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United States General Accounting Office

**GAO**

Report to the Chairman, Subcommittee on  
Defense, Committee on Appropriations,  
House of Representatives

November 1985

# SUPPORT SERVICES

## Actions to Gain Management Control Over DOD's Contract Support Services



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United States  
General Accounting Office  
Washington, D.C. 20548

**National Security and International  
Affairs Division**

November 22, 1985

B-220748

The Honorable Joseph P. Addabbo  
Chairman, Subcommittee on Defense  
Committee on Appropriations  
House of Representatives

Dear Mr. Chairman:

Your February 20, 1985, letter requested that we evaluate the Department of Defense's (DOD's) Contract Support Services (CSS) practices and cost trends for Federal Contract Research Centers for fiscal years 1984 through 1987. On June 21, 1985, we briefed your Committee on the results of our work. As requested, this report summarizes that portion of the briefing that dealt with CSS practices.

Long standing problems have made it difficult for the Congress and DOD to gain increased control over CSS expenditures. First, because no uniform definition exists of what constitutes CSS, there are various estimates of CSS expenditures ranging from \$1 billion to \$15 billion. Second, because DOD does not have an accounting and reporting system to track actual CSS expenditures, there is no way of knowing how much is spent.

Recent congressional initiatives are aimed at broadening the definition of CSS used by DOD and establishing an accounting and reporting system to compare estimated and actual CSS expenditures.

DOD is developing a more precise definition of CSS and related accounting and reporting procedures. The draft definition excludes a large portion of the services that account for the wide range of CSS estimates. Thus, the amount of CSS costs reported to the Congress is not expected to change appreciably from the current \$1.3 billion.

Since 1980, in response to Public Law 96-304 that required DOD to report the amount of funds requested for CSS, DOD has submitted special budget exhibits annually with the President's Budget. The law does not specifically state what should be included in the CSS estimates. DOD has selected the following four categories for reporting.

1. Appointed experts and consultants.
2. Studies and analyses.

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3. Professional and management services.

4. Contract systems engineering and contract engineering technical services.

By including only these four categories, the DOD budget exhibits have consistently displayed CSS expenditures of slightly more than \$1 billion since enactment of the 1980 statute. For the same period, a Cabinet Council on Management and Administration and the Federal Procurement Data Center have reported CSS expenditures of about \$13 billion, and \$15 billion, respectively. These figures varied due to differences in the expenditure categories included as CSS. Also, the Office of the Secretary of Defense (OSD) officials told us that the Federal Procurement Data System which is used to develop these larger estimates is not a reliable source except for showing general trends in contracting.

The DOD's \$1.3 billion estimate excludes costs relating to the following categories.

- Support services provided by prime contractors and their subcontractors, which may be associated with the acquisition or support of weapon systems. This category makes up most of the difference between the \$1.3 billion reported to the Congress by DOD and the larger estimates derived from other data sources.
- A group of private study corporations termed Federal Contract Research Centers.

Conversely, each of the other organizations' estimates includes these cost categories, but to varying degrees.

Also, the information reported in the budget exhibits is based on estimates rather than actual expenditures because there is no CSS financial accounting system. As a result, there is no direct accounting link between estimated CSS costs reviewed by the Congress and subsequent actual expenditures.

Due to continuing concerns over CSS costs, the Congress adopted Senator Mattingly's (Senate Committee on Armed Services) fiscal year 1985 amendments to DOD funding bills which called for a \$1.3 billion spending limitation for items identified by DOD as CSS and a \$14 billion spending ceiling based on a broader definition of CSS used by other organizations.

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Regarding the CSS definitional issue, the Senate and House Armed Services Joint Conference Report for the fiscal year 1986 DOD Authorization Act included the following statement.

“Currently, there are numerous definitions of services considered to be in the category of contract advisory and assistance services. The Federal Procurement Data System (FPDS) report on services includes 13 different categories which a contracting officer may designate when executing a contract for services, whereas the budget exhibits which the Department of Defense presently submits to Congress include reports on four differently defined categories. The Senate bill includes these 13 categories as categories to be considered by the Department of Defense.”

Further, the Joint Conference Report directed DOD to:

- Describe the services which are to be considered CSS.
- Establish an accounting and reporting system.
- Separately identify weapon system related expenditures and those supporting the policy and management process.

In response to congressional concern, DOD drafted a directive which (1) provides a definition of CSS, (2) calls for designation of a CSS director for each service and OSD, and (3) requires each DOD component to establish a CSS accounting system. The directive is being coordinated within DOD.

DOD says that the draft directive includes some of the costs included in 10 of the categories mentioned for consideration in the fiscal year 1986 authorization act. However, this draft directive may not significantly change the amount of contract services reported to the Congress because it excludes CSS costs related to weapon systems which represent much of the difference between the DOD reported CSS estimates and the larger estimates used by other organizations. Also, the directive does not require that costs associated with management support and weapon system support be separately reported as specified in congressional guidance.

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## Matters for Consideration by the Subcommittee

The Congress wants DOD to begin routinely providing more complete and accurate information on CSS projected and prior expenditures. With estimates of DOD expenditures for CSS ranging from about \$1 billion to \$15 billion annually, it is clear why both the Congress and DOD are now attempting to gain management visibility and control over the area. However, unless the Congress specifically directs DOD to broaden the

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categories of support services to be included in CSS accounting and reporting systems, it may not achieve the degree of oversight desired. Therefore, if the Congress desires any appreciable expansion of the scope and coverage of the information reported in this area, it should provide guidelines to DOD for its use in developing a standard definition of CSS that provides the degree of coverage the Congress wants.

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## Views of Agency Officials

We requested DOD's official position on our draft report, but due to time constraints they provided us only unofficial agency views. We discussed a draft of this report with OSD officials responsible for CSS oversight. They disagreed with the report's conclusion that the Congress should provide guidelines to OSD to develop a standard definition of CSS. They believe their current approach complies with the intent of the Congress, because the current scope of coverage was agreed to with staff members of the House and Senate Committees on Appropriations in 1980. Their current approach is defined by a draft DOD directive on CSS management. The draft directive, if implemented, would:

- Establish common definitions to describe CSS.
- Require DOD components to use accounting systems to track CSS costs.
- Identify separately CSS costs which are included among other contract costs.

The DOD initiatives would increase management control over CSS. The proposed definition, however, would not appreciably increase the expenditures reported as CSS.

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## Objectives, Scope, and Methodology

We made this review of DOD's CSS program in response to your February 20, 1985, request, and subsequent discussions with your staff.

Our objectives were to develop a detailed briefing document for use by your staff and a subsequent summary report communicating the general issues facing the Committee. The briefing document describes in detail the entire area of DOD's CSS, including: (1) background information, cost estimates, definition problems, legislative history, and political debates, (2) cost trends and analyses of DOD's contract program for fiscal years 1983 through 1985, (3) a description of fiscal year 1985 service support contracts awarded by the Navy and Air Force, and (4) a description of costs and cost trends for the Federal Contract Research Centers for fiscal years 1984 through 1987. This summary report includes the overall issues now before the Congress.

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We performed work at the following locations:

- OSD, Washington, D.C.
- Navy Comptroller's Office, Washington, D.C.
- Air Force Comptroller's Office, Washington, D.C.
- Six major Navy and Air Force commands.

In performing our work, we interviewed responsible officials, reviewed congressional hearings, budget exhibits and procedures, and CSS. Our review was performed in accordance with generally accepted government auditing standards. We did not, however, test the reliability of cost data supplied by DOD which is used in this report.

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We are sending copies of this report to the Chairmen of the Senate Committee on Appropriations, the House and Senate Committees on Armed Services, and Senator Mattingly. Copies are also being sent to the Director, Office of Management and Budget and to the Secretary of Defense.

Sincerely yours,



Frank C. Conahan  
Director



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