit Staff contract audit procedures are adequate. In addition to reviewing contractors' records and procedures at plant sites, Audit Staff personnel have "sat-in" on negotiations. In certain cases they have made audits of contractors' records. In one such case made known to us, they prevented an erroneous double billing to the Agency.

We also reviewed cost analysis reports of the OSA staff auditor and are equally satisfied.

DCAA Intervention

In the OSA and OSP areas of contracting, there has been substantial correspondence recently concerning DCAA's desire to have now assigned to such contracts transferred to DCAA. group assigned to Agency contracts were specially selected because of their particular knowledge of

It appears that little would be gained from such a transfer On the other hand, the transfer of auditors who are trained to work in black environments to a white agency with its typical white, administrative reporting routines could cause serious security problems. If this step is taken, then presumably ICAD auditors would be transferred also.

In addition, either of the above changes might negate the benefits of having auditors participate as a member of a contract team.

It is our understanding that are auditing contractors' records where the primary source or input of funds is Nevertheless, the Agency, by accepting transfer of such funds, would appear to have assumed responsibility for the administration of the funds as it has assumed responsibility for the administration of the contracts attendant to the funds.

Therefore, a basic legal question arises which is not within the scope of our professional activities. "If the Agency, and hence the DCI, has assumed responsibility for negotiation, administration and termination of these contracts, is he (DCI) therefore not also responsible for contract auditing?"

[redacted]

There has been very little turnover or rotation of auditors on OSA-type contracts since their inception. IDEALIST and OXCART have continued with the same contractor and contracting team (including auditors) for a period of eleven years.

While there are many advantages in having an intimate knowledge of a contractor's production, materiel control and accounting procedures from the audit standpoint, a fresh viewpoint is extremely hard to maintain if personnel are not rotated more frequently.

5.4.2 Recommendations

We recommend that the Audit Staff/Office of Inspector General assume responsibility for all contract auditing activities within the Agency. This will permit more consistent audit routines and flexibility in personnel assignment. We do not believe that this will materially upset the present system of checks and balances.

We also recommend that the Agency consider [redacted] to the Agency Audit Staff and that they be rotated between contractors and programs no less frequently than every four years with adequate provisions for transition periods. This recommendation is dependent upon obtaining proper legal opinion regarding the authority and responsibility of the DCI with respect to audit of funds which the Agency administers.

6.0 BUDGETING, FUNDING AND ACCOUNTING FOR R&D

Budgeting, funding and accounting for R&D are segregated and handled differently than for logistics support.

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NRO and DOD Comptrollers require justification and apparently are satisfied with budget justification as well as accountability.

R&D budgeting outside of the OSA and OSP operations is extremely thorough. Each component is required to submit budget schedules of R&D (internal and external) projects by specific category such as optics, infrared technology, etc. Each of these categories are further supported by preparing an "R&D Catalogue" form for each anticipated contract with an extremely thorough explanation of purpose, expected results, type of contract, amount, contractor, and so forth.

6.1 Findings

. We believe that the Agency is doing an extremely thorough job of requiring documented justification for R&D budgets.

. Monitoring of the actual or anticipated obligations against these budgets is a different story, (except for OSA). Because the Agency lacks a Procurement Management Information System for contract status control, there is no opportunity to effectively monitor the detailed R&D budgets.

. We believe that the Director's Authority is being exercised soundly and reasonably.

6.2 Recommendations

. We recommend that the Agency install an R&D Procurement Management Information System which will provide, among other things, a basis to compare the status of R&D anticipated obligations with the budgeted R&D catalogue.

. We recommend that the OSA accounting system be automated in accordance with plans and designs that were developed some time ago.

CHAPTER IV.

LOGISTICS SUPPORT

1.0 Supply System

2.0 Interdepartmental Procurement

3.0 Covert Procurement

4.0 Budgeting, Funding and Accounting for Property and Supplies

25X1

IV. LOGISTICS SUPPORT

Our survey of procurement necessitated a review of supply and inventory reporting, decision and management techniques because of the direct relationship of inventory control to effective procurement activity. We reviewed all existing inventory reports, inter-agency procedures, and production contracting techniques. We also studied the responsiveness of the system from the point of view of the user, interviewing selected customers of the supply system [redacted] of the DDP, and the Office of Communications of the DDS).

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Our review did not extend to a detailed study of materiel handling or management of storage facilities. We have not inspected or reviewed the procurement activities of overseas stations, nor did we visit depots outside the Continental United States (CONUS). While we did inspect the

25X1 [redacted] the Covert Procurement Branch and the procurement proprietaries of the Office of Logistics, we did not review procurement of operating proprietaries of the Agency.

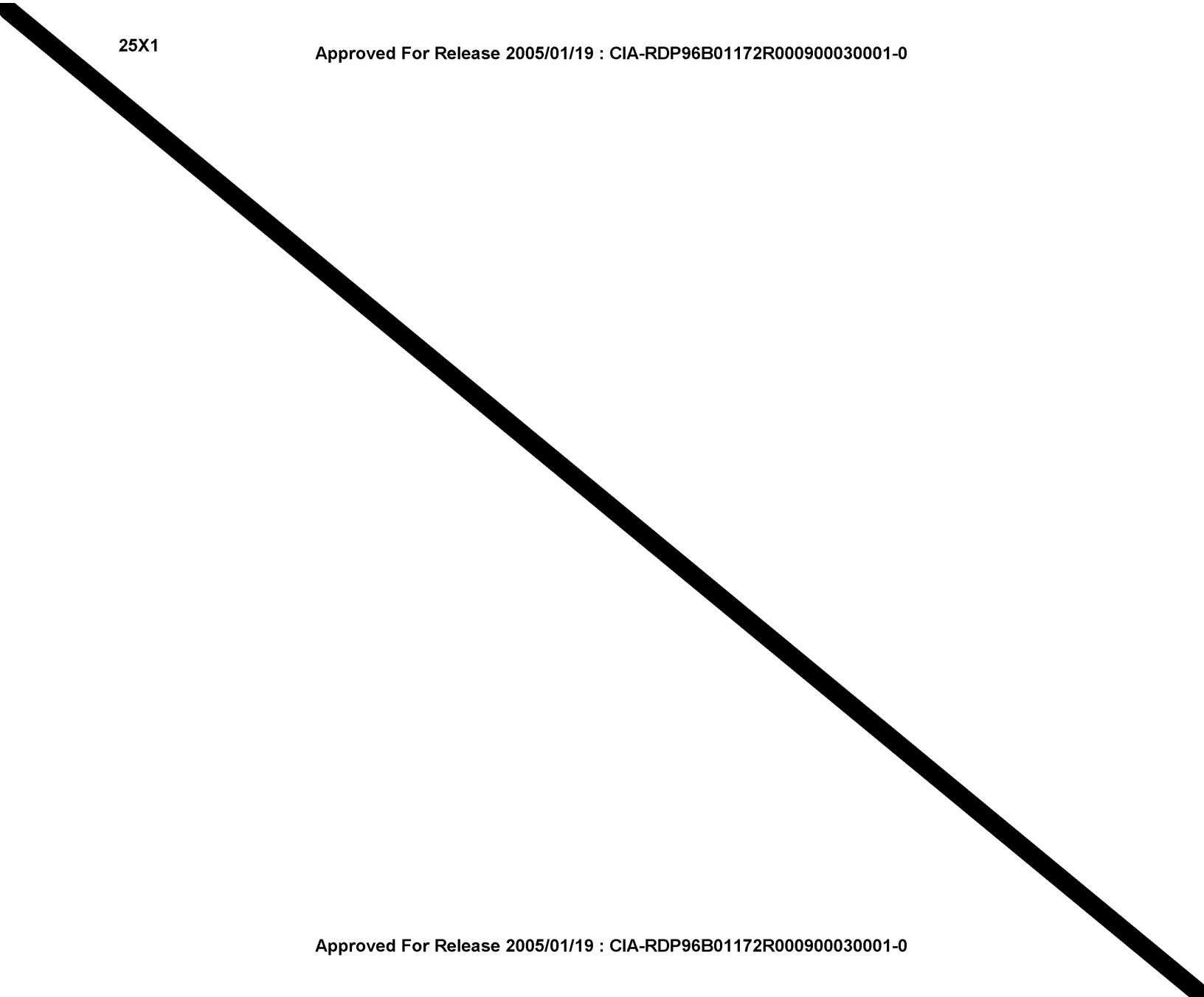
1.0 SUPPLY SYSTEM

A description of the administrative organization and performance characteristics of the production and supply procurement organization will be found in the Appendix, Exhibit F.

Important aspects of the effectiveness of the supply-logistics system proved difficult to measure because the system is not organized to produce certain types of management reports and analyses frequently found in activities such as this. In the absence of these techniques of analysis, performance measurements of investment vs. availability of supply items vs. the cost of ordering, etc., cannot now be determined with any degree of assurance.

An example of the problem of measuring over-all performance is found when one attempts to evaluate the responsiveness of the system. Customers of this system state that, "Log has never let us down." From this one might assume that deliveries are never delayed for reason of depleted stocks, and that therefore stocks are kept at an adequate or too high a reserve level. Yet, our study revealed that "stock out" conditions occur regularly. The Agency experiences "due outs" (in which back orders are unfilled) just as other

25X1



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organizations face the same problem. If, therefore, the system never severely fails its customers, one must inquire as to the cost at which it fills those gaps in the supply system that might result from any shortcomings of the stock management procedures. The management information now produced by the system does not routinely provide this sort of data, although it should be an essential ingredient for planning and action by management.

One of the problems in producing such information is that Supply Division, Office of Logistics (OL/SD) does not really manage the entire inventory. While it does manage a portion of the Agency's stock inventory, there are a number of components with "technical cognizance" of certain categories of material. Thus, while OL/SD is responsible for custody and handling of the materiel, components retain the management of inventory levels, re-order points, issues and so forth with the exception of certain items which they have released to OL/SD for complete management. We do not take issue with the special role of the technically cognizant components. However, we do not believe that they are receiving the proper information which is needed for inventory management decisions.

It should be understood that there are many classes of inventory. Each class differs severely with other classes in behavioral characteristics. Different emphasis and techniques are therefore required for forecasting usage, determining when and how much to reorder, and how often the current stock level should be reported, analyzed, and changed. While we suspect that the better supply managers take such factors into consideration in the manner in which they actually manage, the reporting system does not permit formalization of these more modern techniques.

To cite extremes, the Agency maintains the same type of records and produces the same reports for ball point pens as it does for agents' transmitters. Figure IV-1 is a reproduction of parts of the monthly Stock Status Report used by the Agency to manage inventories. Stock No. 7520 664 5198 is a ball point pen. [redacted] 25X1 transmitter. Each is reported under the same system. Each is reviewed with the same frequency.

This Stock Status Report, which consists of approximately 4500 pages of materiel listings, is issued each month and is the principal management report for inventories. Other reports are issued periodically concerning issue actions (each issue action is listed for each inventory item which experienced activity) and other matters such as items which have hit re-order points, those with "due-in" or "due-out" status, etc. Similarly, in these other reports, the ball point pen is given the same reporting emphasis as an agents' transmitter or an ordnance item.

Moreover, the various reports reflect only those inventories within CONUS. [redacted] a major stocking point in the system, is not included. Furthermore, the present reporting system does not assemble data concerning which activity consumed the inventories. Stations and Headquarters components do not receive reports relative to important line item usage. Nor do they even receive financial reports concerning the cost of supplies and property issued and consumed by material category such as ordnance, communications and medical. Thus, there is little opportunity to correlate usage or consumption with areas of high activity such as the [redacted] and those of relatively static activity such as the [redacted] Such information is generally a prerequisite to satisfactory forecasting of consumption and inventory level management for certain types of items. It is most certainly necessary to prepare a satisfactory budget call.

25X1
25X1
25X1

1.1 Problem Identification

During our study we found a large variety of materiel and individual inventory items that need different requirements planning techniques, have different behavioral characteristics and vary drastically in their cost and in their importance to continuing Agency operations. Similarly, the requirements for information are different from component to component because their functions and operations are different.

A summary of our findings with more detailed explanations in the sub-sections follows:

- The present reporting system does not take into consideration either the critical nature or the cost of an item in determining the frequency with which an item should be reported and analyzed.

- The present stock-status report contains so much information and is so lengthy that it is extremely difficult to use in making inventory decisions.

- Items which can be controlled on a forecast and planned utilization basis are controlled and reported in the same manner as those which should be controlled on a re-order point basis.

- The method of establishing re-order points does not appear to differentiate between those items which experience rather constant issue and those which are subjected to varying, intermittent demands.

. The economic order quantities do not take into consideration the cost of preparing an order or the cost of carrying inventory.

. The present system of updating lead time information appears to be rather informal.

25X1 . Because [redacted] inventories are not included in the present reporting system, it is difficult to manage without knowing the total supply status.

. The present system does not provide information about customer demand in sufficient detail to correlate usage with mission-activity levels.

. Current attempts to revise and update the supply reporting system may have constraints attached which will preclude the installation of an optimum system.

25X1 [redacted]

1.1.1 Critical Factor Consideration

The frequency and urgency of reporting significant stock level actions is not presently geared to the relative importance of the item to continuing operations of the Agency.

The present system of stock status reporting places the same emphasis on white, blue-lined paper pad management as it does on cable paper by reporting stock level status on each at the same frequency. A full depletion of cable paper could conceivably shut down Agency operations. An out-of-stock condition on white, blue-lined paper pads might inconvenience those that prefer white to yellow paper, but it would have no effect upon Agency operations.

Similarly, ordnance items are much more critical than desks, communications much more critical than typewriters, and medical items are much more critical than carbon paper. The present system does not assign a value to the relative importance of the individual items.

1.1.2 Cost-Value Considerations

We have been generally impressed by the efforts of Agency personnel to continuously consider their obligation to be "self policing" in the matters of cost and expense wherever and whenever possible. However, a deviation in this approach is found in the case of inventory reporting. Low value items are reported with the same frequency as high value items. Ballpoint pens receive the same attention as expensive ordnance, medical and communications items.

1.1.3 Stock Status Report

The principal inventory control tool is the "Stock Status Report," a computerized report which is issued monthly. It is approximately 4500 pages long and indicates the complete status and activity of approximately 30 thousand items.

This report is so detailed and is so long that it virtually defies good management. It must be discouraging to contemplate reviewing this report, or even sections thereof, knowing that it contains information on many items which do not require attention or action. Add to this the human tendency to be repulsed by excessive computerized reports in general, and one finds a virtually ineffective report being produced to serve as an important management tool.

1.1.4 Programmed Items

Certain items in the Agency inventories can be programmed from a Table of Allowance (TA) or a Bill of Material (B/M). The consumption or application of these items can be forecasted and planned within specific periods of time, such as months or quarters.

Office of Communications (COMMO) station network installations are subject to this type of planning. [redacted] also, may be planned in a similar manner.

25X1

However, the present system of reporting does not differentiate between these planned items and those which should be controlled on a re-order point basis. Every item is reported at present on a re-order point basis.

1.1.5 Behavior of Re-Order Controlled Items

All items which are subject to re-order point controls do not behave in the same manner. Some of them tend to be issued in a rather constant demand pattern. Others receive erratic demand calls in quantity and intermittent calls in time.

We found that the same method is being used to establish re-order points for each of these types. The use of the same method for both probably results in excessive stock in some cases. In other cases, it is conceivable that stock-out conditions exist when they should not.

1.1.6 Economic Order Quantities

Two key factors which should affect the frequency with which, and the quantity in which, stock items should be reordered are:

- The cost of preparing an order; and
- The cost of carrying a stock item.

We could find no evidence of these factors being used for re-order point determination.

1.1.7 Lead-Time Information

The present system of assigning lead-times to stock items appears to be a generalization based upon the source. As an example, 60 days is used for General Service Administration (GSA) items.

In reality, certain stock items have different lead-time requirements within the same source. Failure to take these differences into account can conceivably result in excess inventories.

25X1 1.1.8 [redacted] Inventories

25X1 [redacted] has become a major logistics support activity as a result of the level of operations [redacted] It is our understanding 25X1
that it is a buffering depot to provide quick response and support by minimizing lead-times for automatic resupply stations.

However, the status and activity of inventory at this depot is not included in the present supply management reporting system. Ordnance items are physically inventoried and reported frequently because of shortages, substitutions and known increases in procurement lead times.

25X1

Without such information at Headquarters, decisions regarding the desirability of direct shipments [redacted] as opposed to double handling via CONUS depots are difficult. CONUS inventory level determinations are directly affected by activities [redacted] Possible lack of activity on items in stock [redacted] might well serve to reduce active procurement by CONUS depots if [redacted] data were available on a timely and continuing basis.

25X1 25X1

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1.1.9 Customer Demand Information

[redacted] installation personnel have very little knowledge of the content and cost of the use, consumption and application of their property and supply items.

This precludes the possibility of correlating issues of important items with activity levels of missions which in turn provides information for forecasting and budgeting.

1.1.10 Current Attempt to Revise System

Recognizing a need to revise the reporting system, the Deputy Director for Support (DDS) has appointed a study team to design a computerized supply-inventory-management information system. It is our understanding that certain constraints have been placed on this team, namely:

- That the system be contained within the Support Directorate.
- That the system be designed around the hardware characteristics of an IBM 360 computer system.
- That administrative computers will continue to be operated on a centralized basis with production (intelligence and information retrieval) computers in the Office of Computer Services (OCS).

Such constraints might seriously hamper and possibly even preclude the design and implementation of a system suitable to operations logistics support which must be geared to the Agency's missions and methods of operation. Detailed comments on these constraints will be found in Chapter V, Section 20, "Procurement Management Information System."

When we were briefed by the study group, we received the impression that they were patterning their system after those used by the Defense Supply Agency (DSA), the GSA and certain contractors with some modifications to meet the present Agency reporting system. However, we firmly believe that there are many aspects of those systems which are not applicable or suitable to the Agency.

1.1.11 OSA Inventories

OSA presents an entirely different logistics support supply problem because of the unusual nature of its equipment and operational activities. Techniques applicable and acceptable to normal property and supply management do not necessarily apply here. Maintenance and support of aircraft requires many specialized techniques.

[redacted] there are 25X1
in excess of 200 thousand line items. [redacted] there are approximately 25X1
33 thousand line items. We do not know how many items will be necessary at the various operational bases.

There is considerable concern in OSA that [redacted] 25X1
25X1 [redacted] have the type of automated equipment to produce 25X1
the reports necessary to insure adequate inventory levels, to correlate sub-assembly performance with type of mission, target or flight plan or to produce reports necessary for materiel management by the [redacted] of OSA.

1.2 Recommendations

Taking into consideration the differences in components and division operations and the differences in inventory management systems applicable to different types of inventories, we recommend that the Agency undertake certain steps to analyze the inventories and then design the proper

information systems to permit optimum management control. Each of the steps is more fully explained in the sections which follow. Each analysis should be undertaken by the component or division which has technical cognizance over the particular materiel item. A summary of our recommendations is:

- Analyze the existing inventory by undertaking the following:

  - Assign a critical factor (rating) to determine how often the status of an item should be reviewed in accordance with its possible effect on completely stopping or severely hampering Agency operations.

  - Assign a cost-value factor (rating) to determine how often the status of an item should be reviewed in the interest of economizing on inventory investment without constraining operations.

  - Categorize all items into five classes of time frequency review in accordance with the above-established classifications.

  - Examine each item's behavior to determine the system of forecasting and subsequent control to be adopted.

  The choice will fall between two distinct techniques, namely:

  (1) the programmed T.A. (Bill of Materiel) explosion and variance system;

  (2) the re-order point system.

  - Study the demand history of the items to be placed under the re-order point system, establish inventory policies regarding risk of shortage and adopt appropriate probability factor tables.

- Revise the control and reporting techniques with the following studies or steps:

  - Undertake a study of the cost to re-order and determine economic order quantities for each item.

. Establish a system of recording lead-time history for each item.

. Revise the system to include inventories at [redacted] 25X1
[redacted] supply points, but disregard 25X1
those at stations.

. Revise the system to accumulate knowledge of customer usage (demand) of each specific item to permit correlations of usage with the extent of station and component or divisional activity.

. Design the report formats and system to meet the needs of those technically responsible for inventory management. Adopt a system of exception reporting. In addition, provide for special information needed by certain components.

. Determine the best configuration of high speed computer and communications equipment and the location thereof most suitable to systems requirements.

. Provide for periodic reviews of the effectiveness of inventory management by the components by assigning highly experienced inventory technicians to the Special Assistant to the DDS.[1]

. Undertake a detailed study to determine the system most suitable to OSA inventories.

1.2.1 Assign Critical Factors

The frequency and urgency of reporting significant stock level actions should be geared primarily to the relative importance of the item to Agency operations.

We recommend that each item in the Agency inventory be assigned a critical factor. This factor will necessarily be one based on

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1. This position and its attendant responsibilities are discussed in Chapter V.

judgment. The descriptions of the factors indicated below are tentative and subject to revision by individuals who are more familiar with actual field operations than are we. Nevertheless, such classification should serve to substantially reduce the present reports into more manageable increments with the frequency of reports being based upon an operationally critical factor.

A suggested definition of each factor and the frequency of reporting required follows:

> Those stock numbers (items) without which the missions and operations of Headquarters and field depots or stations would:

Critical Factor	Definition	Probable Timeliness of Reporting
1	Completely shut down	Daily
2	Be seriously impeded	Weekly
3	Be delayed	Bi-Weekly
4	Be inconvenienced	Monthly
5	Not be affected	Quarterly

The assignment of these or similar critical factor definitions to stock items would emphasize the operational importance of each item, thus requiring more frequent analysis when warranted and less frequent review of relatively unimportant stock items.

1.2.2 Assign Cost-Value Factors

The second most important factor which should influence the frequency with which inventory levels and actions should be reviewed is the cost-value of the item.

We recommend that the Agency analyze the present inventory and assign cost-value factors to each item. The system which we recommend is an adaptation of the "A-B-C Control System" frequently used by industrial engineers in an attempt to optimize inventory investment and minimize clerical and investment costs of procurement and inventory management.

Such an analysis involves multiplying the annual usage of a stock number by its cost. Almost inevitably, 10%-15% of the items in any inventory will be found to represent 70%-80% of the money spent for materiel. These are classified as "A" items and reported and reviewed as frequently as every two weeks.

"B" items are those whose value do not require as frequent control and generally involve 15%-20% of inventory investment and 10%-20% of the quantity of items. These are generally reported and reviewed monthly.

"C" items are numerous, inexpensive ones that comprise approximately 5%-10% of the investment and as much as 70% of the quantity of items. They are reported and reviewed quarterly.

1.2.3 Determine Reporting and Review Frequency

After assigning both critical and cost-value factors to each item in the inventory, a frequency factor should be established, which denotes when status or actions concerning an item will be reviewed or reported.

Critical Factor	Cost-Value Factor	Report and Review Frequency
1		Daily
2		Weekly
3	A	Bi-Weekly
4	B	Monthly
5	C	Quarterly

Under this system, the predominant factor is the critical factor, not the cost-value factor.

Thus, if cable paper is classified critical (1) and cost-value (C), it will be reported daily. If an ordnance item is classified critical (2) and cost-value (C), it will be reported and reviewed weekly. Matching critical and cost-value factors are reported and analyzed in accordance with the

table above. By assigning ranking priority to the critical factor, operations and missions receive priority. Yet, the assignment of a cost-value factor insures an economical consideration, overridden only by operational considerations.

1.2.4 Behavior Analysis and Classification

A further analysis of property and supply items is needed to classify them into two categories of behavioral characteristics. Each classification should be forecasted and controlled by different systems and reporting techniques.

. Programmed, Technical Allowance (T.A.) Material

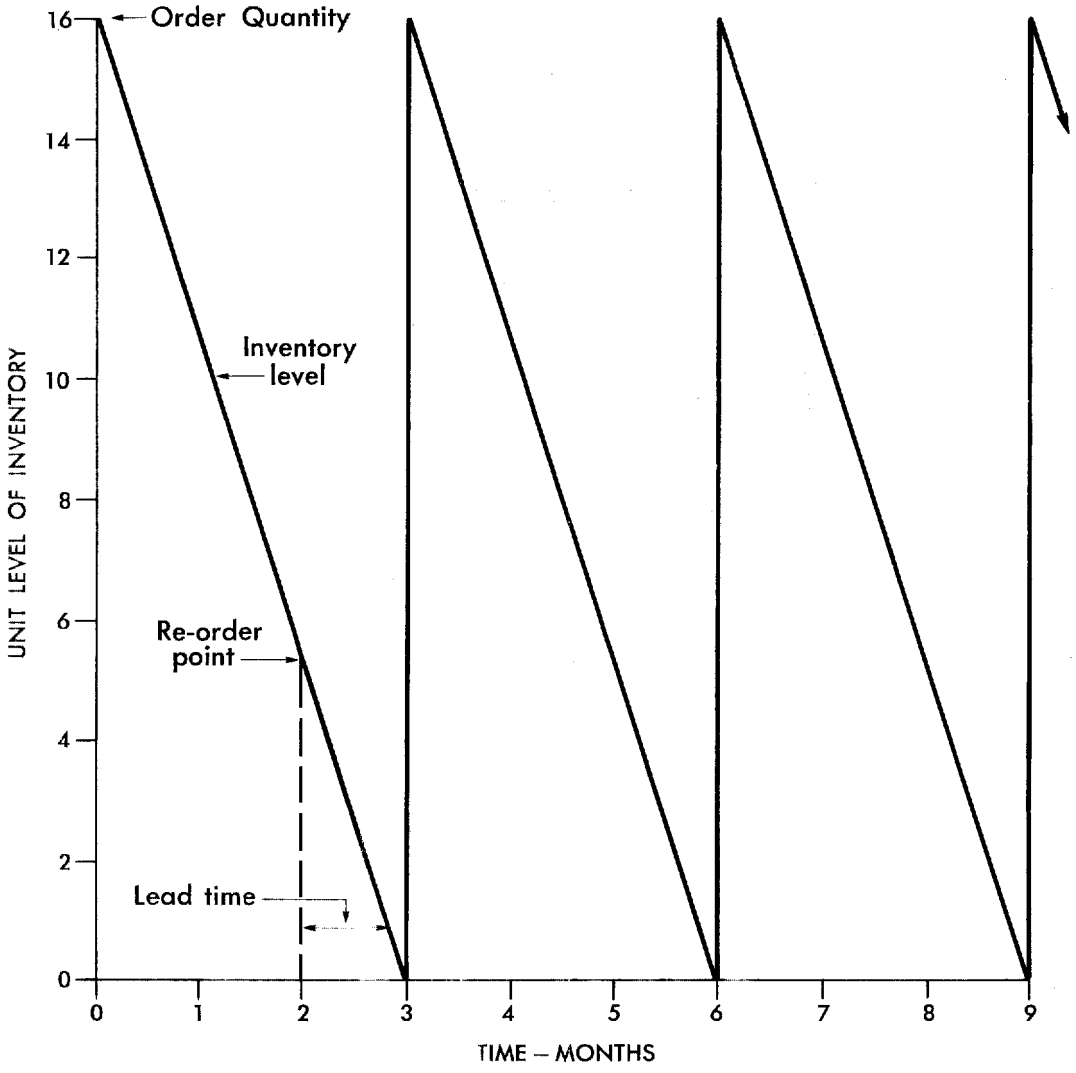
The first category involves those items which can be planned based upon a "Bill of Material" (B/M) or a Technical Allowance (T.A.). A typical B/M for planning is a COMMO, Agency network installation at a station. In such cases, a complete B/M is prepared listing the known requirements of transmitters, receivers, antennas,, spare parts and so forth required to establish a new system or replace obsolete systems as the "state of the art" requires.

Thus a program is prepared over a period of time to determine the detailed requirements of component assemblies and parts required to operate such systems and facilities. Time frames are established for each installation.

Such property, rather than being controlled on a re-order point basis, should be controlled on a time schedule basis. Significant reporting in this case permits projection of inventory levels in accordance with time-usage schedules. With reasonably well known lead time or delivery schedules, only excess usage substitutions or deviations from expected timing of installations must be compared with inventory on hand and on order.

The T.A. type of control is similar to the B/M for equipment, except that the detailed requirements of all items needed will fluctuate in accordance with the level of mission activity in a given area or areas. The content of the T.A. must also change frequently to meet local environmental conditions.

IDEAL BEHAVIOR OF INVENTORY



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25X1

25X1 are typical items to which this type of forecasting and control apply. Based upon the number of teams to be equipped and their expected subsequent activities, detailed plans and requirements for specific numbers 25X1 can be projected. These projections of requirements also require time-frame analysis dependent upon when certain teams are to be equipped and replenished.

Re-order point inventory control methods should not be applied here. While it is necessary to know lead times, on hand and on order status of such items, inventories should be controlled by quickly reflecting changes in plans (quantity of teams and when they will be equipped), changes in T.A.'s because of desirable substitutions and deviations of requirements caused by variances between projected and actual activity and usage by the teams.

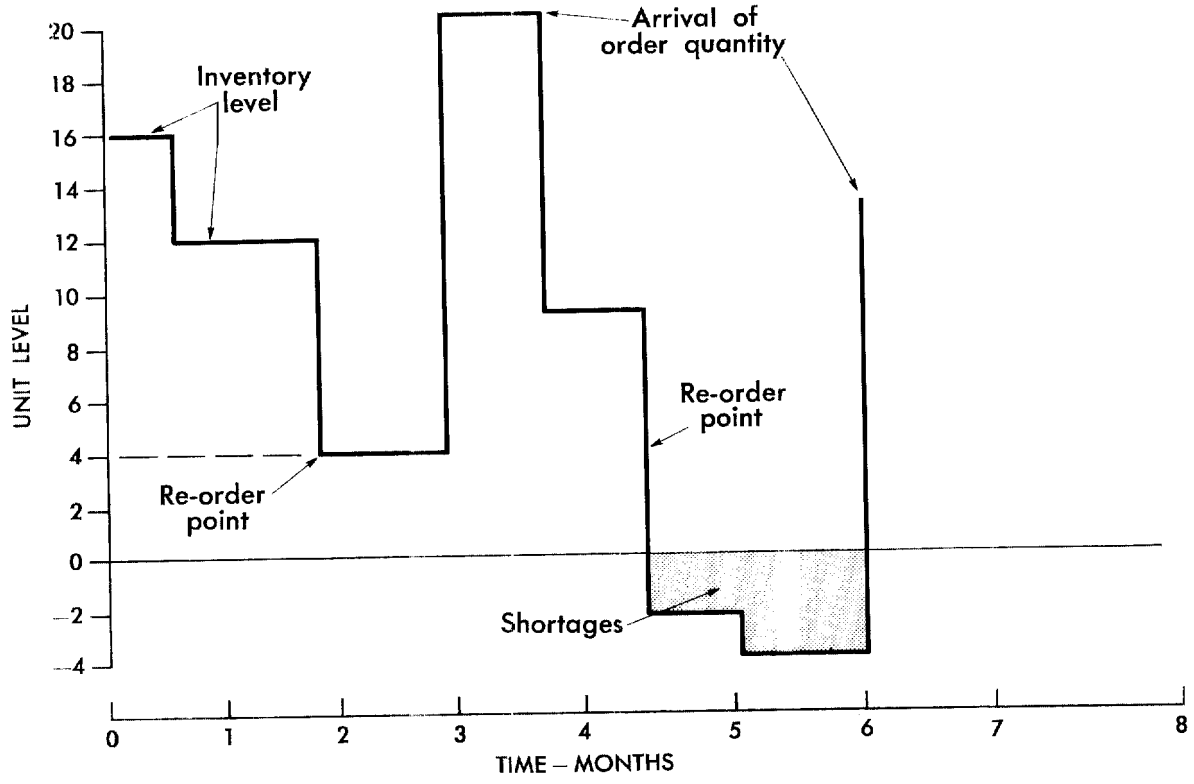
Requirements should then be projected month by month or quarter by quarter. Prompt feedback of activity levels and plans changes are required for immediate projections of requirements and stock levels with subsequent preparation of change orders in procurement.

. Re-order Point Control

We recommend that inventory equipment and supply items which cannot be program projected within a given time plan continue to be controlled on a re-order point system. However, different techniques should be utilized to determine re-order points. Those items which experience rather constant usage within a time frame and approach ideal behavior should have re-order points computed on a different basis than those which experience erratic behavior.

Explanation of Ideal Behavior - If conditions are ideal, the inventory control problem should be as illustrated in Figure IV-2 (facing). The usage rate is known and relatively constant at four units per month. Orders for new inventory are placed so that, at a point in time, when the existing inventory of 12 units is exhausted (in three months at four units per month), the new inventory arrives. As an example, if the lead time necessary to order and deliver the material is one month, replacement stock is ordered when the inventory level is four units. Four units is the re-order point (but not necessarily the re-order quantity). Items which behave in this manner should have their re-order points determined under the present Agency system.

MORE TYPICAL BEHAVIOR OF INVENTORY



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25X1

Demand History Analysis of Erratic Behavior

Unfortunately, Figure IV-2 is not generally indicative of inventory demand in practice except for certain administrative items (such as paper and pencils) and routine maintenance supplies (such as floor sweeping compounds) which are of little significance operationally or financially. Future usage of important items is generally unknown and erratic. The uneven pattern in Figure IV-3 is more indicative of what actually occurs.

When an order is placed, the exact quantity which will be demanded during the lead-time is never known. Therefore there is an element of uncertainty or risk involved in deciding what the re-order point should be. Increasing re-order points increases investment (and the risk of obsolescence) but decreases the probability of being out of stock to meet demands.

Although it is not possible to predict future usage exactly, it is possible that a prediction can be made as to what demand will occur to a large group of similar items or to a single item in the very long run. It is also possible to predict what demand will be experienced by an item during the procurement lead-time.

The present system of using historical average demand per time period to establish re-order points for items experiencing erratic usage is not recommended. Much of the time the demand may be zero. At other times (months) the demand may be 2, 4, 16 or other quantities.

For such items, re-order points should be established by statistical techniques based upon frequency distribution studies of the various demand rates (2, 4, 16, per month, etc.). Thereafter, usage-probability information can be established. Then, re-order points should be established to achieve desired levels of protection against stock shortages in accordance with the Critical Factor assigned to the erratic demand item.

Those with a Critical Factor 1 assigned will have re-order points established which will insure a level of protection of .99 (99% of the time we will not be "out of stock") and a shortage risk factor of .01 (it is possible that we may be out of stock 1% of the time).

In the more critical categories (#1, 2 and 3), safety stocks (which will have little if any turnover) should be added. Safety stock levels are a matter of judgment based upon past and known future lead time requirements and the cost of investing for safety.

1.2.5 Redetermine Economic Order Quantities

Deciding the quantity to buy presents problems. Is it better to buy one unit at a time? or twelve? or six thousand? Larger buy quantities result in:

- longer lasting inventories
- larger holding costs
- less frequent orders
- less personnel needed to process the orders
- generally larger risks of obsolescence

Lower buy quantities result in:

- shorter lasting inventories
- smaller holding costs
- more frequent orders
- more personnel needed to process the orders
- generally less risk of obsolescence

A useful rule for deciding on a good compromise is the standard "Economic Buy Quantity Formula" which is expressed mathematically as follows:

$$\text{Economic order quantity} = \sqrt{\frac{2\,(\text{Cost Per Order})\,(\text{Annual Usage Rate})}{(\text{Unit Holding Cost Rate }(\%))\,(\text{Unit Price})}}$$

We recommend that the Agency adopt this formula to compute reorder quantities. The cost of processing an order must be determined by a special study. We believe that this should be undertaken to provide the factor needed for the above computation.

The unit holding rate should be determined by adding all of the direct expenses of operating Agency warehouses and depots (personnel and overhead) and the U.S. Government's average cost of borrowing.

It is interesting to note that such order cost studies, when undertaken by qualified personnel, often suggest improvements in warehouse management and records systems which are outside the scope of this survey.

1.2.6 Specific Lead-Times

We recommend that specific lead-times be recorded for each stock item and that these lead-times be changed whenever experience or advance knowledge of changes is available.

It is most important that experience or knowledgeably projected lead-times be used in re-establishing re-order points on a specific item. The use of general category lead-times applicable to other agencies, contractors and vendors may appreciably distort re-order points and cause unnecessary "out of stock" or excess inventory conditions. A properly designed inventory management system requires the same surveillance of lead-time changes that is conveyed to demand history.

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1.2.7 Include [redacted] Inventories

While we do not underestimate the communications and other system design considerations involved by including [redacted] COMMO and TSD support stocks, we do not believe that an optimum, logistics-supply support system can be designed and installed without including these stocks. We recommend that these inventories be included. 25X1

With regard to stations, we do not believe it feasible or necessarily desirable that their inventory status be known centrally for inventory management purposes. Exceptions would be COMMO and TSD support inventories, each maintained at several stations. We are told that other inventories at stations are insignificant in the total supply picture. While proper "Property-in-Use" accountability should continue as well as annual inventory reporting by stations, it would appear that material requisitioned by and delivered to stations should no longer be considered to be in the supply system. Rather, it should be treated as consumed.

1.2.8 Report and Summarize Customer Usage

The use of a single line item requisition would considerably ease the problem of reporting consumption of supply items at the station level and within the Headquarters components and units. While there are many problems to be resolved attendant to its adoption, we feel that they can be solved through proper systems analysis and design.

With line item data available on property requisitioned for use and supply items consumed, stations and Headquarters components will be able to prepare much more realistic item usage forecasts and financial budgets. These unit forecasts and financial budgets should in turn be earmarked to the unit to compare actual with budgeted consumption and determine the cost of variances from plans.

The forecasts and budgets would also be effective in better determining appropriations needed to replenish supply inventories. Moreover, variances between standard prices and actual prices paid are currently analyzed on the computer so that price increases by materiel category can be anticipated.

If, as is predicted in Section 1.2.2 above, approximately 10-15% of the items account for approximately 70-80% of the dollars expended, such line item usage information should permit strengthening the validity of 70-80% of the item usage forecasts in the budget planning processes for equipment and supplies.

1.2.9 Inventory Status and Activity Reporting

The frequency with which inventory action and status reports might be reviewed by persons responsible for their technical cognizance was discussed in Section 1.2.3 above. However, the format of the reports must be based upon both the type and behavior of the inventories involved.

The detailed design of the reports must be geared to the need for inventory manager in charge of specific items to make decisions. Therefore, they can be designed only after a complete analysis of the inventory has been completed.

However, we recommend that a system of "Exception Reporting" be adopted. With this type of system, each and every item which is designated for weekly review is not necessarily contained in an inventory manager's weekly or other periodic reports. Rather, only the items that require attention are reported. Stated another way, items are reported and reviewed only when they are not performing according to plan or within constraints placed upon them. Items which are within their constraints or are behaving according to plan are not reported. This minimizes the data which are reported to the manager for review and permits him to spend his time on inventory levels requiring corrective action.

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Examples of constraints and non-planned behavior which should trigger such exception reports are:

- Whenever the actual demand within a given time frame on an erratic behavior item exceeds the historic maximum demand utilized in establishing its re-order point.

- When the re-order point is attained.

- When there has been no issue activity on an item within a given time frame.

- When the projected usage of a planned (T.A.) item exceeds the projected availability within a future time frame.

- When the actual usage of a planned (T.A.) item exceeds the projected usage by X% within the current time frame.

- When substitutions are issued within a standard (T.A.).

- When contractors, vendors, or other agencies do not deliver in the time frame which was designated.

- When contractors, vendors, or other agencies have reported that they cannot deliver in the time frame designated.

- When ammunition in a certain location is approaching the end of its useful life in X months.

- When one depot cannot issue an item because it is out of stock and the item is available in another depot.

- When another agency advises that they intend to deliver a substitute for the item ordered.

- When the new price exceeds the standard price by X% or $X, whichever is significant.

- When the lead time changes by X%.

- When issues are made from safety stocks.

With indicators similar to the above triggering reports only on items which need attention, the manager will be free to manage by exception and to forget items which do not require attention.

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1.2.10 Determine Best Computer Configuration and Location(s)

The final design of the logistics support-supply system will be dependent upon the results of the analysis outlined in the previous sections. The final supply reporting and analysis system itself will or should be only a sub-system in the Agency's over all, integrated procurement management information system.

Nevertheless, because of the comprehensive nature of this sub-system, the geographical locations of the inventories, the number and nature of the items to be controlled by different methods, we believe it essential and we recommend that existing policies concerning computer centralization be reviewed and challenged. A proper, comprehensive computer and attendant communications feasibility study might well lead to the conclusion that a number of smaller computers, located closer to inventories and/or supply managers will probably be necessary to attain the most optimum system possible. Moreover, the application of other computer manufacturers' equipment could conceivably better meet the needs of such a revised system.

1.2.11 Control of Inventory Management

We believe that control of inventory levels is best accomplished, as it is now, by the components which have technical cognizance of the items, if they are provided with the proper types of reports at the proper times.

We have previously explained our views on the various analyses of inventories that are necessary before determining the best reporting and analysis techniques applicable to each class.

After selection and implementation, we recommend that the Special Assistant to the DDS,[1] responsible for over all Agency procurement and materiel management, obtain at least one person who is highly experienced and trained in the modern techniques of inventory management to periodically monitor the effectiveness of the component managers.

With the types of sub-systems we have suggested, the Special Assistant/DDS should be in a position of highlighting inventory management

1. This new, over all Agency procurement management coordinator is explained in Chapter V, Section 1.3.0.

effectiveness in the various components. Inventories are dynamic and conditions change frequently which necessitate reclassifications and shifts from one technique to another to manage certain classes and items. The use of computerized audit programs and the need to remain completely updated in the state of the art of inventory management requires that the Special Assistant/DDS be equipped with proper personnel to monitor this specialized, operational system.

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1.2.12 Study OSA Inventories

[redacted]

2.0 INTERDEPARTMENTAL PROCUREMENT

Procurement of standard federal and military supplies is handled by the Interdepartmental Section of the Procurement Division/OL.

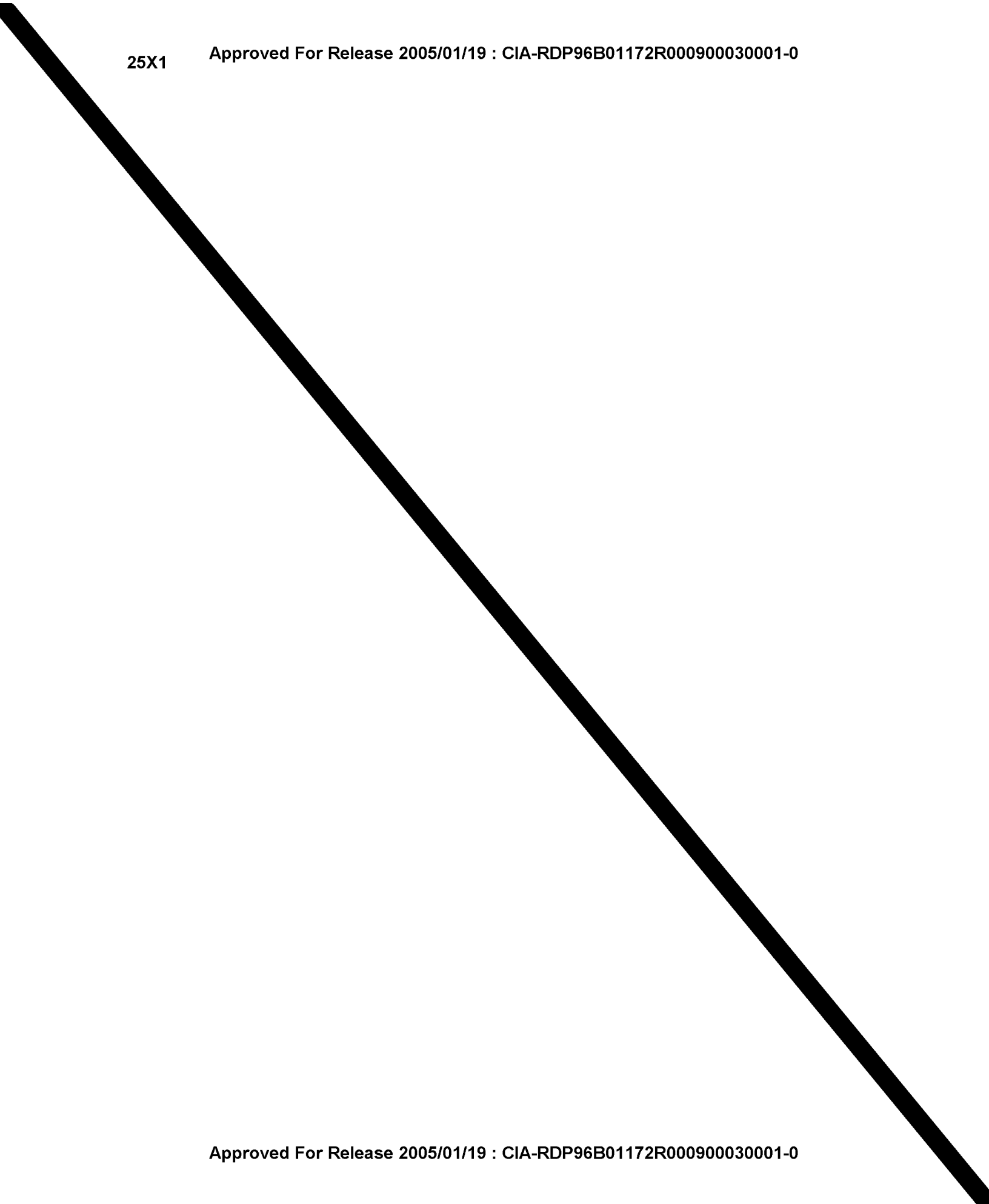
2.1 Overview

Standard federal requisitioning and billing procedures are utilized involving MILSTRIP[1] and FEDSTRIP[1] systems which require single line item requisitions. Interagency settlements are handled by the Office of Finance.

Requisitions (Form #88) are received from a number of directorates, divisions, and sections of the Agency, a large percentage of them being originated by the Supply Division/OL, when federal standard supplies reach re-order points. These are in turn handled in the Interdepartmental Section by specialists assigned to Army, Navy, Air Force, NSA, GSA, etc., who deal with witting persons in those organizations.

Open order (on order) files are established for each requisition and are closed when the particular order has been filled. With the exception of machine preparation of MILSTRIP and FEDSTRIP forms, the entire system is operated manually.

1. Terms devoting systems for inter-service requisitioning procedures requiring a single line item requisition.



2.2 Problem Identification

Because of relationships with other federal agencies and departments, it is most important that this unit operate in a smooth manner, that inter-agency settlements be made promptly, that the "on order" positions be known, and that unnecessary high priority ratings not be assigned.

However, the existing system does not lend itself to smooth operations. It should be understood that this condition is greatly influenced by other related systems and policies which place unnecessary pressure on this unit. Specific problems are:

. The unit appears to be understaffed and unable to keep up with the volume of work.

. Inter-agency settlements are slow. This is caused by the policy of not settling until receiving reports and invoices are matched (post-audit routine in the Office of Finance).

. In some cases, components do not allow proper lead-times to obtain items. This can cause embarrassment to the Agency by assigning top priorities to such items as typewriters requisitioned from GSA.

. In times of operational and financial crises when the procurement funding and communication system breaks down, requisitions are held back until additional funds are obtained. This necessitates increasing priority status of all the requisitions held back and forces unnecessary peak loads upon other agencies and departments. Figure IV-4 (facing) indicates the actions with other agencies during the period 1 November through 24 November 1965. The high predominance of priority A items in FEDSTRIP appears to be a problem. The section discontinued maintaining such statistical records during February 1966.

. Excessive paperwork is involved in returning damaged goods or adjusting settlements for minor amounts of over- and undershipments from other agencies.

. The manual system is cumbersome. At no time is it possible to examine, analyze and emphasize follow-up of outstanding (unfilled) requisitions by stock number, age, priority classification, service/activity.

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2.3 Recommendations

We recommend the following studies and actions:

- Temporarily assign one or two additional clerical personnel to update filing, maintain workload statistics and handle other tasks until the system is redesigned to provide information required for smooth operations.

- Adopt a policy of immediate settlement with other government services and activities and perform a post audit of invoice, receiving report reconciliation.

- Provide operating components and stations with realistic lead times for obtaining material of different classes via various services and activities to minimize the high priority assignment problem. Take into consideration the location of the stations and depots. Keep the lead-time information system up to date. Do not increase priority status if components fail to requisition on a timely basis.

- Modernize the fund obligation and commitment reporting system for OL to permit timely reporting of PRA status to OL and PPB. (See Section 4.0.)

- Study the effect of raising acceptable levels of excessive or short quantity receipts. Also give consideration to raising the allowable amount of damaged property which will be accepted and paid for without returning it to other services/activities.

- Provide the section with mechanized, timely records which will "age" all outstanding interdepartmental requisitions by stock number, service, requisitioning component, and so forth.

- Maintain proper workload and action priority statistics.

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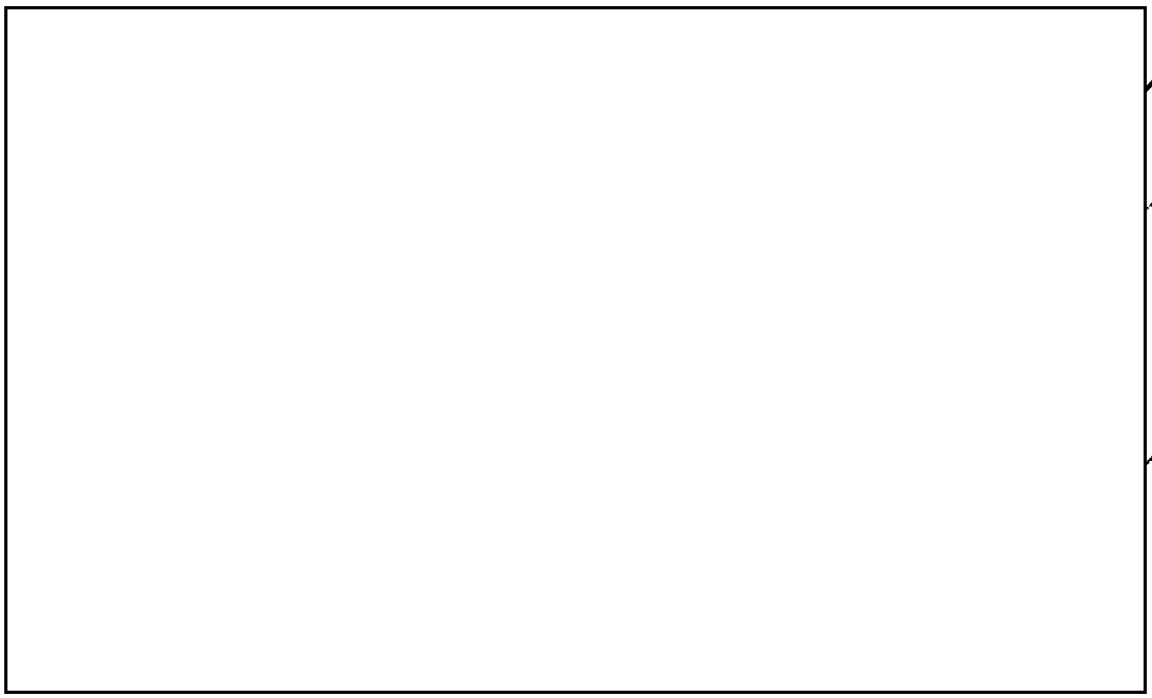


4.0 BUDGETING, FUNDING AND ACCOUNTING FOR LOGISTICS SUPPORT

In lieu of a formal component allotment and stock fund system, the Agency has adopted a system called "Property Requisitioning Authority" (PRA).

4.1 System Overview

Each station, component, and division estimates the amount of funds they will need to cover procurement of property and supplies for both direct purchase and issues from the Agency's inventory. The bulk of the funds thus budgeted each year by individual components is then formally allotted to the Office of Logistics (OL) to provide it with authority to procure direct purchase items requisitioned by components and to replenish inventories drawn down by component issue requisitions.

Each component therefore is given its PRA (in effect a form of scrip) for the fiscal year representing its anticipated share of direct purchases and issues required out of the total allotment authorized to OL. PRA is therefore a statistical or "make believe" substitute for a formal allotment to the components.

Agency regulations require each Agency component to maintain a control record of its PRA status. Each requisition prepared by a component for direct purchase or for issue from inventory must certify that the component has unused PRA available to cover the requisition. OL then accepts such requisitions without maintaining separate component records to prevent them from exceeding their PRA. At the end of each month, each component reports the amount of its total requisitions to the Office of Finance (O/F) which maintains a summary "control" of total use of PRA throughout the Agency.

Theoretically, if each component limits its amount of requisitions to its authorized amount of PRA, sufficient funds should be available in OL to procure the necessary amount of direct purchases and maintain proper stock levels to satisfy component requisitions.

4.2 Problem Identification

25X1 In practice the system has not worked effectively. In times of heavy requisition activity [redacted] OL, and hence the Agency, finds itself in the position of having to approach The Bureau of the Budget (BOB) for permission to use contingency reserves. This, in itself, is not unexpected in the circumstances. However, when this happens, many components who have not exceeded their PRA are prevented from receiving action on direct purchase or issue requisitions. Yet, traditionally, OL has turned back substantial unobligated procurement appropriations at the end of each fiscal year.

The problems of the PRA system appear to revolve around three principal areas, namely:

- misunderstanding
- slow communications
- system design and information

The several factors contribute to the ineffectiveness of the system and appear below.

4.2.1 Station Information

At the station level, the only information available for planning and budgeting property is the PRA record maintained during the previous year. These may or may not reflect usage by class of materiel. In no cases are the stations given specific information regarding important or costly line item usage (10% to 15% of the items probably account for 70% to 80% of the cost). Therefore, any degree of reasonableness in planning PRA requirements cannot be expected. Generally, last year's figures are modified upward but without adequate information to determine the degree of modification.

4.2.2 Customer Complaints

Components generally confide that they do not trust the system. There is no assurance that a component's portion of the general logistics procurement funds allotted to OL and made up in total of components' PRA will be available to a component when it needs it. Therefore, components "hold back" release of PRA to OL at the beginning of the year by over-estimating cash funds and under-stating PRA requirements. If the component needs additional property and supplies during the year, they can transfer cash funds to OL and obtain PRA. OL does not "earmark" their general procurement funds for a specific component in proportion of the component's PRA to the total funds. Therefore, OL is free to utilize the "funds" of one component to replenish inventories of another component.

4.2.3 Pricing Data

Users of property and supplies are not given adequate information to plan for price increases. The price catalogue is prepared annually and any significant deviations for a given stock number from standard prices during the year are supposed to be reflected in catalogue modifications. But without information regarding price trends by materiel category the user cannot budget properly. Yet this information is available at Headquarters.

4.2.4 Obsolescence

Obsolescence and damage is not funded nor is there a surcharge provision for this factor in the pricing formula. This reduces available stock levels without provision (funding) for proper replenishment.

4.2.5 Increases in Inventories

Where it is necessary to increase stock levels of unprogrammed materials because of additional depot or stock locations in the supply distribution network, this diminishes the funds available for programmed activities. These stock level increases have not been planned in the budgeting-funding cycle.

The entire system has been confusing to the components in the past by combining purchases of new items for stock with PRA funds to replenish present stocks. (This will be corrected in FY '67.)

4.2.6 Lead-Time

There has been practically no provision for funding for lead-time. Orders placed in one fiscal year to ensure delivery in a subsequent fiscal year are obligated in the fiscal year they are ordered and charged against component's PRA. In the event an item becomes a stock item for issue, it is sometimes again charged against the component's PRA in the year the issue requisition is received on the presumption that the "pooled" procurement funds are needed to replenish the stock. Components become confused with this type of system and claim they are "charged twice."

4.2.7 Discipline

There is little discipline in the system. If a station or component exceeds its PRA, it can transfer cash funds to obtain more PRA. If cash funds cannot be spared, then a search is made elsewhere to obtain funds (another component, etc.). Thus, the substitution by the Agency of the PRA for the typical military system of allotments which do enforce discipline, has been ineffective. However, because the users have not been provided the proper information with which to plan their PRA requirements, enforcement of such discipline as the military uses (3679)[1] would not appear to be warranted.

4.2.8 Lack of Control

While O/F maintains a centralized record of the unused amounts of PRA reported by components, this "control" is dependent upon station

1. A section of the Anti Deficiency Act which imposes severe penalties for exceeding allotment or appropriation authority.

and component reports. Where unusual activities [redacted] are 25X1 under way, communications are slow in updating fund status. Large drains on the OL allotment (procurement pool) may exceed station reporting by a substantial time frame. Moreover, stations may be using improper prices (too low) because they are not apprised of increases on a timely basis. This causes overstatements of available PRA on the station and component books.

4.3 Recommendations

We suggest three alternative solutions in Sections 4.3.1, 4.3.2 and 4.3.4. The selection of the alternative will necessarily depend on the policy which the Agency wishes to adopt concerning responsibility and discipline in the field and/or Headquarters for budgeting and obligating for the use of property and supplies.

In view of the trend within the Federal Government to strengthen financial controls and responsibilities, we strongly recommend the formal stock fund approach.

In either case, neither the suggested systems nor the PRA system will be effective until proper and timely reports are prepared which:

- reflect the usage, application or consumption of property at the user level (station, division, component) on a timely basis
- provide the users with the information necessary to plan and budget
- provide proper pricing allowances for lead time, cost increases and obsolescence.

4.3.1 Revolving Stock Fund

We recommend that the Agency adopt a formal revolving stock fund basis of accounting for non-programmed items. Formal allotments should be issued to components, divisions and stations and 3679 type discipline should be attendant to the allotments. OL should be provided with a working capital fund specifically appropriated by Congress[1] to cover the present inventory and the "on order" position of items controlled on a re-order point basis. The working capital fund should be revised each year to provide for price increases, obsolescence and lead time.

1. There are varying views within the Agency concerning whether it would be required that Congress must specifically appropriate such a fund.

Programmed items should be funded on an acquisition basis (fund for the year the order is placed and the obligation must be made). Thereafter, accounting for inventories of programmed items should be on a statistical basis. Accounting for issue distribution on a statistical basis will be used to arrive at cost center and project costs.

4.3.2 Informal Stock Fund

A second but less desirable alternative is the adoption of an informal stock fund which is not specifically appropriated by Congress. The system itself would work in essentially the same manner as a formal stock fund, but would not include the no-year fund advantage attendant to an appropriated stock fund. It would require that unused procurement funds be turned back to the contingency reserve at the end of each fiscal year.

In many respects, the system would also be similar to the present PRA system with the following exceptions:

- Formal allotments would be issued to the various components rather than being allocated to a "procurement pool," under the jurisdiction of OL.

- OL would be in a position of "open to buy" only upon receipt of a requisition from a component (which would reduce the component's available allotment).

- OL would have to be allotted a relatively small fund to permit it to buy large quantities of replacement items in cases where components have not "released" enough allotment (because of minor draw-downs) to permit large purchases.

- Components would be held responsible for the proper entry of obligations against their formal allotments with attendant 3679 discipline.

In essence then, such a system would parallel the present PRA system but would substantially strengthen management control and discipline in its operation.

4.3.3 Statistical Accounts

A third alternative system will considerably reduce accounting and related records at component, division and station levels. It will also

conceivably reduce the need for financial support personnel assigned to these activities. Yet, information concerning consumption or application of property by cost center or program can be obtained.

Such a system would involve the preparation of budgets for property application and issue by each component and division thereof to the station level. The budgets would be based on proper cost analysis by material category (and line item information where important) maintained centrally, and based on distribution costing of direct purchase and issue requisitions.

Inventory replenishments and stock levels would then be projected and the entire Agency budget for property and supplies would be determined for an appropriation.

When purchases are made, obligations would be entered against this appropriation. However, this would be the only formal accounting record maintained.

Inventory records would continue to be maintained on a unit basis and costed, but only statistically. Issues from inventories and application of programmed material would be costed, but only statistical records of property and supply costs by station, division and component would be prepared to compare budgets with actual consumption. No formal accounting records would be maintained in the components other than unit inventory records for stations and property "in-use" records where required.

It would be possible at any time to determine the cost of operating a station, division or component without maintaining formal accounting records or allotment ledgers at these locations. Thus, operators would be made aware of the financial consequences of their actions and decisions without obligational discipline such as 3679. However, formal accounting records would not have to be maintained at operational locations with attendant citing of fund authority, etc.

We believe that such an approach would be just as effective as the PRA system and yet would considerably reduce records maintenance requirements at the operating locations.

4.4. Property-in-Use

As a by-product of our review of supply management, we were impressed with the extent to which the Agency accounts for property-in-use. We

suspect that there is somewhat of a tendency to over-control because of the feeling of responsibility on the part of sincere personnel to "watchdog" the Agency's assets without subsequent review by the General Accounting Office.

We recommend that this should be the subject of a thorough analysis. Certainly, items which are "personally sensitive," (such as cameras, fire-arms, tape recorders, etc.), as well as "Agency sensitive," (such as medical supplies) and plant assets in excess of a certain dollar amount should be accounted for on an "in use" basis. We do question whether items such as desks, bookcases, and expendable items in excess of $50.00 should all be accounted for on an "in-use" basis.

5.0 ALLOCATION AND PRIORITY ASSISTANCE

5.1 Priorities with and for Contractors

Under authority granted in the Defense Production Act, the Office of Emergency Planning (OEP) has delegated the assignment and handling of priorities to the Business and Defense Service Administration (BDSA) of the Department of Commerce.

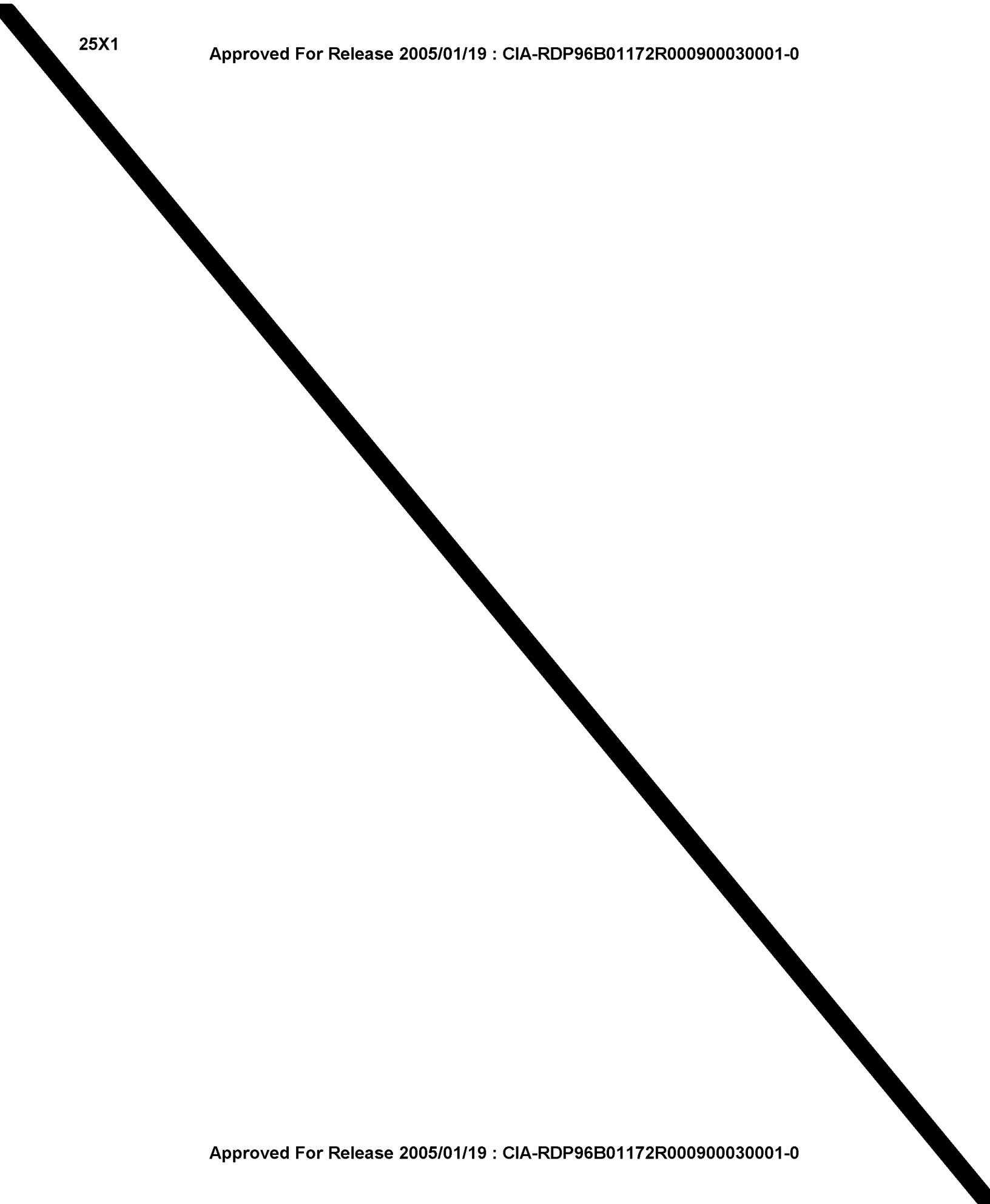
The Department of Defense (DOD) and the Atomic Energy Commission (AEC) have been designated as "Claimant" agencies and the CIA has been designated as an "Associated" agency to work with and through the DOD.

DOD has delegated priority ratings to the Agency to obtain precedence over civilian production orders where necessary. Therefore, the Agency has and will continue to deal directly with BDSA through a witting person of high rank in that administration. The Agency has delegated responsibility to deal with BDSA to a single Contracting Officer.

5.1.1 Findings

- There were four contracts in 1964 and five in 1965 that required the assignment of priority ratings by BDSA. All were handled to the satisfaction of the Agency.

- No contractor to date has had to have the Agency intercede through BDSA for the release of controlled materials. Presumably this is because Agency production contracts are small in unit quantity.



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CHAPTER V.

OVER-ALL PROCUREMENT AND MATERIEL MANAGEMENT

1.0 Management Review and Coordination

2.0 Procurement Management Information System

V. OVER-ALL PROCUREMENT AND MATERIEL MANAGEMENT

In Chapters II and IV, we recommended changes in the organization and information structures applicable to Research and Development (R&D) procurement and Logistics Support respectively. Because of the significance of these recommendations and their importance to the over-all effectiveness of procurement and supply management, they are repeated here, but with emphasis on how they interface throughout the Agency as a whole.

Additional organizational and information system recommendations are presented here concerning the need for an over-all management review and coordination function.

1.0 MANAGEMENT REVIEW AND COORDINATION

25X1 Because of the predominance of R&D procurement in the Agency budget [redacted] and the peculiar characteristics of this function, it requires treatment different from that of the Logistics Support procurement function, which is comparatively straightforward.

1.1 R&D and Related Procurement Organization and Control

We have recommended that responsibility for all Agency R&D procurement be centralized under the direction of the Deputy Director for Science and Technology (DDS&T).

This recommendation places full responsibility for all procurement activities in the entire life cycle of R&D contracts in a centralized procurement office comprised of experienced and knowledgeable technical, procurement and auditing talents operating as a team.

We believe that this type of organization will contain the following advantages which are not available in the present decentralized system:

- The possibility of different components entering into separate contracts for similar R&D efforts will be minimized.

. The contractors who have multiple R&D contracts with the Agency will generally be negotiating and dealing with the same team on a consistent policy basis.

. Contracting teams will be in a better position to negotiate and deal with contractors because of their continuous analysis of the contractors' peculiarities and/or systems as applied to technical, delivery and cost performance.

. Communications problems between members of the team will be minimized.

. Duplication of contract documents, correspondence, inspection reports, audit reports and files will be eliminated.

. Trained procurement specialists assigned to the directorate will assist in the identification of sources to reduce the amount of sole source procurement by increasing competitive bidding. Closer working relations will reduce the number and effects of "pre-cooked deals".

. Opportunities should arise to permit team specialization by R&D "product lines" which in virtually every case has historically reduced procurement time cycles and costs.

We do not believe that the advantages inherent in centralizing this activity can be attained by continuing with the current decentralized system with numerous directive, communications and coordination difficulties.

1.2 Logistics Support Procurement Organization and Control

1.2.1 Production Contracts and Federal Stock Items

We recommend that production and interdepartmental procurement continue to be centralized in the Procurement Division of the Office of Logistics (OL/PD).

Such procurement is rather straightforward, being based on definite and complete specifications either peculiar to the Agency, proprietary to the contractors, or subject to federal specifications. Virtually all such items are relatively fixed price and many are subject to competitive bidding procedures.

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R&D contracts with other services and agencies should be transferred to DDS&T and no longer handled by the [redacted] This unit is better geared to handling single line item requisitions for federal stock number items with other government departments.

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1.2.2 Inventory Management

Responsibility for management of inventory levels should continue to be that of the components which have the necessary technical knowledge to plan and manage the specialized items. Administrative and housekeeping items should continue to be managed by the Supply Division of the Office of Logistics (OL/SD).

Custody of all unissued property and supplies should continue to be the responsibility of OL/SD.

1.3 Over-all Management Review and Coordination Function

The centralization of R&D procurement under DDS&T and production procurement under OL/PD will, we believe, enable the Agency to perform the procurement functions more effectively and consistently with probable reduced time frames and costs.

However, because of the importance of the entire Agency procurement function to its continuing and increasingly technically complicated operations, we recommend that a top level procurement management review and coordination function be established.

We recommend that this function be carried out by the DDS through a Special Assistant for Procurement Policy and Control. This would enable the Special Assistant to cut across directorates in procurement matters and, in effect, be the Agency's "overseer of procurement and materiel management."

This function would be responsible for the following activities:

. The establishment, updating and publication of Agency procurement policies.

. The establishment and/or approval of procurement procedures to carry out these policies effectively.

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. Determining the specifications for a Procurement Management Information System which will enable procurement and inventory managers to make decisions and take action when necessary.

. Determining the specifications for a reporting system to measure the procurement workload.

. The carrying out of periodic reviews and tests of the effectiveness of inventory management by the components and OL/SD.

. The preparation of periodic reports and briefings on the status or posture of Agency procurement activities for the Director of Central Intelligence (DCI).

In addition, the Special Assistant would act as Chairman of the Contract Review Board to review and approve all fund requests and contracts in excess of $250 thousand and arbitrate differences involving procurement policy which arise between Technical Representatives, Contracting Officers, and auditors.

We feel that this position with its attendant functions is essential to insure consistent and quality procurement and materiel management activities in the Agency.

However, we do not believe that any of the organization levels discussed above will be able to operate effectively without timely and accurate information contained in reports geared to their particular needs. This is discussed in the section which follows.

2.0 PROCUREMENT MANAGEMENT INFORMATION SYSTEM

In previous chapters we have discussed the need for a modern, mechanized Agency Procurement Management Information System. Such a total system can be considered to be comprised of two major sub-systems: a Logistics Support Sub-System and an R&D Management Sub-System. Each of the major sub-systems are in themselves comprised of other distinguishable sub-systems at successively lower echelons. Availability of timely, effective procurement management information at various levels in various organizational components demands attention to the procurement system as a whole.

The Agency does not have such a system today. The approach currently being undertaken by the special study group of the DDS does not promise to produce such a system, because of limitations in scope associated with its "charter".

2.1 R&D Procurement Information System

Reference has been made to the needs for R&D management information in Chapter III, Sections 2.0 and 4.0 where the DDS&T and individual technical component needs were observed. The need for R&D information is closely tied to the question of over-all R&D management itself. The current posture in regard to R&D information systems design is as follows:

. DDS&T is establishing a data base of computer stored information. OSA/OSP information is being added to that of other DDS&T components. This store of information does not constitute an information system. The available programs are limited to sort, list, sub-total, total and format. This information will not satisfy the requirements of OSA and OSP.

. OL/Procurement Division is operating on an inadequate manual system. (See Chapter III, Section 2.4.2)

. TSD is in the process of designing an information system for computer application. (See Chapter III, Section 4.5.4)

. The Special Assistant to the DDS, whose committee is addressing management information system needs, does not have R&D information in his "charter".

. The total information requirements necessary to the management of R&D are not being addressed.

The needs for R&D information cannot be served well with the partial approach now underway. The present practice of constantly patching computer programs as new individual requirements arise in a component is costly and ineffective in producing a system. The study team has been apprised of the consideration being given to consolidating Agency management control of R&D. An R&D Management Information System designed to meet the needs of centralized management is needed.

2.2 Other Procurement and Materiel Management Information

Efforts to date to design a Materiel Management Information System have been those of the special study group formed under the DDS to review supply and inventory activities. The design concept is based largely on DSA, GSA and several industrial systems which this group has reviewed. The group is studying within the confines of the Support Directorate and has not taken into consideration procurement control status information in other directorates. They are further constrained to work within the present OCS plans for IBM 360 equipment.

In Chapter IV we recommended in detail the tasks required to classify and analyze the behavior and other characteristics of the inventory. These tasks should precede the design phase of a system because it is absolutely essential to determine how different classes of inventory should be controlled before a system is designed to control them.

Further, interfacing of production and R&D contract status in other directorates must be considered to provide the Agency with total contractor information which is not available today.

We do not wish to imply that all of the resources expended by the study group in this mission have been misdirected or improperly applied. We strongly recommend that their mission be redirected and redefined to include a total systems concept rather than the present fragmented approach. A tested and historically successful approach is outlined in Section 2.4 below "Recommended Approach."

2.3 Need for Rapid Response to Inquiry

Because of the sensitive nature of the Agency's operations, organization and charter, it is extremely important that the system be designed to provide almost instantaneous response to probable or conceivable specific inquiries such as:

- With which educational institutions does the Agency have current contracts?
- What is the nature of the contracts?
- What is the total, cumulative historic dollar amount of contracts with each institution?

[redacted] 25X1

- What is their dollar value?

- Which divisions of which components are currently contracting [redacted] 25X1

- Who are the top 100 Agency contractors ranked in order of volume of Agency business?

- Etc.

The Agency does not have a system to provide rapid response to such questions today. We consider it of prime importance that the Agency consider all possible inquiry needs in the total system.

2.4 Overview

In designing such systems, the key problem we have found is to identify what management decisions and other actions are involved in performing a mission or function, and then to determine what information is needed, when it is needed, and in what format to make these decisions wisely and to take effective action.

The general types of information and reporting necessary to make decisions concerning inventory control were outlined in Chapter IV. Similarly, important activities such as late inspection reports, anticipated cost overruns, anticipated late deliveries, etc., applicable to contract status were mentioned in Chapter III.

Keeping in mind the compartmentation required for security, we do not propose that the management information system be designed to provide information on the status of all contracts to all directorates or divisions. Rather, the system must be geared to provide each manager at each level, the information which he needs on a timely basis to make decisions and take corrective action.

Next, different reports summarizing required decisions and actions on contract status and inventory control must be designed to meet the needs of each of the directorates.

Finally, reports which present an overview of Agency status on procurement workload and contract and inventory status and actions should be presented to the Director, Deputy and Executive Director-Comptroller and in summary (probably graphic) form highlighting possible or existing problems of which they should be aware.

2.5 Recommended Approach

We have found that in a management information system study, a thorough analysis of the managers' information requirements for decision making is necessary to provide a framework from which to evaluate the adequacy of the present information. This involves a six-step approach which covers the development of an analytical framework based on management decision analyses. This framework is then used to determine the adequacy of present information system requirements and to develop an optimum management information concept at each level.

Step 1. *Define and document the scope and nature of the Agency procurement management activities by a two-part analysis.

Organization Analysis:

. Identify Agency organizations falling within purview of the study.

. Document organizational missions, functions and responsibilities, and within each function, establish the relationship of procurement management and control to the effective performance of that function.

. Establish the limits of the performance of organizational functions by determining organizational interfaces, interrelationships and information interdependences:

. Internal to the Agency

. External to the Agency, i.e. DOD, GSA, NSA.

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* Much of this has been accomplished during the current procurement study.

Function and Decision Analysis:

Based on descriptions of organizational missions and functions (requiring procurement management and control) performed to achieve missions, derive profile of procurement and logistic support decisions inherent in the effective performance of the functions. Distinguish between:

. Planning decisions

. Controlling decisions

. Establish the information components or foundations of planning and controlling decisions (preliminary information flow charting).

Step 2. Construct an analytical model in graphical (block diagram/matrix) forms from data and information developed in organizational analysis and function and decision analysis.

This model will depict:

. Basic functions requiring procurement and inventory management and control;

. Basic procurement and inventory management decisions inherent in each function;

. Information foundation of procurement and inventory management decisions;

. Procurement and inventory management information flow as related to management decisions;

. Procurement and inventory management information and interrelationships:

. Within and between Agency functions;

. Between the Agency DOD, GSA, OSA, NSA.

Two channels of information flow should be charted on the model as follows:

. As it applies to the achievement of mission effectiveness;

. As it applies to the preparation and updating of budget and financial information.

The link between the two flows should be established and the interaction of each on the other described.

Step 3. Analyze the existing procurement and inventory management systems and procedures against the "ideal" structure of the analytical model.

. The current functional systems' procurement and inventory management characteristics should be evaluated against the ideal information flow in terms of:

. Adequacy of data content for decision purposes;[1]

. Integration of data and information with other systems;[1]

. Requirements for uniformity, commonality in data element definitions, coding, etc.;[1, 2]

. Adequacy of data preparation, handling, processing, and transmission procedures.

Step 4. Prepare Systems Requirements Specification

From the analysis of existing systems against the ideal requirements of the analytical model, a comprehensive specification of procurement management information system requirements is

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1. Much of this information has been gathered during the procurement survey.

2. Much of this information (pertaining to supply management) has been gathered during the survey of the Special Study Group, DDS.

developed. For each major component of the system, a system requirements specification should be prepared, setting forth:

. Information outputs required for decision making purposes; format, distribution, data content, and required frequency of generation are indicated;

. Information inputs required to produce system outputs; these inputs are also defined in terms of format, content and frequency.

. Required information procedures, a description of the principal operations needed to obtain outputs from inputs, i.e. the gross procedural logic.

Step 5. Develop an Optimum Procurement Management Information System Concept

. Using the System Requirements Specifications as a basis, alternate systems concepts are evaluated.

. Judgments are made as to which procedures are best candidates for automation.

. Automated files are outlined in gross form and, together with the gross logic of the information procedures and volume frequency data, selection and evaluation of alternative ADP equipment configurations and locations are made.

Step 6. Implement the System

. An implementation schedule is prepared which assigns responsibility for sequencing and scheduling the completion of the various tasks required to make the system operational.

. Detailed flow charts and block diagrams are prepared together with narrative program documentation for coders.

. Programs are written, tested and debugged with live data.

. Forms and procedures are revised where necessary to permit related systems to interface with the automated system.

. Procedural instructions are prepared for persons who originate forms which provide input data.

. Participating personnel are trained in the revised procedures.

. Elements of the system are introduced in a logically phased basis until the entire system is operational.

2.6 Policy Reviews Required

A procurement management information system is an administrative support tool. It differs widely from systems which are better classified as production (i.e. mathematical, operational research and planning, information retrieval, etc.).

As such, it requires strict scheduling of input and output data as opposed to typical "one-shot" production studies such as preparing a flight plan for a specific mission. Therefore, the mixing of production and administrative data on the same computer equipment and in the same computer center is often neither feasible nor realistic.

Moreover, administrative applications generally require different types of computers or different configurations of similar equipment than production applications. To find different program languages being used for each type is not unusual.

Therefore, when proceeding to design and implement an administrative Procurement Management Information System, the Agency will have to re-examine two basic, current policies, namely:

. That all computer activity be centralized in OCS.

. That OCS will utilize a certain manufacturer's system of equipment.

It is not inconceivable that a number of smaller computers, strategically placed and administered, will be necessary to optimize such a system from the standpoint of security, timely reporting and communication.

CHAPTER VI.

SUMMARY OF RECOMMENDATIONS

1.0 Procurement Organization

2.0 R&D and Related Procurement

3.0 Logistics Support Procurement

4.0 Procurement Management Information System

5.0 Budgeting, Funding and Accounting

6.0 Contract Auditing

7.0 Security

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VI. SUMMARY OF RECOMMENDATIONS

Throughout Chapters II, IV and V, specific recommendations were made which related to detailed discussions of current practices.

These recommendations are summarized in this chapter under the following major sections:

1.0 Procurement Organization

2.0 R&D and Related Procurement

3.0 Logistics Support

4.0 Procurement Management Information System

5.0 Budgeting, Funding and Accounting

6.0 Contract Auditing

7.0 Security

1.0 PROCUREMENT ORGANIZATION

Major recommendations pertaining to organization are:

. A Special Assistant to DDS should be assigned responsibility for management surveillance of all Agency procurement.

. A Contract Review Board should be established.

. All Agency R&D and Related Procurement, with the possible exception of TSD contracts, should be centralized under the direction of DDS&T.

. Consideration should be given for placing the responsibility for all auditing policies, procedures and assignments under the direction of the Chief, Audit Staff/Office of the Inspector General.

. Production and logistics supply procurement should continue to be managed by the Office of Logistics.

. Inventory management of technical items should continue to be the responsibility of the present components.

1.1 Assign Responsibility for Over-all Agency Procurement Management Coordination and Control

We recommend that a Special Assistant to the DDS be assigned over-all responsibility for Agency procurement, management surveillance who will:

. establish Agency procurement policies

. review procedures designed to carry out these policies effectively

. determine the specifications for a Procurement Management Information System which will provide proper and timely information to enable managers to make decisions and take corrective action where warranted

. periodically review the effectiveness of component inventory managers

. prepare periodic briefings and reports for Agency top management concerning the status and posture of the procurement system

. chair a Contract Review Board

1.2 Establish a Contract Review Board

We recommend that the Agency establish a Contract Review Board to review all procurement contracts of $250 thousand and above to insure adherence to Agency policy in:

. Utilization of competitive bidding

. Selection of type of contract

. Performance of cost analysis

. Review of past performance by contractor or satisfactory technical and financial resources of new contractors

. Preparation of contract and performance specifications

The Contract Review Board will also be responsible for arbitrating disagreements between auditors, Technical Representatives and Contracting Officers.

1.3 Production and Logistics Procurement

We recommend that regular production and interagency/departmental procurement be retained by the OL/PD since these items are subject to:

. Federal, Agency or commercial specifications, and

. competitive bidding on a fixed price basis.

Production and interagency procurement requires management techniques that are quite different from R&D procurement.

1.4 Inventory Management

We recommend that responsibility for inventory management of technical items remain in those components which have the personnel technically qualified to make the proper management decisions.

We recommend that inventory management of housekeeping and administrative items remain in the Supply Division/OL and that they be responsible for the custody of all inventories.

1.5 Centralization of R&D Procurement under DDS&T

We recommend that responsibility for all R&D procurement activities, with the possible exception of TSD contracts, be centralized in a procurement office under DDS&T in order to:

. provide better coordination between technical, procurement and audit personnel

. minimize the possibility of different components pursuing parallel R&D efforts

. permit contractors with multiple R&D contracts to deal with the Agency on a consistent basis

- consolidate knowledge of a contractor's capabilities, resources, performance and peculiarities

- minimize duplication of contract files and records

- reduce communications problems

- increase the probability of more competitive bidding

- specialize procurement by commodity lines

1.6 Centralization of Contract Auditing

We recommend that the Agency consider transferring responsibility for all contract auditing and pre-award cost and price surveys to the Chief, Audit Staff/Office of the Inspector General, in order to:

- provide for sufficient rotation of assignments

- provide consistent audit policies and procedures, (see Chapter III, Section 5)

- retain the function of auditing Agency contracts within the Agency

- provide for a more effective team effort in contract negotiation and administration

2.0 R&D AND RELATED PRODUCTION PROCUREMENT

Three principal recommendations are made which affect R&D and Related Production Procurement.

- Centralization of Procurement Responsibility

  (Previously covered in Section 1.0)

- Design and Implementation of an R&D Management Information System

  (Covered in Section 4.0 which deals with the Agency Procurement Management Information System of which the R&D system is a part).

2.1 Modification and Addition to Procedures

We recommend that existing R&D procurement policy and procedures be revised, supplemented and published to encompass all Agency R&D procurement. Of particular importance are:

2.1.1. Solicitation of Proposals

All R&D proposals should be solicited through the Office of Procurement in the DDS&T.

2.1.2 Evaluation of Proposals

Minimum Agency standards for proposal evaluation should be established. The standard should determine the content of the evaluation and not the mechanics for accomplishment. Evaluation should combine technical, procurement and audit functions.

2.1.3 Operational Requirement Procedure

Consideration should be given to the establishment of an Operational Requirement which provides for documentation of operational needs in specific categories. A distinction should be made between approval of a project in terms of its relationship to operational need and the merits of the individual project's relationship to fulfilment of the need. Such a procedure would aid in the elimination of duplication and allow for concentration on project merits. The Goals and Planning objectives serve this purpose now, but are very broad descriptions. It was difficult for technical personnel to relate a particular contract to a goal or objective.

2.1.4 Evaluation of Contractors

Consideration should be given to the establishment of a central repository for information on the performance of contractors which among other data should contain an Agency record of the contractors' history in terms of cost, schedule, and performance.

2.1.5 Contractor Reports

Consideration should be given to the establishment of Agency standard requirements for both technical and financial reports by contractors.

Appropriate variations should account for varying degrees of dollar value, duration, and importance as well as contract terms and conditions. Most importantly, the requirement should consolidate technical and financial status information from the contractor and provide "estimates to complete" in dollars and time.

2.1.6 Contract Status Reviews

Consideration should be given to the establishment of a periodic review of contracts identified by the exception capability of the Management Information System (discussed in Chapter V). Such reviews should combine technical, procurement and audit functions.

3.0 LOGISTICS SUPPORT PROCUREMENT

We recommend that a complete analysis and revision of the supply inventory management system, mechanization of the interdepartmental procurement procedures, and modifications of the covert procurement activities be undertaken. In addition, alternative systems for fund and budgeting control are presented.

Following are summaries of these recommendations, details of which are contained in Chapter IV.

3.1 Supply System

A complete and thorough analysis of the inventory should be made to assign critical and cost-value factors. These factors will logically categorize all items in the inventory into classes which denote how often the status of the items must be reported to and reviewed by the cognizant inventory manager.

The behavioral characteristics of the various items in the inventory should be analyzed to determine the proper method of establishing and controlling stock levels.

The economic order point formula presently in use should be re-examined.

25X1 [redacted] inventories should be brought into the system.

A system must be designed to provide information which denotes the distribution, application and consumption of property and supplies to the station level.

Present data processing policies must be made more flexible to permit an eventual optimum system to operate effectively.

The present system of reporting inventory status should be abandoned and modern management reports and techniques should be adopted which embody the principle of "exception reporting".

Inventory management in the components should be monitored by technically qualified representatives of the Supply Division, OL.

25X1 OSA [redacted] inventory management and reporting systems should be reviewed promptly to provide a system adequate to operational requirements.

3.2 Interdepartmental Procurement

More staff is needed to cope with the present manual system.

A mechanized system is needed for proper follow-up and control of outstanding requisitions.

Interdepartmental settlement procedures require streamlining.

Better communications and discipline are needed in assigning priorities to avoid embarrassment to the Agency.

Responsibility for priority matters with the Department of Defense and the Department of Commerce should be centralized here.

3.3 Covert Procurement

Present policies which require excessively costly procurement practices should be changed.

A personnel rotation policy should be adopted.

Unnecessary clerical and accounting detail should be eliminated.

Financial reports of the projects should be changed to reflect Government and commercial profit contribution.

Justification for covert procurement should be reviewed periodically.

4.0 PROCUREMENT MANAGEMENT INFORMATION SYSTEM

The need for timely and important contract and inventory information is closely tied to the question of over-all procurement and supply management and organization.

We recommend that the Agency immediately undertake the design and implementation of an automated Procurement Management Information System which will:

- provide accurate and up-to-date information on contracts which require attention.
- provide the same information for items in inventory at all important depot locations
- provide quick and accurate response to inquiries about classes of contracts, contractors, location of contracts, and so forth
- provide managers with information which they need to make decisions
- satisfy the Agency security requirements for compartmentalization

5.0 BUDGETING, FUNDING AND ACCOUNTING

We recommend that:

- The present PRA system be replaced by: (a) a formal revolving stock fund (preferably), (b) an informal stock fund, or (c) statistical accounts.

- A system must be designed to provide components with consumption information to permit them to plan resource management and budget properly.

- Centralized control of allotment status is needed.

- Budgeting procedures should provide for the costs of obsolescence, price and inventory level increases and lead-times.

- The present system of accounting for "Property-in-Use" should be studied for possible simplification.

6.0 CONTRACT AUDITING

Detailed recommendations concerning reorganization of the contracting auditing function will be found in Chapter III.

We recommend that:

- Agency auditors should perform their own burden rate analyses when Agency contracts utilize only a portion of a contractor's plant or facilities.

- Contracting Officers should be required to document in writing why recommendations of auditors were not followed before "signing-off" contracts.

- Auditors should be assigned to specific contractors and participate as members of procurement teams for negotiation, administration and termination of contracts.

- Current contract audit activities which are handled by several divisions and staffs throughout the Agency should be combined into a single group, under the Audit Staff/Office of the Inspector General, to provide flexibility, consistency and control.

- Additional talent is needed in the auditing function to equip the Agency to perform better cost analysis.

[redacted] 25X1

25X1 [redacted]

. OSA auditors should be rotated.

7.0 SECURITY

We recommend that:

. Procurement security procedures be reviewed to identify and eliminate inconsistencies in security methods followed by different organizational units within the Agency that have contacts with contractors.

. The practices of procurement cover organizations be re-examined to assure that these practices are consistent with the "real" environment in which the cover organizations operate.

[redacted] 25X1

EXHIBIT A

AGENCY R&D PROCUREMENT STATISTICS

25X1

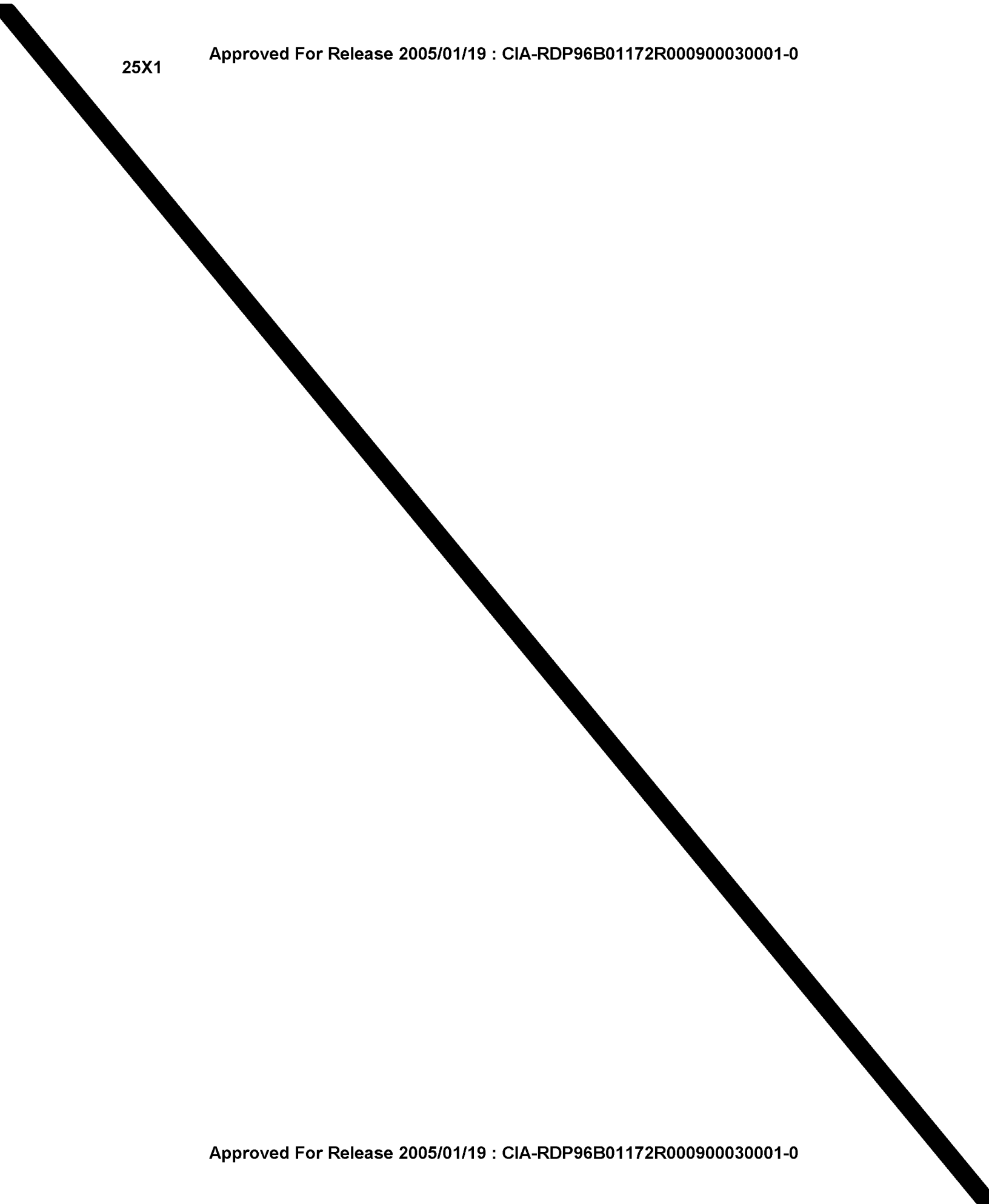

EXHIBIT A

CONTRACT STATISTICS

It is useful for various purposes to refer to certain statistics regarding R&D contracts, such as numbers, types of contracts, etc. For that reason, the following information, collected during the course of the study, is recorded.

Type Contracts

The dollar percentage by type contract of Agency R&D business is quite different depending on whether or not the large magnitude OSA-OSP business is included.

Type Contract	% with OSA-OSP	% without OSA-OSP
CPFF	17	54
CPIF	11	21
FP	2	13
FPI	20	8
FPR	39	1
TM	9	1.5
Cost	2	1.5
	100.0	100.0

Size of Contracts

See Figure A-1 for the size distribution of contracts by dollar value.

Number of Current Active Contracts (May 1966)

25X1

OSA	[redacted]
OSP	
OEL	
ORD	
OSI	
OCS	
FMSAC	
TSD	
NPIC	
COMMO	
Total	

Contractors (See Exhibit B for List)

1. Total Number R&D Contractors - 274

2. Commonality of Contractors

No. of Contractors	No. of Components with which they have contracts
23	2
19	3
6	4
3	5
1	6

52 contractors have business with more than one component

3. Contractors doing business in both OL and OSA-OSP systems - 17

Ranked Order of R&D Contractors on Current Contract Basis (not including OSA-OSP)*

Contractor	$ (thousands)
[redacted]	

25X1

*Current active contracts in total. Ranked order on an Agency basis was not determined.

Percentage of Total Business Being Done by Top Ten Contractors

25X1

Component	%
OEL	
ORD	
OSA	
OSP	
NPIC	
TSD	
COMMO	

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Exhibit C

EXHIBIT C

OL/PROCUREMENT DIVISION RECURRING REPORTS

EXHIBIT C

OL - PROCUREMENT DIVISION RECURRING REPORTS

15 December 1965

Title	Frequency	Prepared By	Requirement or Purpose
Statistical Feeder	Monthly	PD Sections	PD Memo 63-4 - Used to compile monthly and annual workload statistics and other analyses as required.
Statistical	Monthly	Off. of Div. Chief	Contains monthly summary of number of requisitions received, line items processed, procurement actions completed and funds obligated. Planning Staff uses information in overall Logistics reports.
Report of Overtime Used	Bi-Weekly	Off. of Div. Chief	Overtime tabulated from T&A's and accumulated monthly for the statistical report.
Statistical Comparison	Monthly	Off. of Div. Chief	Compares procurement actions and dollars obligated to same period of previous year. Also to be used as attachment to the Monthly Activity Report.
Activity Report (Feeder)	Weekly	PD Branches	PD Memo 65-15 - Brief statement of each unusual, interesting or outstanding event in the Branch, or continuation of previously reported items.
Activity Report	Weekly	Off. of Div. Chief	LI 70-10 - Selected items from feeder reports deemed of interest to the D/L and to be passed up to the DD/S.

Title	Frequency	Prepared By	Requirement or Purpose
Activity Report	Monthly	Off. of Div. Chief	Memo from OL/EO dated 9 Dec. 1965 - Progress on goals, workload comparison and backlogs intended for compilation into a report for the DD/S.
Cost Reduction Report	Monthly	PD Sections	PD Memo 65-12 - Lists specific cost reductions other than normal competition. Used to accumulate a monthly and annual total.
Report of Past Due Requisitions	Monthly	Gen. Proc. Sec.	PD Memo 64-15 - Report of procurement actions on hand more than 30 days without completion and the action being taken; also list of unexecuted bilateral contracts; and verbal authorizations not confirmed within ten days.
Report of Past Due Requisitions	Bi-Weekly	Other PD Secs.	Same as above on a 60 day on hand basis.
Report of Outstanding Procurement Actions	Monthly	PD Branches	PD Memo 64-2 - A brief of any unusually interesting or meritorious procurement actions accomplished. Used to select cases for a Procurement Training Seminar.
Report of Contract Files on Hand at End of Week	Weekly	PD Sections	PD Memo 65-6 - An informal list from each Section on Friday afternoons of all contract files on hand. An attempt to control circulating files.

Title	Frequency	Prepared By	Requirement or Purpose
GFE Property Statistics	Monthly	Con. Admin Sec.	Summary taken from property record cards giving value and number of actions taken and in process.
Proposed Foreign Travel	Semi-Annual (20 Sept., 20 Apr.)	Off. of Div. Chief	LI 22-1, para 7 - A plan of any foreign travel proposed by the Division, which is included in OL report for overall Agency planning.
Report of Cost Reductions	Quarterly	Off. of Div. Chief	DD/S Administrative Instruction No. 65-17 - Progress on cost reduction estimates as related to Division operating budget.

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EXHIBIT F

OVERVIEW OF ADMINISTRATIVE OPERATION ON SUPPLY AND PRODUCTION CONTRACTS

Exhibit F

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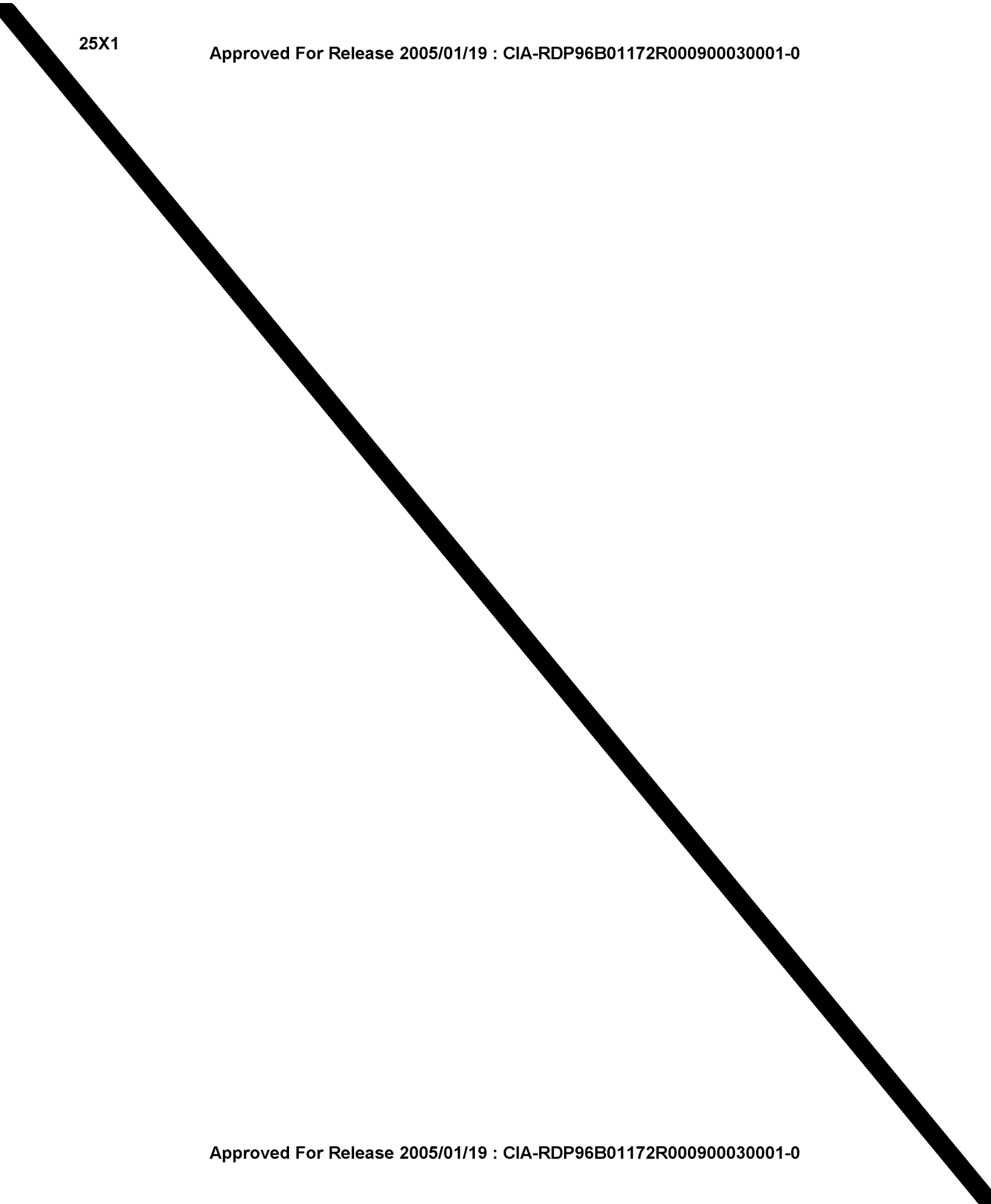

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EXHIBIT F

OVERVIEW OF ADMINISTRATIVE OPERATIONS ON SUPPLY AND PRODUCTION CONTRACTS

The purpose of this exhibit is to describe briefly the organization and administrative overview of the Office of Logistics (OL) applicable to supply and production contracts.

MANAGEMENT ORGANIZATION

An abbreviated part of the current Agency organization relevant to this report is shown in Figure 1.* A brief statement of their functions is as follows:

Central Coordination and Distribution Branch (CC&DB) Receives and routes all incoming requisitions; assigns voucher numbers; edits; assigns delivery dates (notably, time required at first destination) based upon originators' priorities; identifies through cataloguing; maintains the official files of procurement actions originating in the [redacted] and files (but not the official retained files) for vouchered procurement transactions originating in [redacted] and [redacted] for purposes of following up; advises requisitioning originator with procurement status; follows up on vendors with purchase orders (but not other government departments or formal contractors) direct. 25X1 25X1 25X1 25X1 25X1

[redacted] Prepares appropriate requisition to other government departments (Milstrip, Fedstrip, GSA Form 49, or letter); maintains official retained files; follows up on other government agencies. 25X1

[redacted] Decides type of contract; negotiates terms of contracts; places purchase orders when terms are likely to be involved. 25X1

[redacted] Places internal purchase orders with vendors for common items less than $2500; formal ("two party signatures") purchase orders for common articles or delivery orders under GSA contracts for articles greater than $2500 but less than $20,000. 25X1

* Figures referred to in this Exhibit will be preceded by "F" (Figure F-1, F-2, etc.)

[redacted] 25X1

25X1

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Contracts Administration Branch. Administers contracts negotiated in the Contracts Branch.

Contracts Settlement Branch. Makes settlement of cost type contracts after final delivery.

CURRENT LEVELS OF EFFORT

Obligation Rate. In terms of dollars obligated, the level of effort for general procurement for the year ended in March 1966 was approximately 25X1 The average monthly value of procurements was approximately There was a seasonal or cyclical pattern: The obligations started to increase in the spring to a high in the fall, and then decrease to a low in the winter. In addition, there were two "spikes" or peaks. The one in June, when the rate jumped to is a common occurrence in 25X1 government.. The peak of 25X1 in November was probably due to a change in field operations. See Figure 2.

Procurement by Sources of Supply. Figure 3 shows how the total general procurement dollars are distributed among broad classes of suppliers. About 55 per cent of the total dollars go to vendors; 45% to other government agencies. Further breakdowns of these two broad categories are as shown on the chart.

MODEL DEVELOPMENT

Realism

The elapsed time models were developed by empirical procedures rather than relying upon the theoretical concepts usually found in queueing literature. It might have been possible to develop theoretical models which would have approached the accuracy of the models actually developed empirically. However, such models would have been very difficult to develop and so exceedingly complex as to have no utilitarian value. There are several reasons for this.

First, it would have been necessary to break down all the components of the system into many more and much smaller subdivisions and develop models for each of these subdivisions, thereby greatly increasing the complexity. This is because each of the major components actually studied (ICS, GPS, IDRS, etc.) is, in general, composed of a number of smaller functions and work stations, each manned by one person or a few people. In many cases work is processed sequentially through these stations and queues are likely to build up at each station. Thus, it would be impossible to develop a realistic theoretical queueing model for a section without explicitly studying the queueing situation for each work station.

Second, the construction of realistic theoretical models would have been greatly complicated by the system of work priorities which are also complicated. Personnel who perform operations which contribute to the elapsed times usually have other duties which may or may not be associated with the work inputs which contribute to the elapsed times. Often the nature of these other duties is such that they have lower priority and can be deferred in whole or in part. Another complicating factor is that in many cases, personnel are shifted from one type of work to another, depending upon the amounts, types, and priorities of work to be performed.

Third, when workload levels increase, certain phenomena take place which are not considered in theoretical models. For example, processing procedures are often modified in such a way that less work is performed per unit of work processed and, consequently, output per man-hour is increased. In some cases, such changes in procedure are the result of deliberate decisions on the part of management. Such changes in procedure usually result in some deterioration of the quality of performance that are felt to be less important than time. Also, when workload levels increase people often work harder, either by increasing the pace of the work or by working overtime without additional compensation, or both. In either event, real output per reported man-hour is increased. Although in some cases such increases may be merely temporary, the frequency and severity of backlogs may be such that only temporary increases are called for. In order to account for these variables in a theoretical model, different frequency distributions would have to be used at different levels of workload. To develop these, empirical data would have to be collected to learn their functions. This is the same data which, if collected, can be used in empirical models obviating the necessity for theoretical models.

Methodology

The approach used in developing models was to:

(1) For the function being modeled, select an appropriate workload variable, i.e., some unit of work which is an indicator of the level of work. It is not necessary to define all work and all units of work in the functional component; rather, a work unit which inherently changes the total workload of the component.

(2) Measure (through data collection) the units of work imposed on the component over time.

(3) Measure the resources allocated to the component over the same periods of time. In this case, the "resources" are "direct labor personnel" expressed in "man-hours per month" or the equivalent number of people. In selecting "director labor" personnel, the judgment of supervisory personnel was consulted and used.

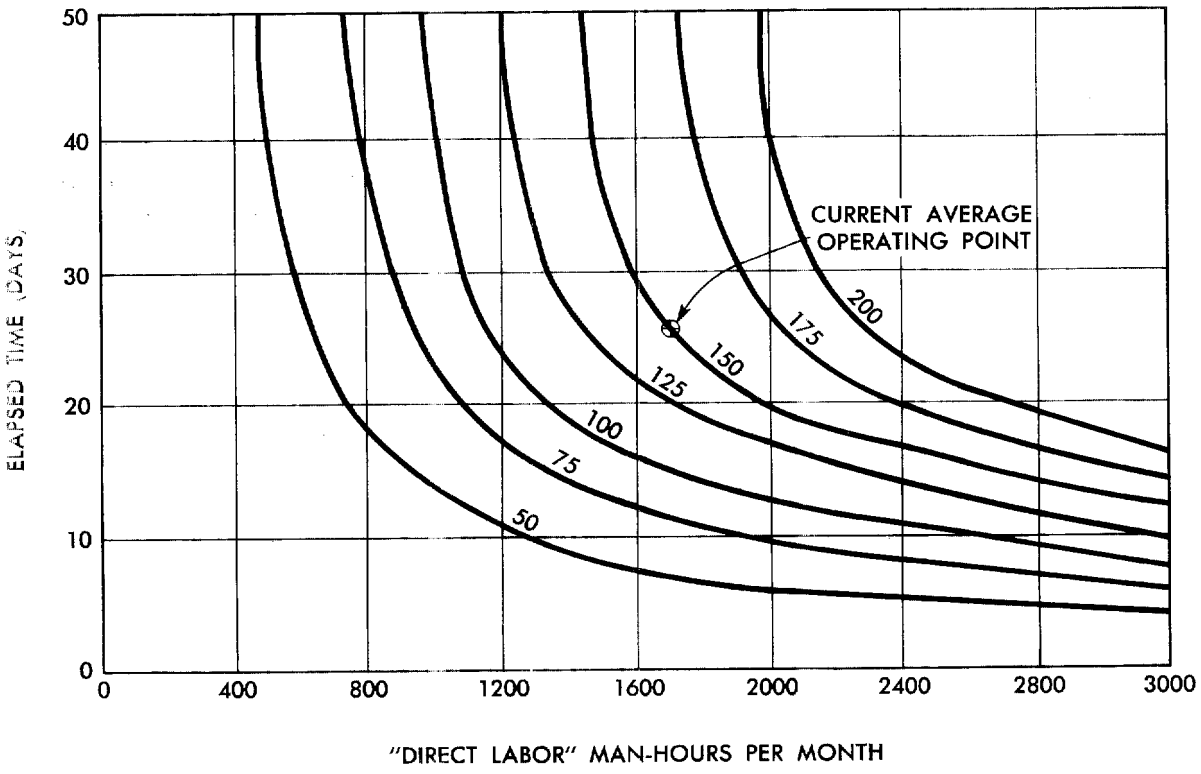
(4) Measure the elapsed time taken for work units to pass through the component for processing. The total time, waiting time plus active processing time, was measured to include delay times due to backlogs or "queues." Because of the large volumes of transactions, elapsed times were estimated by sampling. The sample size depended upon the number of transactions. There is, of course, variation in the elapsed times. Different transactions go through at differing rates of speed. An average elapsed time was calculated as the measure of performance for the time period (usually a month).

(5) For each time period for which measurements were taken, a ratio of the workload to personnel was taken as a prediction of the level of performance. Initially, until tried out and found to be so, it was conjectured that performance would vary inversely with the workload level and directly with the level of personnel. In other words, if workload goes up and people are held constant, then it takes longer for work units to be accomplished, and vice versa. This does not mean, however, that performance varies linearly in a straight line.

(6) A "scatter diagram" or plot of performance (average elapsed time for the month) versus the ratio of workload per month to direct labor per month was made.

250 a

PERFORMANCE MODEL: INDUSTRIAL CONTRACTS



Workloads in requisitions per month

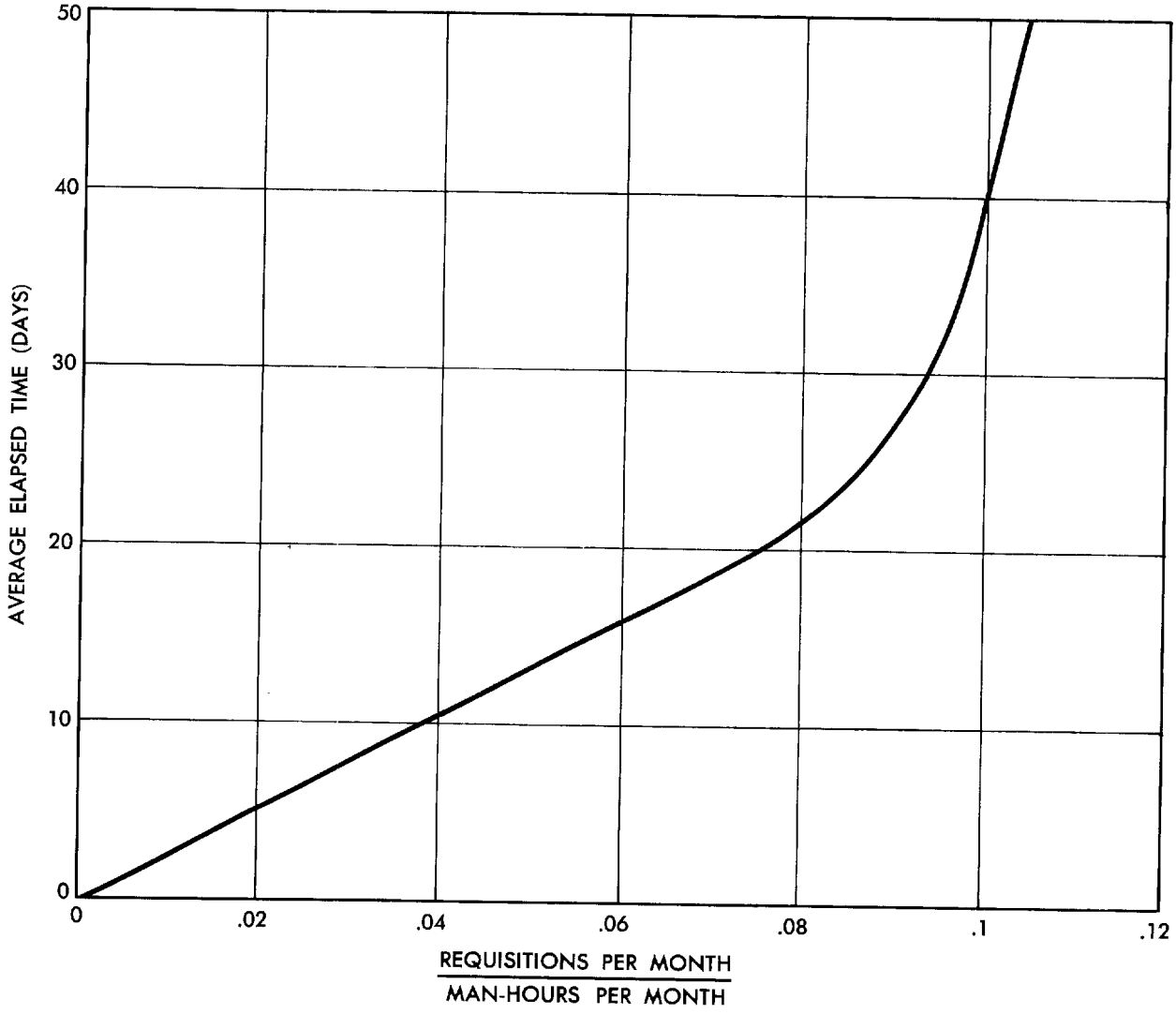
25X1

251

SECRET

F–4

PREDICTOR OF INDUSTRIAL CONTRACTING PERFORMANCE



54110 6-66 CIA

SECRET

25X1

(7) A (curved) line was "fitted" to the points in the scatter diagram; i.e., a line which best represented all the sample points was drawn.

(8) The line (predictor) can be described mathematically. For convenience of personnel using the models, however, graphical models have been prepared. With these a manager can estimate performance quickly from a direct reading off the chart without any cumbersome calculations.

INDUSTRIAL CONTRACTING SUB-SYSTEM

Performance Model of Industrial Contracting. The relationships among workload, personnel and elapsed time are shown in Figure 4; and the "direct reading" information in Figure 5.

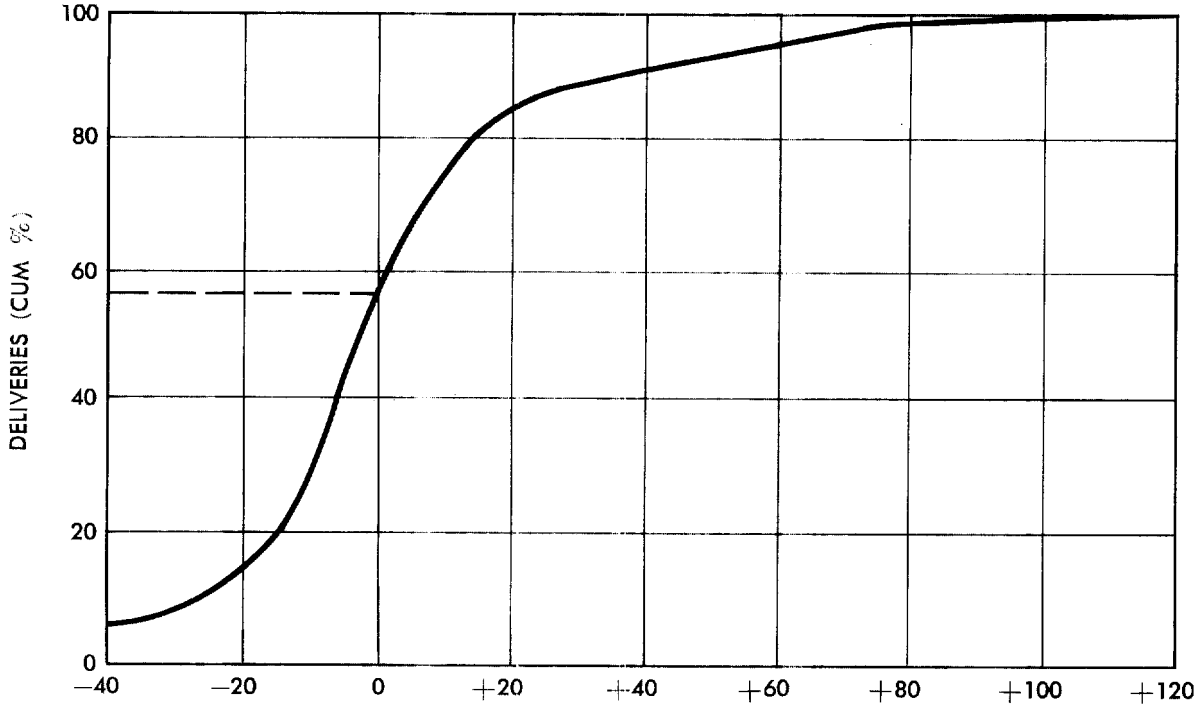
Data. The data used for developing the model was taken from monthly management reports, control and history cards maintained in the Industrial Contracts Section and individual contract files. All procurement actions performed for a 12-month period ending in January 1966 were included in the analysis.

Workload Variable. A detailed analysis was made of procurement actions by types of "actions:" "one shot" contracts, task orders, delivery orders, change orders, amendments and purchase orders. Elapsed times were measured for each type of transaction. However, none of these alone appeared to be a controlling variable. Requisitions per month turned out to be the best measure of workload, and the elapsed times for all transactions for a month were aggregated.

Elapsed Times. The elapsed time was taken from the time requisitions arrived in the ICS to the time the contract was mailed to the supplier. It is pointed out that in an indeterminant number of cases, the ICS performs preliminary work before the requisition is received. This is part of the procedural system. For example, in April the section prepares a memo to CIA offices asking which contracts should be renewed the following fiscal year. The requisition may not be received until (most likely) June, and the contract will be mailed in July. It is also noted that the contracting officer does sign the contract before mailing, so that the transaction is effectively complete on mailing. A follow-up is kept to ensure that delinquent contractors do return a signed copy. Also, the "effective date" of the contract is often sooner than the date signed. In these cases, the supplier is authorized to proceed with work by telephone prior to the receipt of contract.

252a

RESPONSE TO USERS' DESIRED DELIVERY DATES (VENDORS WITH PURCHASE ORDERS)



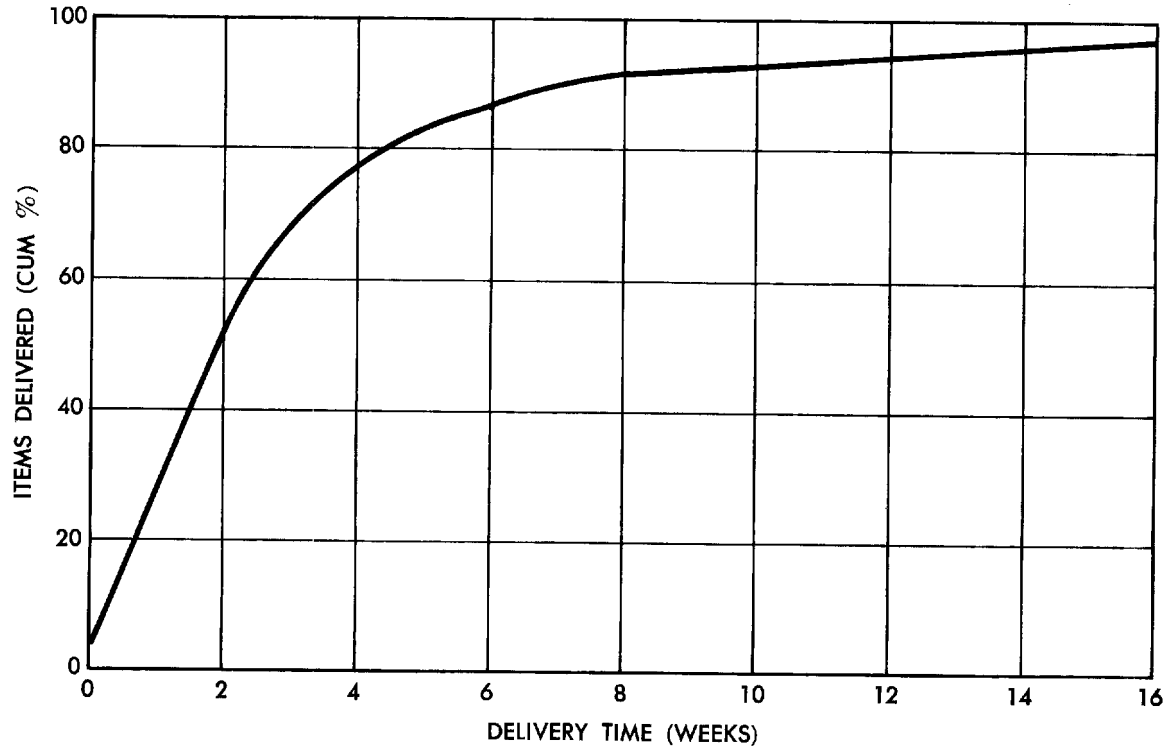
54095 6-66 CIA

25X1

SECRET

F–11

SUMMARY OF VENDOR PERFORMANCE: PURCHASE ORDERS



Source: 302 voucher files in CCDB

54094 6-66 CIA

SECRET

25X1

GROUP 1
EXCLUDED FROM AUTOMATIC DOWNGRADING AND DECLASSIFICATION

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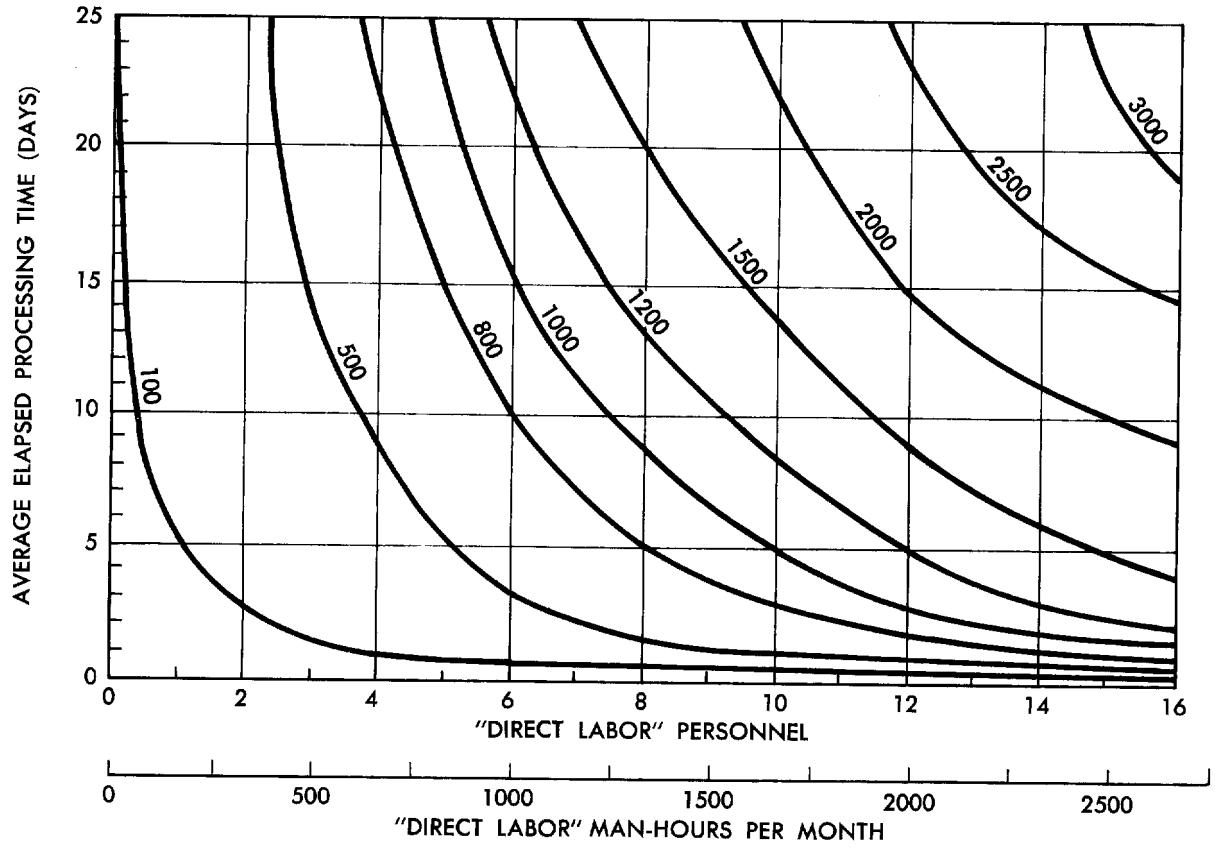
F–10

PERFORMANCE IN PROCESSING PURCHASE ORDERS



Workloads in requisitions per month

54093 6-66 CIA

SECRET

25X1

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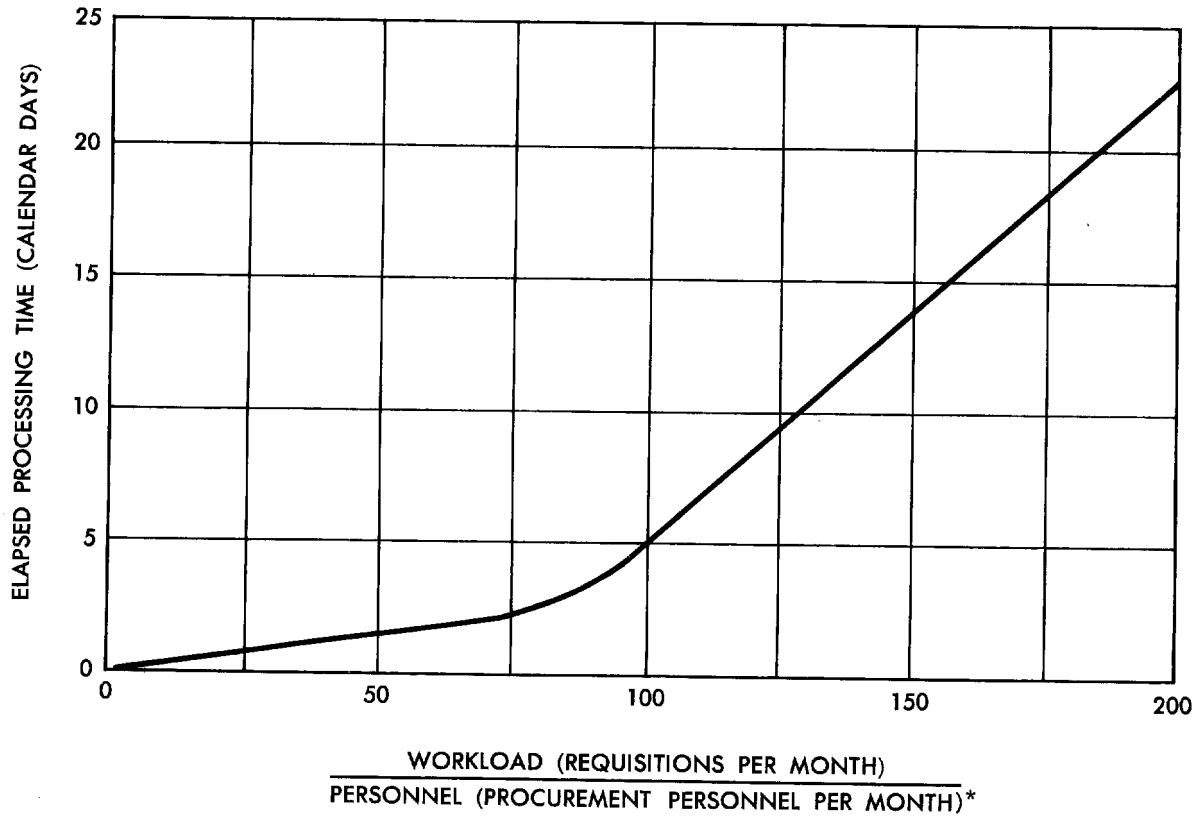
F–9

PROCUREMENT PERFORMANCE: PURCHASE ORDERS

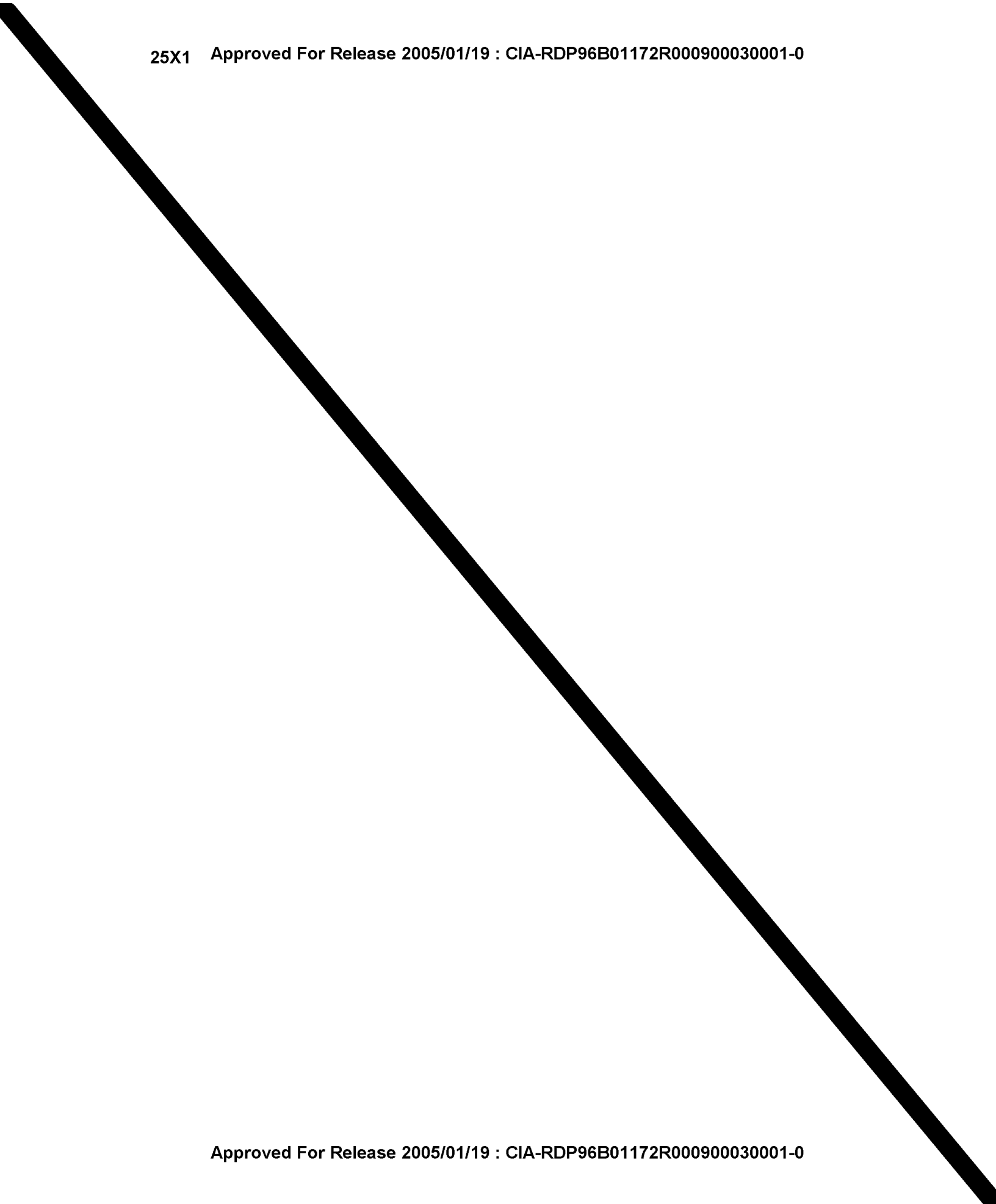


*Includes clerical; excludes Chief, Deputy Chief

54092 6-66 CIA

SECRET

25X1



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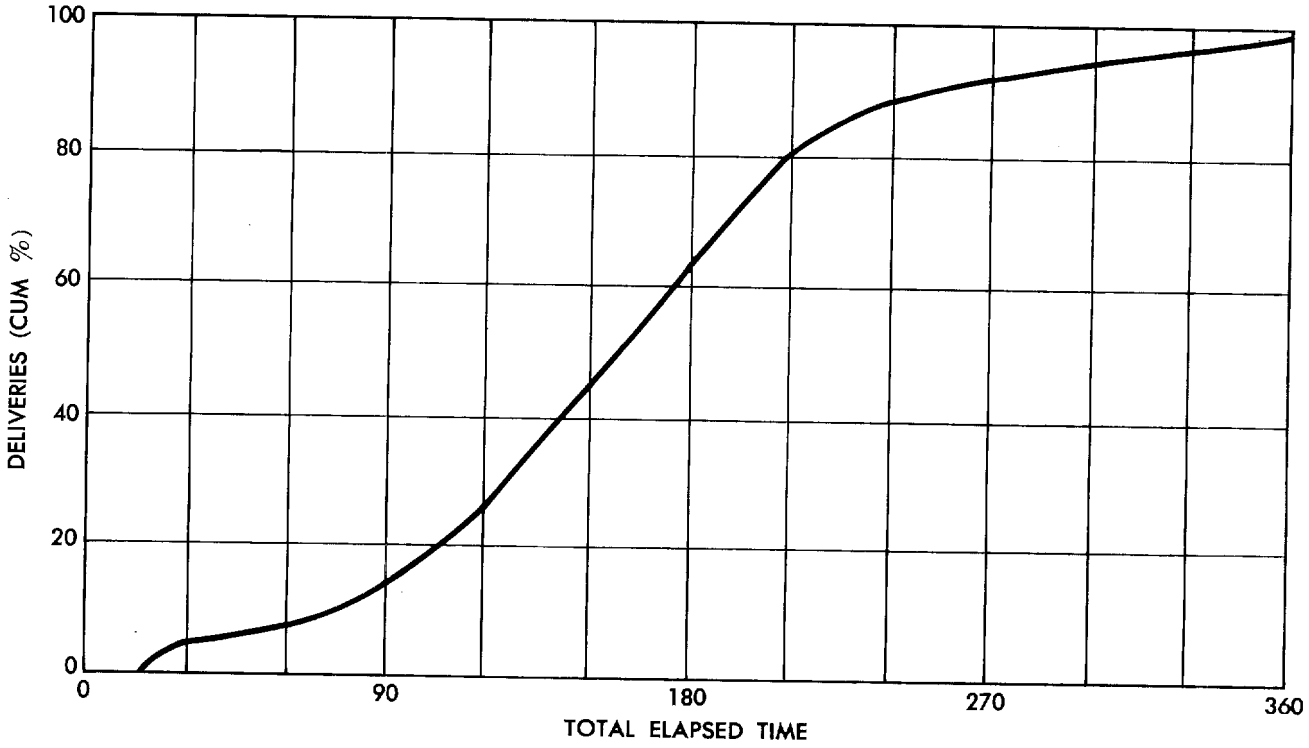
F-7

PERFORMANCE OF INDUSTRIAL CONTRACTING SUB-SYSTEM



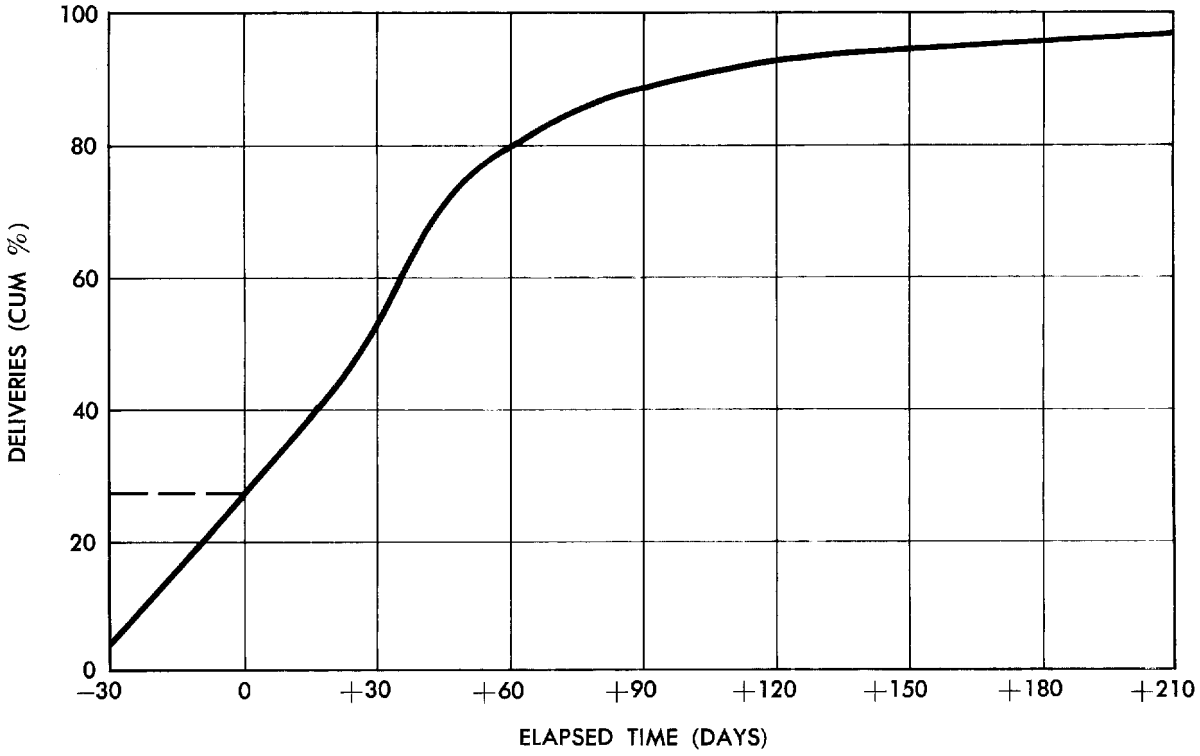
54090 6-66 CIA

SECRET

25X1

258

DEVIATION FROM CONTRACT DELIVERY DATES (INDUSTRIAL CONTRACTORS)



54084 6-66 CIA

25X1

Contractors' Performance. The deviations from contract delivery dates are shown in Figure 6. Approximately 27% of all deliveries are made within the contractual dates; about 50% are made within 30 days of the contracted dates. The sample includes "off the shelf" and "production" items.

Sub-System Total Performance. The distribution of total elapsed times, starting with the requisition date and ending with the delivery date, is shown in Figure 7.

Dollar Values of Transactions. The distribution of procurement (new) contracts by the dollar value of the action is shown in Figure 8. The general policy is that procurements in excess of $20 thousand will be done by formal contracting. However, when the terms and conditions are likely to be complex, the ICS handles actions less than $20 thousand.

PURCHASE ORDERING SUB-SYSTEM

Performance Model of Ordering Function. The relationships among workload, personnel and elapsed time are shown in Figure 9, the direct reading model in Figure 10.

Data. The data used for developing the model was taken from monthly management reports and individual purchase order files. Procurement actions from July 1965 to February 1966 were used.

Workload Variable. "Requisitions per month" was used as the workload variable.

Elapsed Times. Elapsed time in the function was taken from the date received in GPS to the date mailed.

Vendor Performance. Several measures of vendor performance are shown:

Figure 11: Distribution of total time taken by all vendors. 50% of all deliveries are made within two weeks.

Figure 12: Response to CIA users' desired delivery dates. 57% of all deliveries are made on or before the date required at depot to meet the users' delivery dates.

259a

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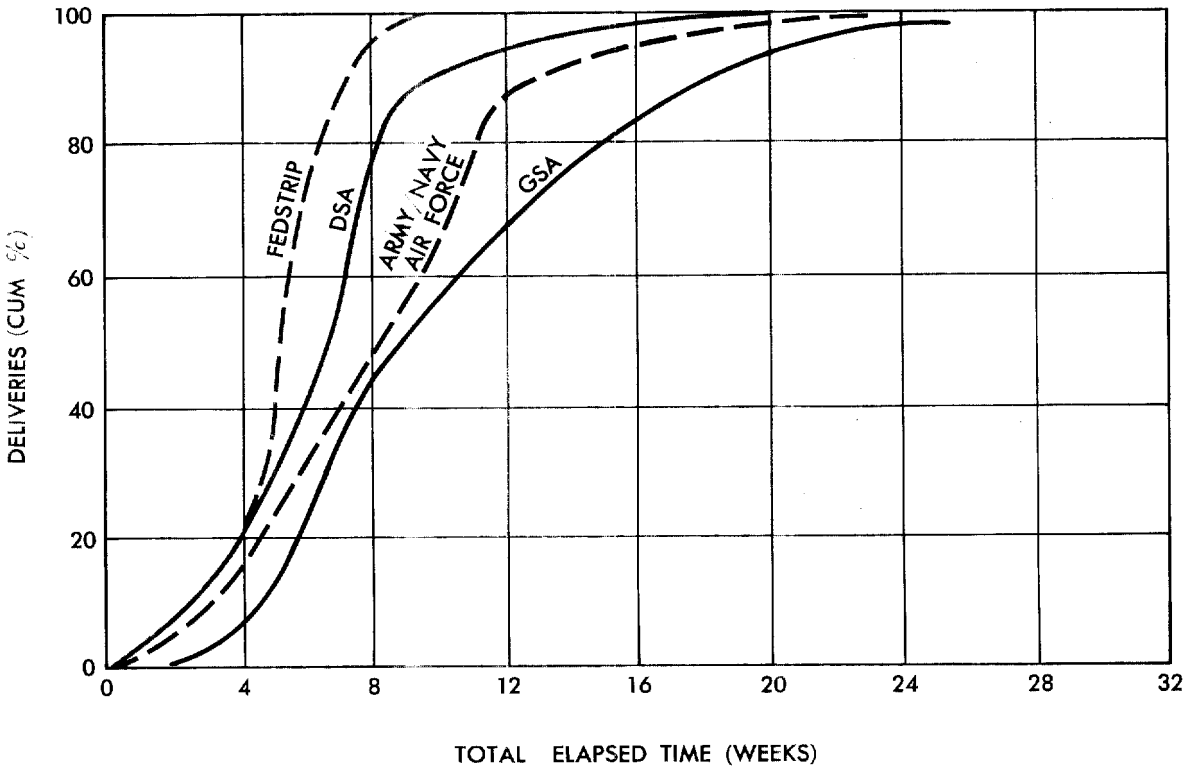
F–21

PERFORMANCE OF IDR PROCUREMENT SUB-SYSTEM (BY REQUISITIONING CHANNELS)



54102 6-66 CIA

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25X1

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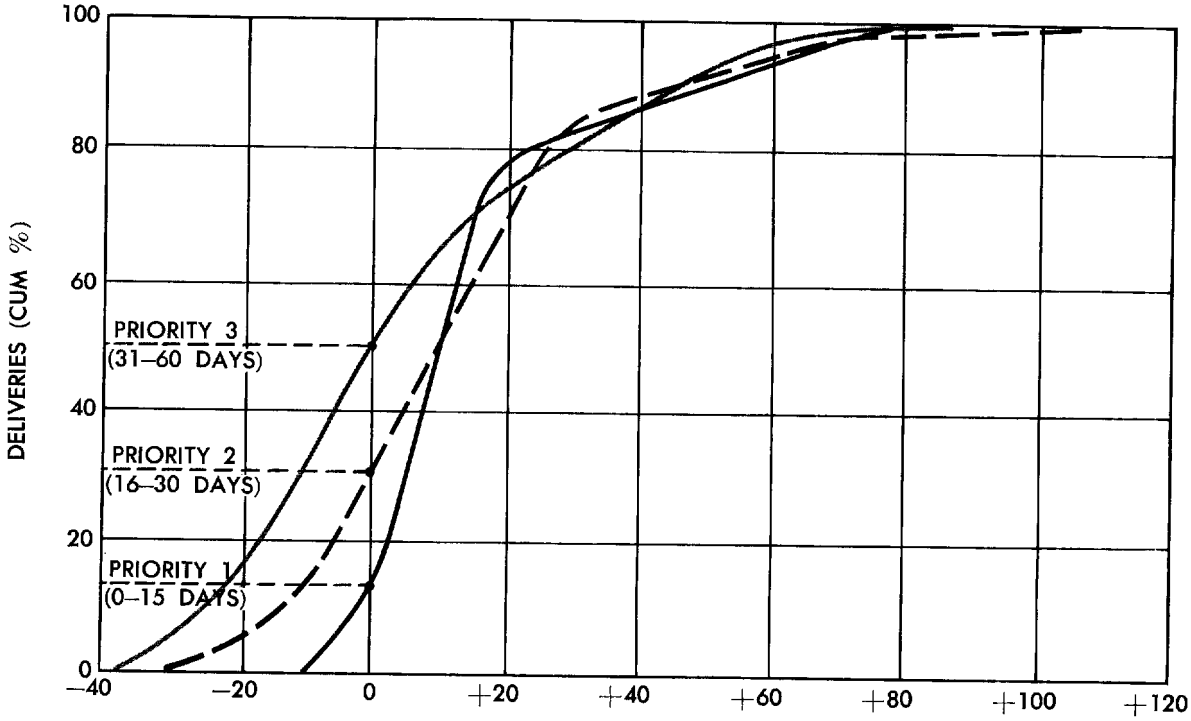
F–20

RESPONSE TO USERS' DESIRED DELIVERY DATES BY PRIORITY (ALLOWED DELIVERY TIME) – OTHER GOVERNMENT DEPARTMENTS



54101 6-66 CIA

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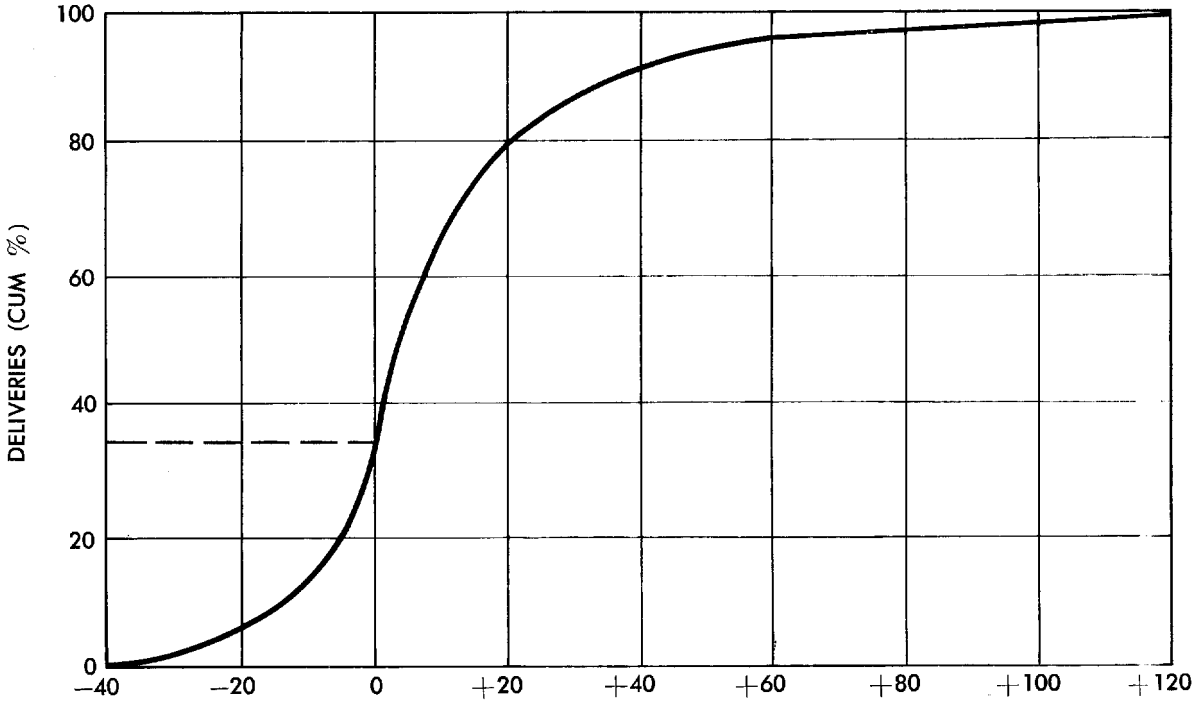
F–19

RESPONSE TO USERS' DESIRED DELIVERY DATES (OTHER GOVERNMENT DEPARTMENTS)



Source: 250 voucher files in IRDS

54100 6-66 CIA

SECRET

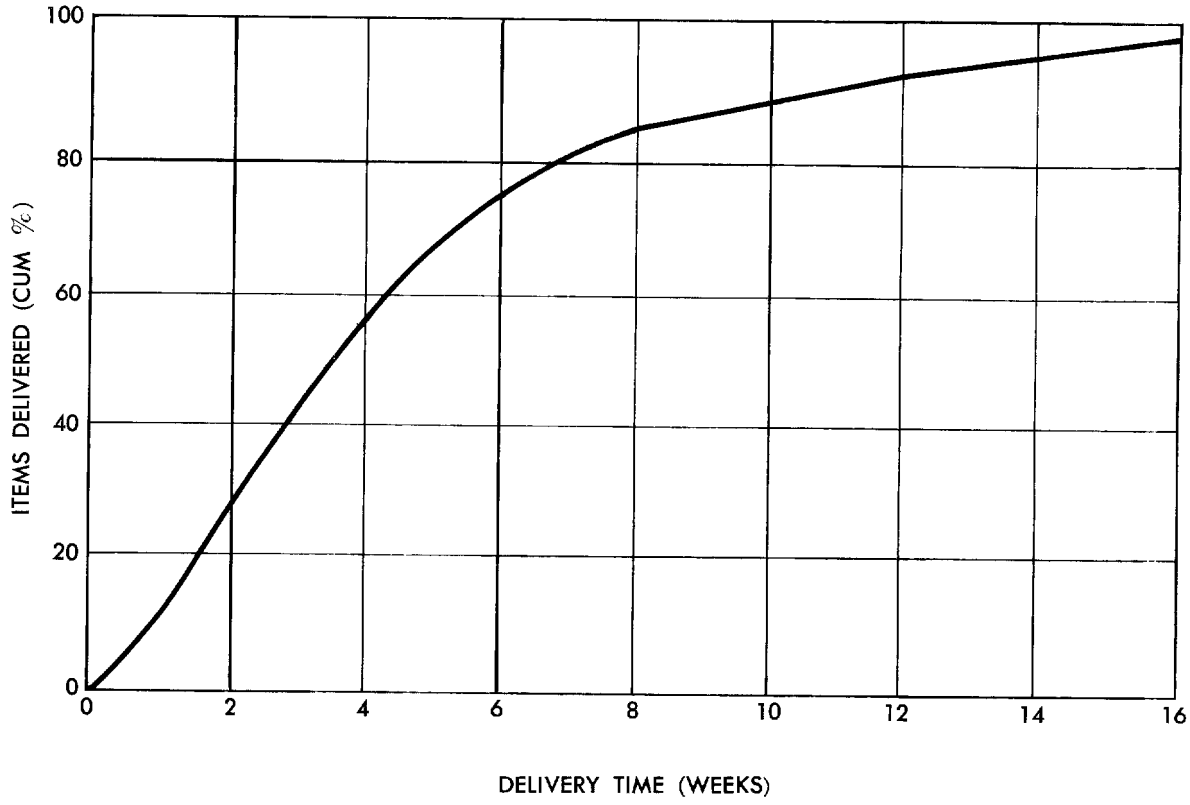
25X1

262

SECRET

F–18

SUMMARY OF OTHER GOVERNMENT DEPARTMENT PERFORMANCE



Source: 255 voucher files in OL/IRDS

54113 6-66 CIA

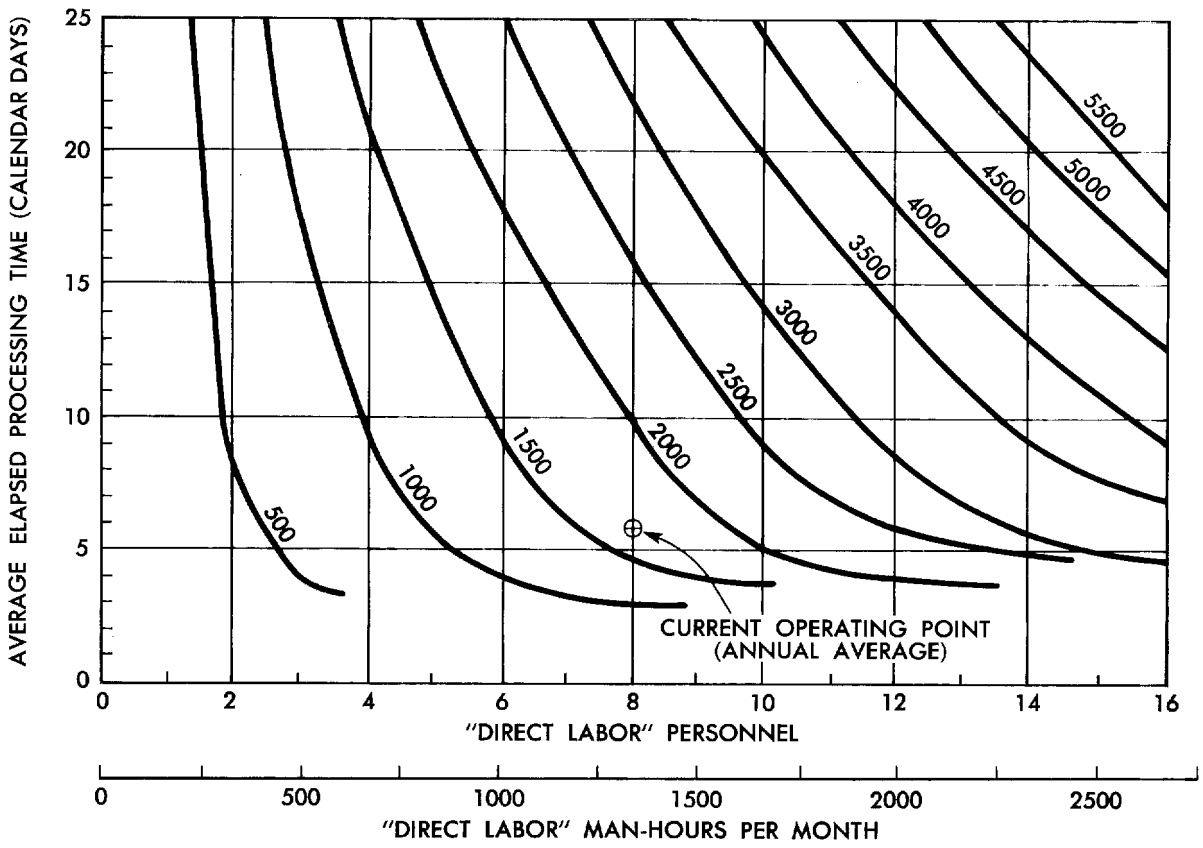
SECRET

25X1

SECRET

F–17

PERFORMANCE IN PROCESSING INTERDEPARTMENTAL REQUISITIONS



Workloads in L/I per month

54099 6-66 CIA

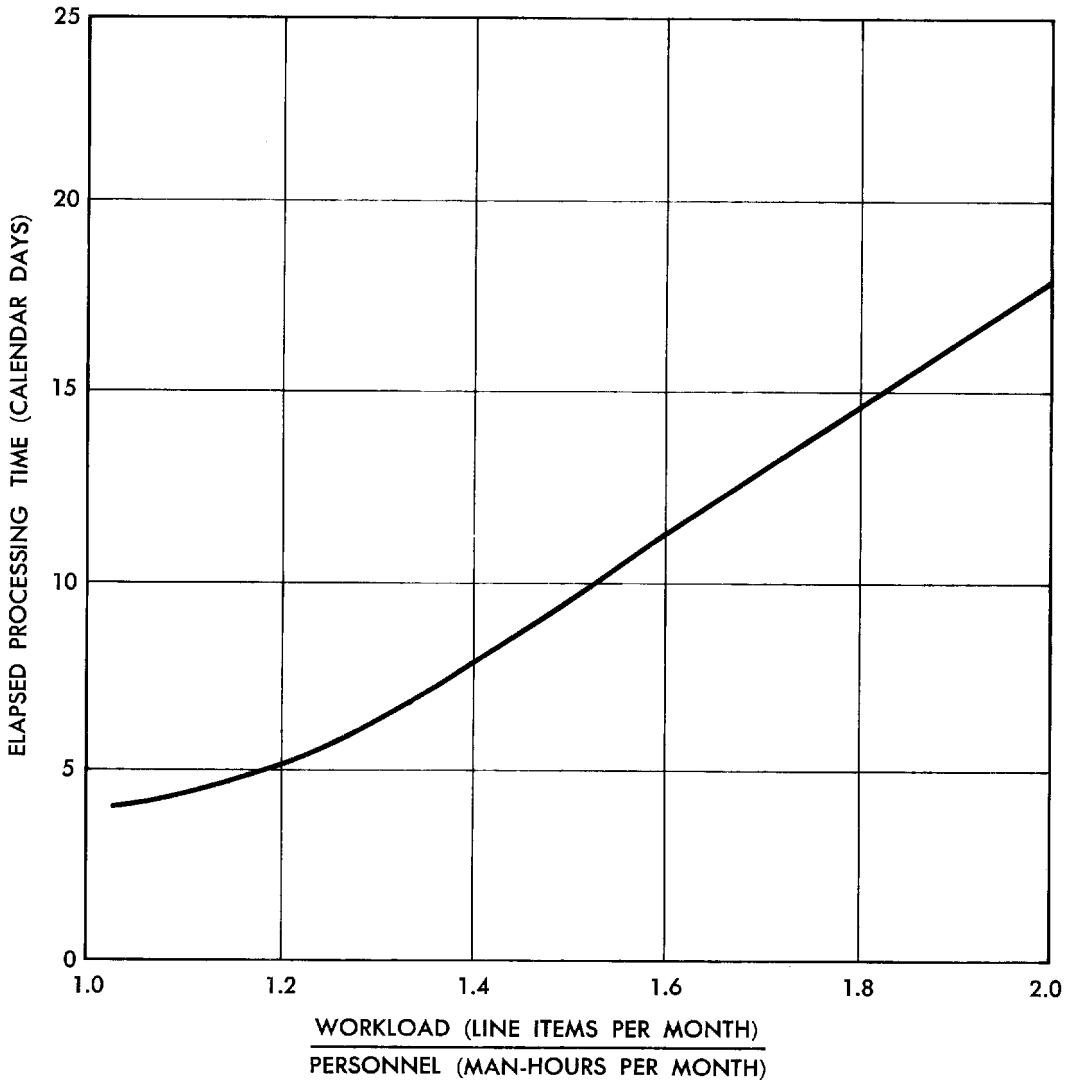
SECRET

25X1

SECRET

F–16

PROCUREMENT PERFORMANCE
INTERDEPARTMENTAL REQUISITIONING

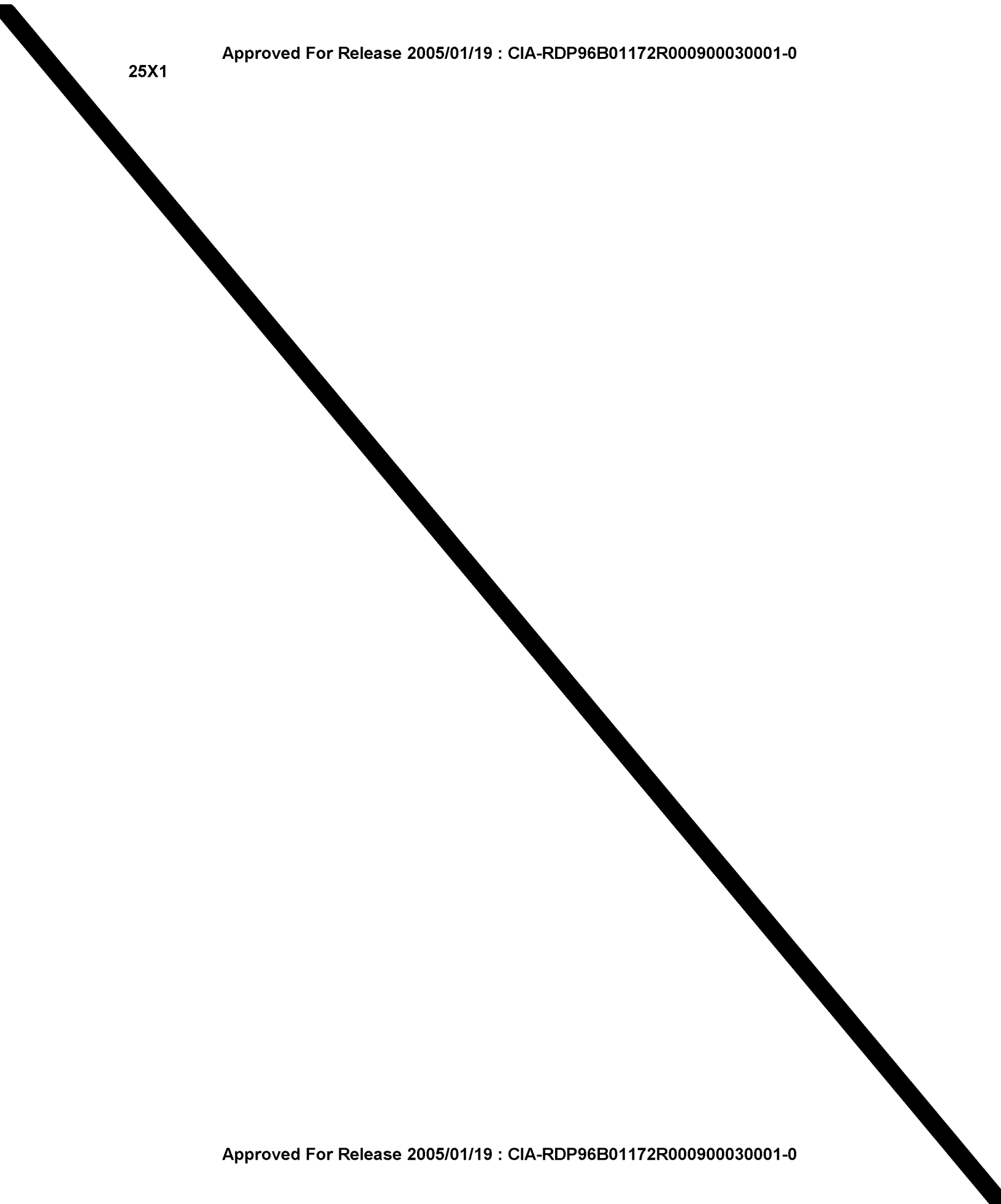


54111 6-66 CIA

SECRET

25X1

25X1



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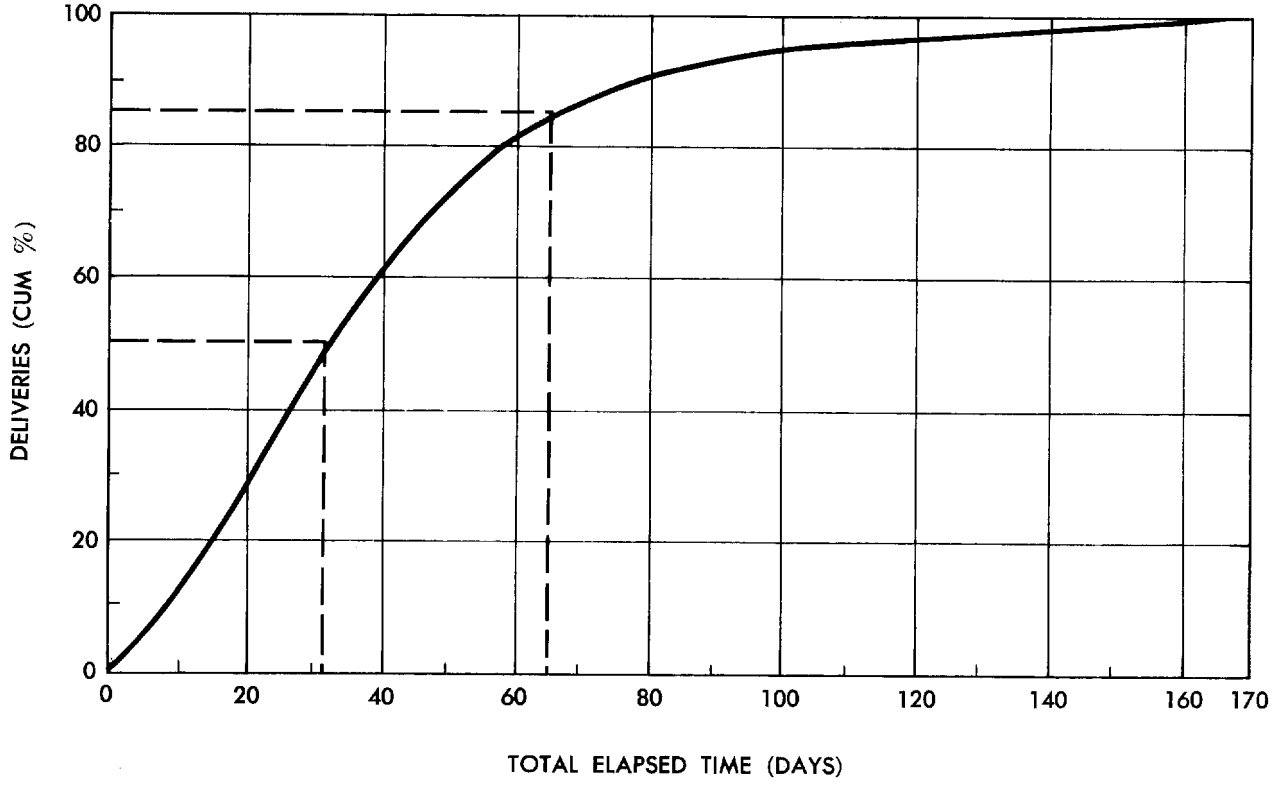
F–14

PERFORMANCE OF PURCHASE ORDER PROCUREMENT SUB-SYSTEM



54097 6-66 CIA

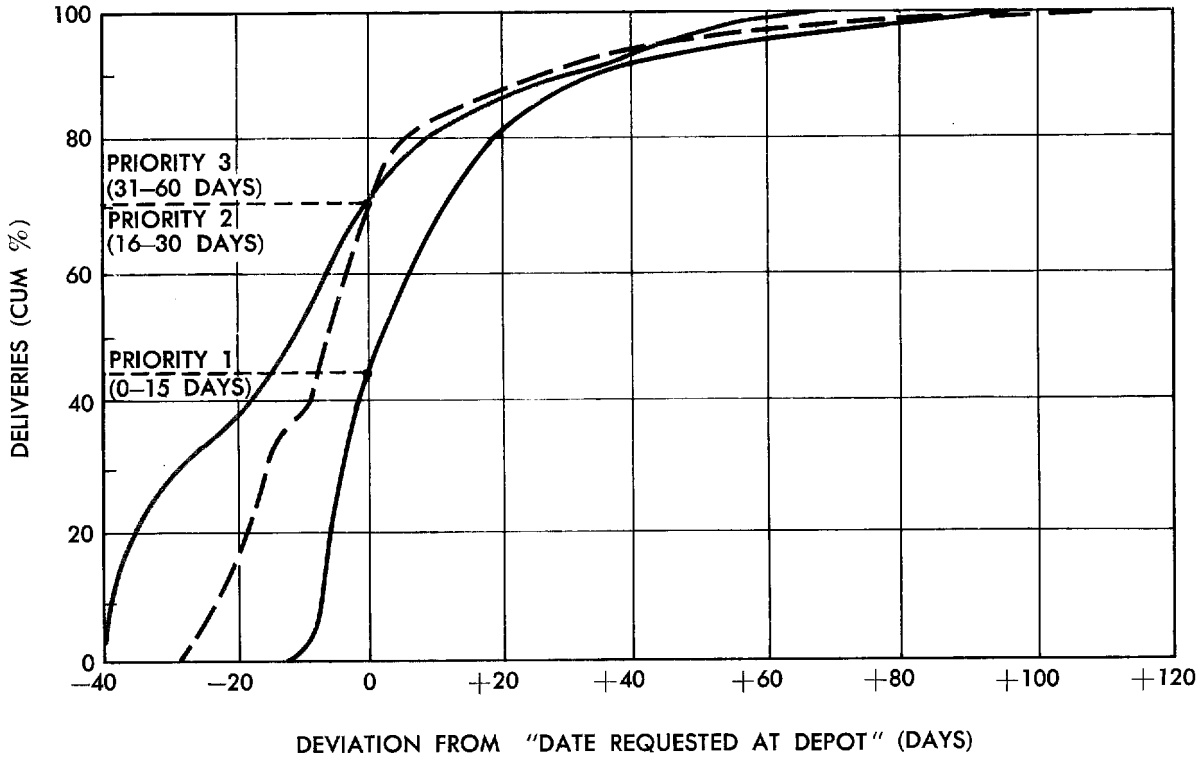
SECRET

25X1

SECRET

F–13

RESPONSE TO USERS' DESIRED DELIVERY DATES BY PRIORITY (ALLOWED DELIVERY TIME) – VENDORS



54096 6-66 CIA

SECRET

25X1

Figure 13: Response to users' desired delivery dates by priority (time allowed the vendor to perform). 47% of delivery dates are met if 0-10 days are allowed; 73% if over 16-60 days are allowed. There was no difference in vendor performance if 16-30 or 31-60 days were allowed.

Sub-System Total Performance. The total performance of the sub-system, measured from the date of the requisition to vendor delivery date is shown in Figure 14. Half of the procurements are made in 32 days or less; 85% within 65 days.

Distribution of Actions by Dollar Value. The distribution of the dollar value of transactions performed in the GPS is shown in Figure 15.

INTERDEPARTMENTAL REQUISITIONING SUB-SYSTEM

Performance Model of Function. The workload, personnel, performance relationships are shown in Figure 16 and direct reading elapsed time models in Figure 17.

Data. Elapsed time data was sampled from all transactions occurring since July 1965 to March 1966 as follows:

DSA: 50%
GSA: 25%
Army, Navy, Air Force, NSA: 100%

Supplier delivery times were taken from folders of completed transactions. Workload data was taken from monthly management reports.

Workload Variable. The workload variable selected and used was "line item." This is because of the GSA and DOD requisitioning procedures (Fedstrip and Milstrip) which require one line requisitions to be punched in EAM cards.

Elapsed Times. Elapsed processing time was taken from the date of requisition arrived in IDRS to the date the interdepartmental requisition was mailed.

Supplier Performance. Delivery performances of other government departments are shown in Figures 18-21 by totals; deviation from required delivery dates, by priorities and by supply source.

268a

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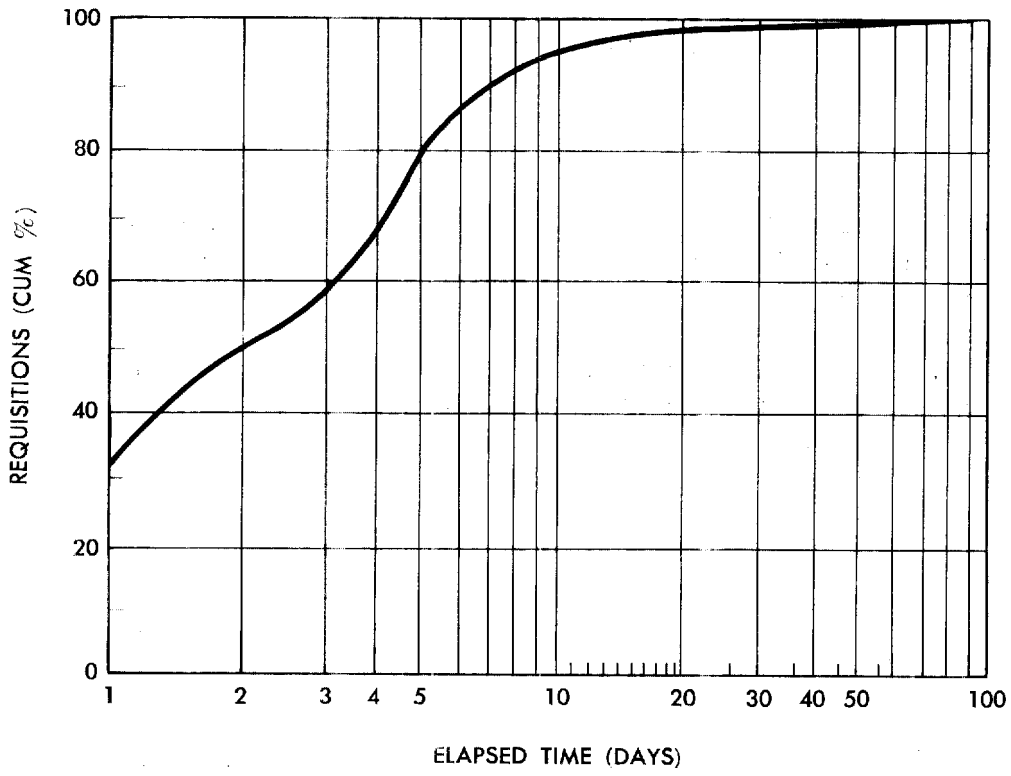
F–25

PROCESSING PERFORMANCE IN CC & DB



Source: 284 voucher files

54083 6-66 CIA

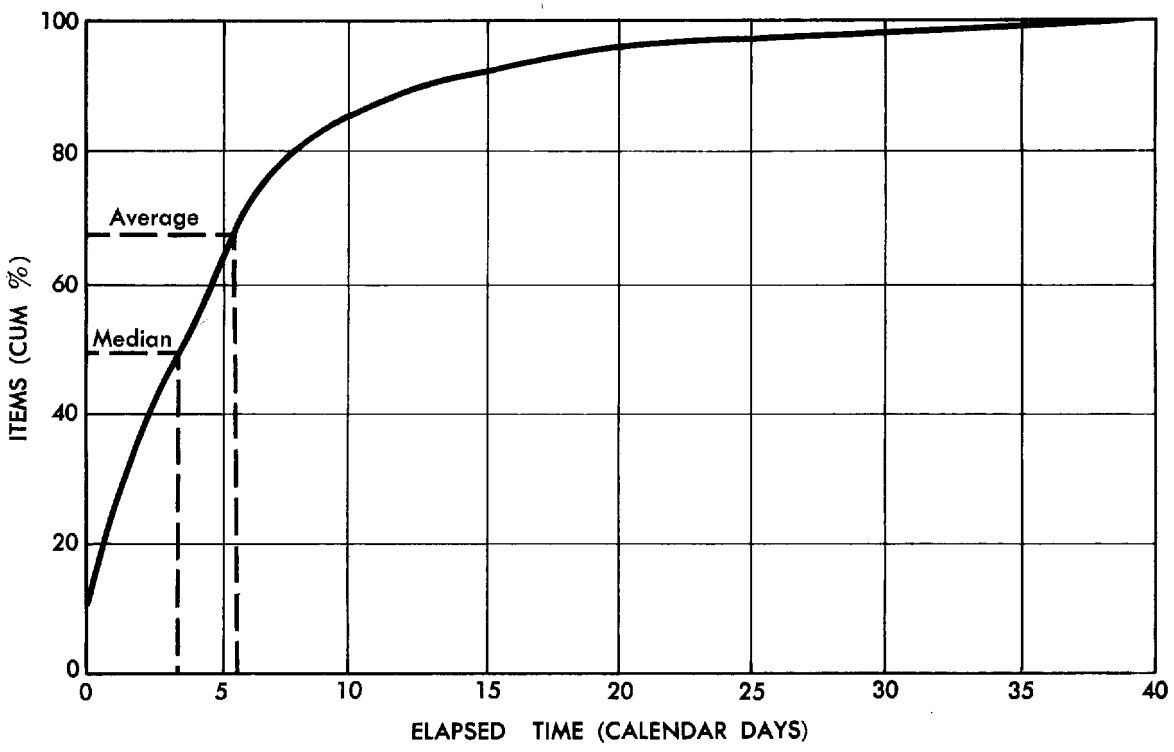
SECRET

25X1

GROUP 1
EXCLUDED FROM AUTOMATIC DOWNGRADING AND DECLASSIFICATION

269

DELAY TIME BETWEEN DATE OF REQUISITION (FORM 88) AND ARRIVAL OF REQUISITION IN OFFICE OF LOGISTICS



54104 6-66 CIA

25X1

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Distribution of Actions by Dollar Value. The distribution of the dollar values of transactions (line items) is shown on Figure 22.

COVERT PROCUREMENT SUB-SYSTEM

A detailed analysis of the Covert Procurement Branch was not made. The data in Figure 23 were taken from the monthly management reports. It is noted that there is little variation in elapsed times for effecting covert procurements over the range of workloads shown.

OTHER SYSTEM ELAPSED TIMES

Two additional components of the system which incur elapsed times are (1) the administrative processes for getting a requisition approved, signed and delivered to OL (CC&DB); and, (2) the processing time incurred within CC&DB for assignment of priority, vouchering, requisition reproduction, identification and other cataloguing, and routing. The observed distribution of elapsed times for the first is shown in Figure 24. The observed times for the second are displayed in Figure 25.

EXHIBIT G

DDS&T DATA BASE

EXHIBIT G

DDS&T DATA BASE

(Referenced in Chapter III, Section 4.1)

Following are the titles and definitions of data contained in the DDS&T computer based R&D information relative to projects.

1.	Date	1. Calendar date of the computer run.
2.	FY	2. Fiscal year in which funds are used.
3.	Requisition Number	3. Sequential number assigned by operation.
4.	Security Classification	4. Self explanatory
5.	Budget Control No.	5. Sequential, coded number
6.	Monitor	6. Name of technically responsible person
7.	Office	7. Code for originating office (EL, RD, for OEL and ORD, etc.)
8.	Project Title	8. Formal title of project
9.	Contractor Name	9. Organizational name of contractor
10.	City	10. Location of contractor
11.	State	11. Location of contractor
12.	Contractor Type	12. One of eight classes (corp., Govt., university, etc.)
13.	Contract Number	13. Sequential contract identification
14.	Task Order No.	14. Sequential number indicating the order of Agency contracts under a particular base contract with the indicated contractor.

15.	Type Contract	15. Contract type (CPFF, FP, FPI, etc.)
16.	Neg. By	16. Indication of organization performing contractual negotiation (OL, OSA, etc.)
17.	Eff. Date	17. Date contract became effective. (Pre-dated effectively as compared to execution date)
18.	Neg. Date	18. Date on which the contract was negotiated.
19.	Compl. Date	19. Date work in contract is scheduled to be completed
20.	Ext. Date	20. Date to which the completion date has been extended by contract amendment. Only last such date is shown if more than one extension has been made.
21.	Actual Date	21. Date on which work called for in contract schedule is completed
22.	Major Category	22. Major functional category such as Collection, Production, etc.
23.	Sub Category	23. Next level of detail. Specifies type under a functional category, such as specially designated forms of collection.
24.	Element	24. A specific program or project or group of projects under a sub-category [redacted] 25X1
25.	Short Title	25. Acronym for the project title. 25X1
26.	Type of Work	26. One of several categories such as basic research, research, development, engineering development, fabrication, etc.
27.	Technical Field	27. The particular discipline
28.	Description of End Item	28. Textual description of the principal end item to be produced on the contract.

29.	Approved Funding	29. Amount in dollars approved by Agency comptroller
30.	Obligated Amount	30. Amount in dollars appearing on the approved requisition prior to contract negotiation.
31.	Status	31. Contractual status (active, cancelled, or in process of negotiation)
32.	Amount to be Let	32. Amount of approved funds not yet obligated
33.	Month Planned	33. Month in which it is planned to obligate funds listed in 32. 25X1
34.		
35.	Over-Run Amount	35. Cumulative approved over-run in dollars
36.	Cum. Oblig. to FY-1	36. Amount in dollars obligated in all previous years
37.	Oblig. in FY-1	37. Amount obligated in previous FY
38.	Oper. CY Budget	38. Approved budget for the current year
39.	FY + I Estimate	39. Estimate of amount to be obligated in the next fiscal year
40.	Milestones	40. A list of technical milestones expected to be reached during the contractual effort
41.	PCT.	41. A report of the percentage complete corresponding to each milestone
42.	PRG Date	42. Scheduled completion date of each milestone
43.	Act. Date	43. Actual completion date of each milestone

44.	PRG Dol.	44. Amount in dollars programmed for each milestone
45.	Act. Dol.	45. Amount in dollars actually spent on each milestone
46.	Eval.	46. Monitor assessment of contractor performance on each milestone
47.	Contractor Reports	47. Due date and actual date for each report of progress required of the contractor
48.	Engineer Report	48. Due date and actual date of each Inspection Report required of the monitor
49.	Contractor Performance	49. Over-all evaluation of contractor performance as indicated on Inspection Report
50.	Percent Complete	50. Total percent completion of contract effort
51.	Inter-Agency Coord.	51. Other agencies with which this project has been coordinated
52.	Intra-Agency Coord.	52. Other Agency components with which this project has been coordinated.
53.	Related and/or Supporting Contracts	53. Agency contracts by number which meet this criteria
54.	Technical Description	54. A textual description of the work to be performed in the contract
55.	Remarks	55. Remarks at the option of reporting component on any aspect of contract

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EXHIBIT J

GLOSSARY OF TERMS

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EXHIBIT J

GLOSSARY OF TERMS

BM	Bill of Material
BDSA	Business and Defense Services Administration (Department of Commerce)
BCN	Budget Control Number
CONUS	Continental United States
Contracting Officer	Person legally authorized to sign contracts
Contractor Performance	Measure of how well contractor acted on a contract in terms of schedule, cost, and product performance
CPFF	Cost Plus Fixed Fee
CPIF	Cost Plus Incentive Fee (Incentive on cost, performance or delivery)
CPAF	Cost Plus Award Fee (Incentive on cost)
CUM%	Cumulative Per Cent
Contract Effective Date	Date on which a meeting of minds occurs and contractor is authorized to proceed
Contract Execution Date	Date on which a contract is signed
Data Base	A body of information (usually used in connection with automated information systems)
Design Specifications	Specifications which describe the physical characteristics of a device
End Product	Goods or services to be delivered
FPR	Fixed Price Redeterminable
FFP	Firm Fixed Price
FP	Fixed Price
GSA	General Services Administration
GFE	Government Funished Equipment
Inspection Report	A form document prepared by Technical Representative which describes the results of measuring a contractor's performance
JCS	Joint Chiefs of Staff
JS	Joint Staff
NSA	National Security Agency
OEP	Office of Emergency Planning
Performance	Measure of how well a product met specifications

Procurement	All activities involved in acquiring goods and services including identification and qualification of sources, solicitation of proposals, evaluation of proposals, selection of sources, negotiation of contracts, contract administration and contract settlement
Performance Specifications	Specifications which describe what a device is to operate, what it does
Proposal	The documented offer of a contractor to supply goods or service, (may include dollar quotation)
Quotation	The documented price (and in certain cases the cost breakdown) for which a contractor offers to supply goods/services

[redacted] 25X1

Sole Source	Procurement in which only one supplier is given an opportunity to quote
Schedule	1. The time plan for delivery of goods/services 2. Also a special meaning on contract terminology. The body of contract items (aside from standard terms and conditions, known as "boiler plate") which includes description of articles to be delivered, specifications, report requirements and required delivery dates.
TM	Time and Material
Technical Representative	The person technically responsible for a project or contract otherwise known in the Agency as Project Officer, Project Monitor, Project Engineer, etc.
Technical Component	Organizational unit responsible for technical aspects of a project or contract (ORD, OEL, TSD, NPIC, OC, etc.)
TA	Table of Allowance
3679	Section 3679 of the Anti-Deficiency Act which imposes severe penalties on those who obligate funds in excess of appropriation or allotment restrictions