

September 1998

ACQUISITION REFORM

Multiple-award Contracting at Six Federal Organizations



**National Security and
International Affairs Division**

B-277893

September 30, 1998

The Honorable John Glenn
Ranking Minority Member
Committee on Governmental Affairs
United States Senate

The Honorable Carl Levin
Ranking Minority Member
Committee on Armed Services
United States Senate

Concerned that federal agencies were avoiding competitive requirements when ordering under task- or delivery-order contracts,¹ Congress, through the Federal Acquisition Streamlining Act (FASA),² directed agencies to consider awarding multiple contracts—rather than a single contract—when a task- or delivery-order contract format was planned. You asked us to determine (1) whether federal agencies were providing a fair opportunity for contractors to receive orders under multiple-award contracts, (2) how service fees assessed on interagency orders compared with agencies' costs to process such orders, and (3) if multiple-award contracts affected federal contracting opportunities for small businesses.

As agreed, we reviewed a selected group of multiple-award contracts awarded by six federal organizations to acquire, among other things, information technology services, desktop and portable personal computer systems and related equipment and software, and general repairs and alterations for federal offices. We examined multiple-award contracts administered by six organizations—the Defense Information Systems Agency (DISA), the Department of Transportation (DOT), the General Services Administration (GSA), the National Institutes of Health (NIH), and the U.S. Air Force (USAF) Electronic Systems Center's Hanscom Air Force Base operations (ESC/HAFB) and Standard Systems Group (SSG). More information on the contracts we reviewed, as well as the scope and methodology of our work, is found in appendix I.

¹A task- or delivery-order contract provides for an indefinite quantity, within stated limits, of supplies or services to be furnished during a fixed period, with deliveries or performance to be scheduled by placing orders with the contractor.

²Public Law 103-355, October 13, 1994.

Background

Agencies have long awarded contracts to a single company for services or supplies before knowing specific delivery times or required quantities and then issued orders under the contracts as their needs became clear. These contracts have been simpler to administer than separate individual contracts. This simplicity, however, has brought with it a potential for abuse. There have been complaints that sometimes orders have been issued that greatly exceed the planned contract value or call for work beyond what the contractor competed to provide.³ Congress has expressed concern that indiscriminate use of such contracts with a single company for broad categories of ill-defined services can diminish competition and waste taxpayer dollars.

With FASA, Congress established a preference for awarding contracts for indefinite requirements to multiple firms rather than to a single company. FASA requires orders under multiple-award contracts to contain a clear description of the services or supplies ordered and—except under specified circumstances—requires that each of the multiple vendors be provided a fair opportunity to be considered for specific orders.⁴ In 1996, the Office of Federal Procurement Policy (OFPP) established performance guidelines to obtain competition on 90 percent of orders over \$2,500 at three of the six organizations we reviewed (DOT, NIH, and DISA). The regulations implementing FASA do not establish specific procedures for awarding orders but encourage agencies to consider using oral proposals and other streamlined procedures. Furthermore, under the regulations, agencies need not contact all contractors if sufficient information to ensure fair opportunity for consideration is on hand.

Agencies often place orders on other agencies' contracts. Interagency orders can be advantageous and cost-effective when agencies have requirements that can be met by ordering under other agencies' existing contracts. In other cases, an agency may have unique expertise to award and administer contracts to fill other agencies' requirements. However, interagency orders have been associated with abuses. For example, concerns were expressed at a 1993 congressional hearing that some agencies incurred increased costs when using interagency orders to avoid

³Streamlining Defense Acquisition Laws, Report of the DOD Acquisition Law Advisory Panel, Jan. 1993.

⁴FASA gives agencies authority to issue sole-source orders in cases where (1) the agency's need for supplies or services is unusually urgent, (2) the agency's needs are so unique or specialized that only one contractor can provide the required quality, (3) the order is a logical follow-on to a previous order issued competitively, or (4) the order must be placed with a particular contractor to satisfy a required minimum guarantee amount.

competition requirements and paid other agencies inflated fees for use of their contracts.⁵

Small businesses have raised concerns about whether multiple-award contracts would reduce their opportunity to receive federal contracts. Consolidating requirements (awarding large umbrella contracts and eliminating numerous smaller contracts) creates a situation commonly known as contract bundling. Multiple-award contracts have been one way of consolidating requirements, which federal officials say reduces administrative costs. Small business advocates, however, fear that when consolidation results in very large contracts or contracts that call for performance over a wide geographic area, smaller firms will be unable to compete effectively.

Results in Brief

Efforts to provide a fair opportunity and therefore promote competition for orders placed under multiple-award contracts varied among the six organizations we reviewed. One organization issued 64 percent of orders (accounting for 20 percent of dollars awarded) on a sole-source basis through the end of fiscal year 1997. Another organization named preferred contractors in announcements of opportunities. This practice resulted in only one proposal being received on most orders. After we disclosed these practices in a March 1998 hearing before the Senate Armed Services Subcommittee on Acquisition and Technology, the Office of Management and Budget (OMB) requested federal agencies to eliminate the practice of naming preferred contractors in announcements of opportunities for orders. OMB also recommended that federal procurement regulations be revised to prohibit the practice.

All but one of the organizations we reviewed allowed other agencies to place orders on their multiple-award contracts. The organizations charged varying service fees intended to recover the costs of awarding and administering the orders. According to analyses performed by two organizations, fees exceeded costs in one case and did not recover costs in another. However, management information was insufficient for the other three organizations to compare fees and costs. One organization, for example, charged fees that ranged from \$125 for administering an order placed by a component of its agency to as much as \$99,000 for an order placed by another agency. While the organization's management system

⁵Off-loading: The Multimillion Dollar Loophole in Government Contracting, hearing before the Subcommittee on Oversight of Government Management, Committee on Governmental Affairs, U.S. Senate, July 1993.

for its multiple-award contract did not develop analyses to justify this disparity, officials are working to improve management systems.

Both OFPP and the Small Business Administration (SBA) have taken steps to ensure that small businesses continue to participate in the federal marketplace. Our analysis of aggregate governmentwide contracting data did not measure the specific impact of multiple-award contracting on small business opportunities but shows that the small business share of federal contracts has increased since FASA. However, awards to small businesses at three contracting activities we visited have declined. The organizations we reviewed are taking steps to ensure that small businesses are not excluded from receiving orders placed under their multiple-award contracts.

Fair Opportunity for Orders Varied at Six Organizations

Efforts to provide a fair opportunity, and thereby promote competition, for orders placed under multiple-award contracts varied among the six organizations we reviewed. Two organizations achieved consistent competition for orders, while the other four experienced more difficulty obtaining competition to fill sophisticated information technology requirements.

Our review of Air Force ESC/HAFB and GSA contracts showed that contractors generally were provided a fair opportunity for orders placed on the organizations' multiple-award contracts. For example, ESC/HAFB issued relatively few sole-source orders (5 out of 37) under its contracts. In the few cases in which sole-source orders were placed, they were generally logical follow-ons to orders previously competed. Orders placed through the end of fiscal year 1997 on GSA's multiple-award contracts for remodeling and alteration of federal offices were all competed. In each case, GSA requested proposals from all contractors for each order. Because successful offers on projects were generally in line with—and occasionally substantially less than—government estimates, GSA officials administering the contracts believe they are competing orders effectively.

Under DOT's contracts for information technology services, sole-source orders represented 64 percent of orders placed and 20 percent of dollars awarded through the end of fiscal year 1997. DOT requires program officials to submit a form identifying the exception to fair opportunity requirements being claimed and a justification for the exception. Program officials, however, took varying approaches to preparing these justifications. In some cases, officials succinctly laid out a convincing

rationale, but the rationales were less convincing in other cases. In discussing this situation with DOT officials, they advised us that they plan to require legal review of justifications for larger sole-source orders under future multiple-award contracts. During the first half of fiscal year 1998, DOT reduced the proportion of sole-source orders to 38 percent, with 25 percent of dollars being awarded under sole-source orders. While reducing its sole-source orders, DOT has not yet met OFPP's guideline of obtaining competition on 90 percent of orders.

In reviewing orders for desktop and portable personal computer equipment and software placed on the Air Force SSG's multiple-award contracts, we found the organization did not have procedures requiring that all contractors be provided a fair opportunity. In addition, SSG's procedures did not require ordering officials to report to the contracting officer whether all contractors had been considered for an order. Consequently, the contracting officer could not identify what proportion of orders had been awarded on a sole-source basis. After discussing this with SSG officials, they told us that officials placing an order on SSG's multiple-award contracts will be advised to perform a comparative analysis of all the multiple-award contractors' products before placing orders.

Until October 1997, NIH normally identified a preferred contractor when announcing plans to place orders for information technology services on its multiple-award contracts. The preferred contractor was requested to submit a proposal and others had the option of doing so. We found that only one proposal was received on most orders for which data was available. After we began our review, NIH changed its procedures and required that at least two contractors be identified when a "Suggested/Recommended" contractor was designated. We reviewed the 10 orders competed under the revised procedures in December 1997 and January 1998 and found that only one contractor submitted a proposal on each of the orders.

In April 1998, OMB, responding to information we presented at a hearing before the Senate Armed Services Subcommittee on Acquisition and Technology, concluded that naming a preferred contractor discourages competition and requested federal agencies to eliminate the practice of naming preferred contractors. OMB also recommended that federal procurement regulations be revised to prohibit the practice. A proposed federal rule prohibiting this practice was published in the Federal Register on September 9, 1998. NIH has modified its ordering procedures to

eliminate references to preferred contractors and is considering a range of other initiatives to promote broader competition for orders.

Through fiscal year 1997, DISA received only one proposal for about 44 percent of the orders placed on its multiple-award contracts for information technology services. Despite this situation, DISA does not plan to require notice to all multiple-award contractors on future acquisitions. Instead, the organization has decided that program officials may rely exclusively on an analytical tool to select a contractor.⁶ We recognize that agencies need not contact all contractors if sufficient information is readily available to ensure fair consideration for the order. The best value can sometimes be achieved by reviewing price lists for well-defined products or services. However, the DISA contracts provide for a broad range of services that must be tailored to the requirements of each order and priced accordingly, and comparing contractor technical approaches to a task can help identify the best-value contractor. In such circumstances, contacts with contractors may be more appropriate to take advantage of competition.

Comparison of Fees and Costs Incurred

Five of the six organizations we reviewed allowed other agencies to place orders under their contracts. Organizations charged varying fees intended to recover the costs of awarding and administering the orders. Based on analyses performed by two organizations, fees exceeded costs in one case and were below costs in another. In three organizations, management information was not sufficient to determine how fees compared to costs. Table 1 provides information on interagency orders and fees assessed on multiple-award contracts.

⁶The web-based system maintains databases of past performance, cost, and technical capability information.

Table 1: Interagency Orders and Fees Assessed on Multiple-award Contracts (as of Sept. 30, 1997)

Contracting office^a	Interagency orders (percent of total contract value)	Service fees assessed on interagency orders (percent)
DISA	3	2
DOT	74	1-3.25 ^b
GSA	67	0.5-10 ^c
NIH	75 ^d	1
USAF-SSG	7	2

^aUSAF ESC/HAFB is excluded because ordering under its contracts is limited to Air Force Materiel Command sites. Accordingly, ESC/HAFB does not assess service fees on orders.

^bFee varies with level of services provided in processing an order and is assessed only against the first \$10 million of order value.

^cFees based on a graduated fee schedule with low-dollar-value orders being assessed proportionately higher fees than high-dollar-value orders.

^dData reflects only cases where the NIH task order tracking system indicates the agency for which an order was placed. Data also reflects cases where the order was approved for award as of September 30, 1997, as the NIH system does not show the order award date.

GSA’s analysis of fees and costs indicated that the organization was recovering less than half its projected expenses. GSA plans to reassess its fee structure in light of audited expense data and updated volume projections. In contrast, the Air Force SSG’s analysis indicated that its fees exceeded costs. To offset these gains, SSG reduced its fees.

Management systems at DOT, DISA, and NIH did not provide sufficient information to determine how fees compared to costs for the multiple-award contracts we reviewed. For example, DOT’s management system did not provide sufficient detail to isolate the costs incurred and revenue received to administer the contracts. However, DOT officials stated that the organization began tracking costs for these contracts separately in fiscal year 1998. NIH, on the other hand, charged other agencies a uniform fee rate of 1 percent of order value but charged NIH offices a flat fee of \$125 per order. Fees assessed on other agencies’ orders ranged as high as \$99,000 for an individual order. NIH had not performed an analysis to support the validity of the variation between fees charged NIH offices and other agencies. This system would appear to benefit NIH offices using the contracts, as they were charged \$9,875 to process the 79 orders placed in fiscal year 1997 rather than the \$157,942 that other agencies would have been charged based on order value.

In addition, NIH relies on a special-purpose data system (not integrated with its accounting system) to monitor fee collections. Because NIH relies on its contractors to collect and remit fees on interagency orders, it often lacked information on the status of fees it was owed. Consequently, NIH's information on fees was incomplete. We identified a number of orders that were not in NIH's special-purpose monitoring system. After bringing this matter to their attention, NIH contracting officials found that about \$149,000 in fees were owed for 43 orders valued at \$14 million that had not been posted on the monitoring system. Officials noted that agencies placing orders on NIH multiple-award contracts sometimes did not provide the documentation needed to update the fee monitoring system in a timely manner. NIH said that to address this problem, it is developing an integrated system that, once fully implemented, will provide complete and consistent data on orders.

Small Business Has Been Able to Compete for Contracts

While concerns have been raised about small businesses not being able to compete for multiple-award contracts, our analysis of aggregate federal-wide contract data—although not a specific measure of multiple-award contracting's impact—shows that small businesses' share of federal contracts has increased since FASA. In addition, the organizations we reviewed had taken steps to ensure small businesses were receiving orders on multiple-award contracts.

Our analysis of Federal Procurement Data System information shows that the value of contract awards to small businesses and the small business market share increased in all categories examined (see table 2). Of particular interest is the increase in small business awards and market share in the automatic data processing (ADP) services and equipment category, where federal purchasing is increasing significantly and numerous large multiple-award contracts have been awarded.

Table 2: Federal Contract Awards to Small Businesses in Fiscal Years 1994 and 1997

Category of items purchased	Dollars awarded to small businesses (billions)		Small business share of total dollars awarded (percent)	
	Fiscal year 1994	Fiscal year 1997	Fiscal year 1994	Fiscal year 1997
Research and development	\$2.8	\$3.4	10.0	13.3
Services and construction	\$17.5	\$19.0	20.8	22.4
Supplies	\$8.3	\$9.7	13.2	15.5
ADP services and equipment	\$3.0	\$4.2	29.3	32.2

Awards to small businesses at three organizations we visited declined. However, officials at two of these organizations attributed the declines to factors other than multiple-award contracts. Table 3 provides information on contracts awarded to small businesses at the organizations we visited.

Table 3: Contract Awards to Small Businesses by Selected Contracting Offices in Fiscal Years 1994 and 1997

Contracting office ^a	Dollars awarded to small businesses (millions)		Small business share of total dollars awarded (percent)	
	Fiscal year 1994	Fiscal year 1997	Fiscal year 1994	Fiscal year 1997
DISA	\$308.4	\$231.5	19.4	12.9
DOT	\$20.0	\$27.7	50.8	54.7
GSA	\$18.9	\$29.2	33.2	57.2
NIH	\$502.6	\$454.0	30.2	27.6
USAF-ESC/HAFB	\$263.9	\$327.6	9.0	12.7
USAF-SSG	\$20.5	\$17.0	11.6	4.2

^aData reflect activity for the following contracting offices: DISA-Defense Information Technology Contracting Organization; DOT-Transportation Administrative Services Center; GSA-Public Buildings Service, Region 1; NIH-Office of Procurement Management; ESC/HAFB-U.S. Air Force Electronics Systems Center, Hanscom AFB; and SSG-U.S. Air Force Electronics Systems Center, Standard Systems Group, Maxwell AFB-Gunter Annex.

DISA officials said the decline at their organization was due to several factors. One was SBA’s disqualification of several important suppliers from receiving small business awards because the suppliers had been subcontracting virtually all work to a large business. Air Force SSG officials explained that the multiple-award contracts we examined were follow-ons to prior contracts, one of which was awarded to a small business. However, according to the officials, a series of protests were filed against the award of a contract to the small business firm selected in the follow-on competition and small business awards declined during the year when these protests were pending.

Both OFPP and SBA have taken steps to ensure that small businesses participate in the federal marketplace. OFPP, for example, issued guidance to encourage communication between contracting personnel and agency staff responsible for monitoring use of small businesses to identify work that small businesses can perform. Contracting personnel are also expected to consider structuring multiple-award acquisitions in a way that helps small businesses participate as prime contractors.

SBA has been monitoring agencies' use of multiple-award contracts and in several cases has intervened with contracting officials to help restructure an acquisition to provide greater opportunities for small businesses. SBA has also begun to monitor contract bundling. SBA representatives stationed at selected contracting activities—usually larger ones—are allowed to recommend that contracting activity management restructure acquisitions where contract bundling has taken place. Since April 1996, SBA representatives have been reporting cases of possible contract bundling and the resolution of each case to SBA headquarters. According to an SBA official, the typical reported case of contract bundling involves smaller contracts, in the \$10 to \$20 million range, rather than large multiple-award contracts. Of the 43 cases of contract bundling reported to SBA headquarters during 1997 and resolved by the end of the year, 38 had been resolved either by contracting officials agreeing to reserve some work for small businesses or by an SBA determination that no contract bundling had taken place.

The contracting activities we visited had generally taken some action to provide opportunities for small businesses under the contracts we reviewed. To ensure that small businesses would have an opportunity to compete for orders, the Air Force SSG set aside one of its multiple-award contracts for award to a small disadvantaged business participating in the 8(a) program. Similarly, the NIH contracting officer proposed awarding at least one contract to a small business. While the Air Force ESC/HAFB did not set aside a multiple-award contract for award to small businesses, it limited its multiple-award contracts to \$125 million less than the estimated total requirement of about \$800 million. This \$125 million of work was to be awarded through separate contracts reserved for small businesses. DISA concluded that the requirements under its multiple-award contracts were too large and diverse for small businesses to fill effectively but directed its multiple-award contractors to establish small business subcontracting goals that were higher than the levels of small business subcontracting achieved under an earlier similar program. While GSA took no special steps to promote small business participation under its multiple-award contracts, officials said that small businesses dominate the relevant industry and that no special measures were needed. In fact, GSA awarded 12 of the 13 contracts and about 90 percent of the value of orders placed by the end of fiscal year 1997 to small businesses.

DOT's initiative to promote small business participation in its contracts was perhaps the most comprehensive. Officials were concerned that small businesses would not be able to fill the large, complex requirements under

DOT's multiple-award contracts, which encompassed a wide range of information technology services and whose potential value totaled \$1.1 billion. Consequently, they divided the overall requirement into three functional areas and, within each functional area, stated that it was the government's intention to make at least one competitive award to a small business and at least one competitive award to a small disadvantaged business participating in the 8(a) program. These steps were intended to reduce the complexity and potential scope of each contract to a level that small businesses could fill. This approach appears to have been successful. Ten of the 20 contracts awarded under DOT's program went to small businesses, and about 39 percent of the value of orders awarded through the end of fiscal year 1997 had gone to small-business prime contractors.

Conclusions

Congress authorized multiple-award contracts to promote competition while providing agencies the flexibility to determine how competitions would be conducted. Two of the six organizations we reviewed consistently obtained competition for orders under multiple-award contracts, but the remaining four did not. While the organizations where we noted weaknesses are considering steps to increase competitiveness, OMB has seen the need for regulations to prohibit the practice of designating preferred contractors when announcing orders for competition.

Interagency use of multiple-award contracts was common. Where interagency orders were permitted, organizations assessed varying service fees intended to recover the cost of processing orders. According to analyses performed by two organizations, fees exceeded costs at one organization and did not recover costs at the other. Management information was insufficient for the other three organizations to compare fees and costs.

Despite concerns that use of the multiple-award contracting mechanism would tend to exclude small businesses from the federal marketplace, the experience with the contracts we reviewed indicates that small businesses can compete successfully, given the right circumstances. OFPP, SBA, and the organizations we visited were aware of concerns about the impact of multiple-award contracting on small businesses, and had taken steps to preserve small business opportunities.

Agency Comments

In commenting on our draft report, OMB, the Department of Defense (DOD), and NIH generally concurred with our results. DOT did not provide written comments but in oral comments generally concurred. GSA and SBA had no comments.

OMB is encouraged that agencies are taking steps to improve their processes for administering multiple-award contracts, including increasing attention to the amount of competition for orders. It views agency efforts—including those noted in our report—as first steps toward improving the use of multiple-award contracts. OMB's written comments are included in appendix II.

DOD also agreed that continual review was important to ensure that multiple-award contracts promote competition and avoid adverse impacts on small business opportunities. The DOD activities we visited are reviewing their current practices to ensure that each multiple-award contractor has a fair opportunity to compete for orders. DOD also expressed concern that more data and analysis would be needed to assess multiple-award contracting's overall impact on opportunities for small businesses. We agree and have modified the report to make it clear that we were not able to draw a conclusion about whether multiple-award contracting had been generally beneficial to small businesses. DOD's written comments are included in appendix III.

NIH stated that the report presents a fair evaluation of its multiple-award contracts. NIH's comments also provide details on recently implemented program improvements noted in our report, and include several technical comments that have been incorporated where appropriate. NIH's written comments are included in appendix IV.

We are sending copies of this report to the Chairmen of the Senate Committees on Governmental Affairs and Armed Services; the House Committees on Government Reform and Oversight and National Security; the Secretaries of Defense, Health and Human Services, and Transportation; the Administrators of the General Services Administration and the Small Business Administration; and the Director, Office of Management and Budget. We will also provide copies to others upon request.

Please contact me at (202) 512-4587 if you or your staff have any questions concerning this report. Major contributors to this report are listed in appendix V.

A handwritten signature in black ink that reads "David E. Cooper". The signature is written in a cursive style with a large, prominent initial "D".

David E. Cooper
Associate Director, Defense Acquisitions Issues

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Abbreviations

ADP	automatic data processing
FASA	Federal Acquisition Streamlining Act
DISA	Defense Information Systems Agency
DOD	Department of Defense
DOT	Department of Transportation
ESC/HAFB	Electronic Systems Center, Hanscom Air Force Base
GSA	General Services Administration
NIH	National Institutes of Health
OFPP	Office of Federal Procurement Policy
OMB	Office of Management and Budget
SBA	Small Business Administration
SSG	Standards Systems Group
USAF	U.S. Air Force
USAF/SSG	U.S. Air Force, Standard Systems Group

Scope and Methodology

To examine implementation of the Federal Acquisition Streamlining Act's (FASA) multiple-award contract authority, we reviewed the legislative history of FASA provisions relating to multiple-award contracts and the governmentwide procurement regulations implementing these provisions and held discussions with the Office of Federal Procurement Policy (OFPP) official responsible for monitoring implementation of the provisions. Since no governmentwide listing of multiple-award contracts was maintained, we consulted with OFPP officials and examined published information to judgmentally select multiple-award contract programs and contracts for review. The selected contract programs reviewed were: Defense Enterprise Integration Services, Defense Information Systems Agency (DISA); Information Technology Omnibus Procurement, Department of Transportation (DOT); "Can't Beat GSA Leasing and Renovations", General Services Administration (GSA); Chief Information Officer-Solutions and Partners, National Institutes of Health (NIH); Management Information Systems Technical Support, U.S. Air Force Electronics Systems Center, Hanscom Air Force Base (ESC/HAFB); and Desktop V, U.S. Air Force, Standard Systems Group (USAF/SSG).

The contracts awarded by DISA, DOT, NIH, and ESC/HAFB provide for acquisition of information technology services, while the SSG contracts provide for desktop and portable personal computer systems and related equipment and software. The contracts awarded by GSA provide for general repairs and alterations of federal offices. Table I.1 identifies the number of contracts awarded under each program, the maximum value of orders that can be placed under the program, and the value of orders placed as of the end of fiscal year 1997.

**Appendix I
Scope and Methodology**

Table I.1: Selected Data on Contracts Reviewed

Awarding organization and program name	Number of contracts	Maximum program value (in millions)	Value of orders as of September 30, 1997 (in millions)
DISA: DEIS-II	6	\$3,000	\$334.3
DOT: ITOP	20	\$1,134	\$433.2
GSA: CBGLR	13	\$204	\$1.6
NIH: CIO-SP	20	\$11,000 ^a	N/A ^b
ESC/HAFB: MISTS-II	2	\$675	\$46.9
SSG: DT-V	4 ^c	\$1,675	\$310.2

Note: Defense Enterprise Integration Services [DEIS-II], Information Technology Omnibus Procurement [ITOP], "Can't Beat GSA Leasing and Renovations [CBGLR]", Chief Information Officer-Solutions and Partners [CIO-SP], Management Information Systems Technical Support [MISTS-II], and Desktop V [DT-V].

^aWhen initially awarded, the NIH contracts provided for a maximum of 5,000 tasks under the program but did not establish a dollar limit on the value of these tasks. By contract modifications dated July 8, 1998, NIH established a dollar limit of \$11 billion.

^bIncomplete data precludes determining the total value of orders placed.

^cA total of four contracts have been awarded. For one of these, SSG decided not to exercise its option to extend the contract beyond the first year of performance, so three contracts are currently in effect.

To assess whether implementation of the FASA provisions was promoting competition under multiple-award contracts, we gathered statistical information on sole-source orders. We also interviewed officials responsible for the contracts and representatives of selected firms who had been awarded contracts, reviewed policies and procedures established to govern administration of the contracts, and reviewed documentation relating to the award of the contracts. In addition, we reviewed documentation relating to a judgmental sampling of orders placed under the contracts. These orders were selected to provide insight into the processing of both sole-source and competitive orders.

To assess how organizations establish service fees on interagency transactions, we interviewed officials responsible for establishing and administering service fees for use of the contracts, reviewed policies and procedures governing service fees, and examined financial and other records relating to service fees.

To assess the impact of multiple-award contracting on opportunities for small businesses to participate in federal procurements, we interviewed the Small Business Administration (SBA) and OFPP officials, officials

Appendix I
Scope and Methodology

responsible for the contracts we reviewed, and officials responsible for monitoring utilization of small business at the locations where we did our work. In addition, we analyzed governmentwide data on awards to small businesses in the Federal Procurement Data System, data maintained at the locations where we did our work, and data gathered by SBA officials.

We conducted our review from July 1997 to May 1998 in accordance with generally accepted government auditing standards.

Comments From the Office of Management and Budget



OFFICE OF FEDERAL
PROCUREMENT POLICY

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

September 15, 1998

Mr. David E. Cooper
Associate Director
Defense Acquisitions Issues
General Accounting Office
Washington, DC 20548

Dear Mr. Cooper:

I have been asked to respond on the Director's behalf to your August 14, 1998 request for OMB comment on your draft report on multiple award contracts (MACs). We appreciate the opportunity to review this report. MACs represent one of the most promising vehicles of acquisition reform and are being used to satisfy a growing number of agency needs. My office is firmly committed to ensuring that agencies make effective use of the many benefits offered by these vehicles -- especially the ongoing streamlined commercial-style competition possible under these contracts and the innovation and value that competition induces.

MACs have become a key agency buying tool for a variety of reasons. As your report explains, MACs generate competitive pressure within the vehicle through a process where contract holders are given a fair opportunity to be considered for specific requirements through streamlined ordering processes. This competitive pressure brings about better prices, higher quality, and more timely delivery of goods and services. By giving agencies access to multiple qualified contractors, MACs enable agencies to take advantage of advances in technology and changes in agency priorities in a more cost-effective and timely manner. MACs also offer agencies the opportunity to exercise leverage, increase operational efficiency and reduce administrative costs by consolidating requirements. We cannot overemphasize how critical these benefits are to agencies operating in an environment of limited resources. We hope readers of this report will appreciate this point.

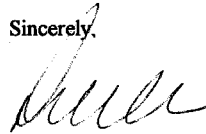
Since the codification of the MAC authority by the Federal Acquisition Streamlining Act, OFPP has actively promoted their effective use. We are encouraged that agencies are taking steps on their own to improve their processes -- including increasing attention to the amount of competition obtained for orders awarded under these vehicles. To reinforce this result, the Acting Deputy Director for Management of OMB, in an April 21, 1998 memorandum, requested that the President's Management Council assist in ending the practice of designating a preferred source. At the same time, my office requested that the Federal Acquisition Regulatory Council initiate a case to prohibit agencies from using this practice.

**Appendix II
Comments From the Office of Management
and Budget**

While we do not have specific comments on your report at this time, you should note that we view the efforts taken to date (including those identified in your report) as first steps in an ongoing process of continual improvement in using MACs (both intra- and inter-agency) to help the government meet its mission in a timely and effective manner. We will expect agencies to make effective usage of all single, multi-agency, and government-wide MACs (including those not addressed in your report) a top priority and are actively exploring additional ways to stimulate their strategic use.

We would welcome the opportunity to meet with you and discuss these issues further. Thank you again for allowing us to comment on this important subject.

Sincerely,



Deidre A. Lee
Administrator

Comments From the Department of Defense

Note: GAO's comment supplementing those in the report text appear at the end of this appendix.



ACQUISITION AND
TECHNOLOGY

OFFICE OF THE UNDER SECRETARY OF DEFENSE

3000 DEFENSE PENTAGON
WASHINGTON, DC 20301-3000

17 SEP 1998

Mr. David E. Cooper
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National Security and International Affairs Division
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Washington, DC 20548

Dear Mr. Cooper:

Thank you for the opportunity to comment on the GAO draft report "Acquisition Reform: Multiple Award Contracting at Six Agencies." The report looked at the Department's management and administration of multiple award indefinite delivery indefinite quantity (IDIQ) contracts. To the extent that such vehicles may not promote competition and/or may adversely impact small business opportunities we agree that vigilance and continuous review is important. The report further states that the Department's activity fee structures are not being monitored and adjusted according to costs incurred, therefore, creating the potential for profit.

Overall, we believe that the Department's implementation of the multiple award provisions under Federal Acquisition Streamlining Act (FASA) has been within the letter and spirit of the Act. We believe that the procedures for use of the IDIQ contract allow the ordering offices to make sound business decisions based upon needs at the time the order is issued. However, each of the Department's activities visited is reviewing its current procedures and implementing new guidelines if needed to assure that each awardee has a fair opportunity to compete for task orders. Any practice of designating preferred customers is prohibited.

From the small business participation perspective, we believe the conclusion that overall small business participation in federal contracts increased, as a result of multiple award contracts, may be misleading. There are a number of other provisions under FASA, such as the increase in the simplified acquisition threshold, the preference for commercial items where appropriate, and the increased efficiency in evaluating proposals, that have all contributed to increased small business opportunities. In addition, to fully understand the impact on small business, be it positive or negative, it is also important to assess the degree of small business subcontracting taking place through the multiple award contracts. Moreover, the report did not identify the Federal Supply Class or Federal Service Code with which multiple awards are associated. The data for contract information for the multiple award contracts could then be compared to dollars and numbers of actions awarded to large business and small business concerns before and after the implementation of the FASA.

The report states that the two DoD activities reviewed, the Defense Information Systems Agency (DISA) and the Air Force Standard Systems Group (SSG), do not have adequate management systems in place to determine fees in comparison to costs for issuing task orders. However, in accordance with Air Force Working Capital guidelines, the SSG estimates its service fees based on projected customer orders for an upcoming fiscal year and



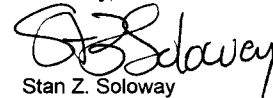
See comment 1.

Appendix III
Comments From the Department of Defense

then makes appropriate adjustments (up or down) in subsequent fiscal years in order to maintain a "no-profit" status. DISA's fee structure is in accordance with the Defense Working Capital Fund, which adds a customer charge sufficient to recover operating costs associated with the business area. We believe these guidelines provide an efficient and effective means to monitor and manage costs such that profits are not generated.

FASA provided contracting officers the latitude to establish procedures for the solicitation and award of task orders under IDIQ contracts. I believe that most of these have been established in a manner that promotes competition and the inclusion of small business at the prime and subcontract levels. However, as problems are identified, the Department will take appropriate steps to address them.

Sincerely,



Stan Z. Soloway
Deputy Under Secretary of Defense
(Acquisition Reform)

The following are GAO's comments on the Department of Defense's letter dated September 17, 1998.

GAO Comment

1. Our report does not criticize the management system that the Air Force SSG uses to determine fees for its contracting business area. DISA's contracting business area, on the other hand, includes certain contracts where DISA provides users services in addition to contracting support as well as the multiple-award contracts where DISA provides only contracting support. Although DISA's costs for administering contracts where it provides additional services would be higher than costs for administering multiple-award contracts, DISA assesses the same fee rate on all orders its contracting business area administers.

Comments From the National Institutes of Health

Note: GAO comments supplementing those in the report text appear at the end of this appendix.



DEPARTMENT OF HEALTH & HUMAN SERVICES

Public Health Service

SEP 14 1998


National Institutes of Health
Bethesda, Maryland 20892

Mr. David E. Cooper
Associate Director, Defense Acquisition Issues
United States General Accounting Office (GAO)
441 G Street, NW, Room 4A48
Washington, D.C. 20548

Dear Mr. Cooper:

Thank you for providing the National Institutes of Health (NIH) an opportunity to review the GAO draft report entitled, *Acquisition Reform: Multiple-Award Contracting at Six Agencies*, GAO/NSIAD-98-215. It provides a fair evaluation of the multiple award contracts offered by the NIH to acquire information technology services. We have, however, implemented program improvements and modifications that we believe should be cited in your final report in the areas referring to the NIH Information Technology Acquisition and Assessment Center (NITAAC) program. These improvements and modifications are described in detail in the enclosed comments.

Should your staff have any questions, please ask them to call Mary Jane Meyers, Office of Management Assessment, at 301-402-8482.


Anthony L. Itteilag
Deputy Director for Management

Enclosure

**NATIONAL INSTITUTES OF HEALTH INFORMATION TECHNOLOGY
ACQUISITION AND ASSESSMENT CENTER (NITAAC)
COMMENTS ON
GAO DRAFT REPORT: MULTIPLE-AWARD CONTRACTING AT SIX
AGENCIES (GAO/NSIAD-98-215)
SEPTEMBER 2, 1998**

The National Institutes of Health (NIH) has had an opportunity to review the GAO Draft Report on Multiple-Award Contracting at Six Agencies. We have implemented various program improvements, and would like to offer the following modifications and clarifications on portions of the report focusing on the National Institutes of Health Information Technology Acquisition and Assessment Center (NITAAC) program. We believe that some of these improvements should be cited in areas of the report referring to the NITAAC program.

Fair Opportunity to Be Considered (Competition)

NIH would like to make the following specific suggestions to the Draft Report:

- Top of Page 5 – the word “preferred” should be changed to “Suggested/Recommended.” Page 4, last sentence should read: *“After we began our review, NIH changed its procedures and now requires that at least two contractors be identified when a Suggested/Recommended contractor is designated.”*
- Page 5, para. 2, last sentence should read: *“NIH has modified its ordering procedures to eliminate references to preferred contractors and is considering a range of other initiatives to promote broader competition for orders.”*

As indicated in NITAAC’s initial comments on the GAO’s Draft Statement of Facts, NIH is considering numerous approaches to enhance competition. Below are some of the modifications that have been implemented:

- NIH has met with all vendors on NITAAC’s three multi-award contracts and explained the elimination of the use of preferred vendors when ordering. In furtherance of this, we have modified ordering procedures and informed all customers of the elimination of the practice of using preferred vendors. We have also removed the suggested/recommended sources language from our guidelines. Since the removal of this language from our contract, we have noticed an increase in the number of proposals being submitted on task requirements.
- We have also allowed vendors to add five additional subcontractors to their contract teams over the life of the contract, and to continue to add subcontractors on a task order by task order basis. In addition to increasing competition, this will also help meet small business goals.

**Appendix IV
Comments From the National Institutes of
Health**

- On a daily basis we educate customers about the importance of obtaining maximum competition under NIH Multiple Award contracts in accordance with FAR Subpart 16.5 relating to *Competition Under Multiple Award Task and Delivery Order Contracts*. We work with customers to structure statements of work and ensure language that will promote competition, and lead to best value acquisitions. Customers are also referred to our guidelines that discuss fair opportunity in the ordering process.
- We conducted an all hands vendor meeting on June 8, 1998 to stress the importance of competition under the NIH contracts. This was the first of a series of brainstorming sessions we intend to conduct with our vendors in an effort to increase competition. The competition issue is also discussed at the Industry Advisory Council meetings, which are held on a monthly basis.
- Since July, 1998 we have required that Statements of Work be competed for a minimum of five days rather than two days as originally required.

Management System Improvements

NIH makes the following specific suggestions to the Draft Report with respect to our management systems:

- Addition to Page 6, Footnote d – NIH would like to add the following sentence to the end of this footnote: *“However, within NIH’s modified system, all data will be captured ensuring complete, and consistent data on all orders.”*
- Modification to top Page 7, second sentence – *“To address this problem, NIH is developing an integrated system that, as it is phased-in, will provide complete, consistent data on all orders.”*
- We request that the information below be included on Page 6, para. 3:

Phase I – *CIO-SP and Image World Internal Tracking System* was completed in April, 1998. Phase II – *Internet Tracking System* entails NITAAC’s ECS-II and Image World electronic ordering and financial management modules. The ECS-II electronic ordering system was operational as of June 1, 1998. The Image World delivery order process, and financial modules are currently being beta tested. Phase III – *Integration* will combine NITAAC’s CIO-SP, IW, ECS-II, and financial management modules into an overall complete system.

Small Business Contract Awards

NIH makes the following specific suggestions to the Draft Report with respect to Small Business inclusion:

Now on p. 7.
See comment 1.

Now on p. 8.

Now on p. 8.
See comment 2.

**Appendix IV
Comments From the National Institutes of
Health**

Now on p. 9.

- Modification in last sentence on Page 8, para.1 – *“NIH officials attributed the decline in awards to small business in part to acquisition reform and regulatory revisions.”* (See Attachment I, NIH Acquisitions FY 1992 – FY 1997.)
- Table 3 on Page 8: Contract Awards to Small Business by Selected Contracting Offices – Fiscal Years 1994 and 1997 should be changed for NIH as follows:
 - The “\$467.3” listed under FY 97 for Awards to Small Business should be changed to “\$454.0”. (See Attachment I)

Now on p. 10.

Page 9, para. 2, second sentence should read:

NIH considered small businesses in its acquisition planning phase of awarding the CIO-SP contract. Subsequently, the CIO-SP contract was awarded based on full and open competition. Twenty contracts were awarded including 18 to large business and 2 to 8a companies.

NIH encouraged small business participation by establishing subcontracting goals and targets to ensure inclusion of small businesses. The established subcontracting goals targeted small business 10 percent, small disadvantaged business 5 percent, and woman owned business 5 percent. All large businesses on the CIO-SP contract agreed to the subcontracting goals in approved subcontracting plans.

Scope and Methodology – APPENDIX I

Now on p. 17.

NIH would like to make the following change to APPENDIX I, Table I.1: “Selected Data on Contracts Reviewed”, Page 12, Footnote a: *“The NIH contracts provide for a maximum of 5,000 tasks under the program, and as of July 8, 1998, have a contract ceiling of \$11 billion.”*

The following are GAO's comments on the National Institutes of Health's letter dated September 14, 1998.

GAO Comments

1. Planned improvements in NIH's management systems are addressed in the discussion following table 1 of this report.
2. At a May 1998 meeting, after we had completed our field work, NIH officials gave us a demonstration of a new integrated order management system they were developing. The implementation plan NIH describes is generally consistent with the plan discussed in our May 1998 meeting. We have not, however, determined the system's current implementation status.

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