



UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

SEP 28 1984

ACCOUNTING AND FINANCIAL
MANAGEMENT DIVISION

SEPTEMBER 28, 1984

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The Honorable Jack Brooks
Chairman, Committee on
Government Operations
House of Representatives

Dear Mr. Chairman:

Subject: Review of the Air Force Practice of Contracting
Through the Central Intelligence Agency and State
Department to Obligate Funds Prior to End of Fis-
cal Year (GAO/AFMD-84-79)

On April 24, 1984, you requested that we examine the legality and propriety of the Air Force practice of using the Central Intelligence Agency (CIA) and the State Department to enter into contracts to satisfy Air Force Intelligence's requirements for certain research studies before the end of the fiscal year. Your office also asked us to provide certain background information on this Air Force practice of contracting through the CIA and State.

We agreed with your office that in evaluating this practice, first, we would determine whether the Air Force violated the Economy Act, Anti-Deficiency Act, or any federal procurement regulations. Next, we would determine whether the contracts were awarded to meet valid Air Force requirements and whether any favoritism was involved in awarding these contracts.

Based on the first phase of our assignment, we found the Air Force practice of placing orders with the CIA and State Department which, in turn, awarded contracts to accomplish this work, did not violate either the two acts or procurement regulations. This determination was made after we (1) researched applicable laws and regulations, (2) interviewed knowledgeable Department of Defense (DOD), Air Force, CIA, and State Department officials in the Washington, D.C. area, and (3) reviewed obligation, contract, and payment documents.

Under our agreement with your office, we will not proceed with this assignment's second phase to avoid duplicating a current investigation by DOD's Inspector General (IG) in response to another congressional request. To assist the IG staff in their evaluation, we have informed them of the results of our work and about the

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orders placed by the Air Force and the resulting contracts awarded by the CIA and State Department. The IG is specifically examining whether the Air Force has a bona fide need for these projects in question and whether any favoritism was involved in awarding the contracts.

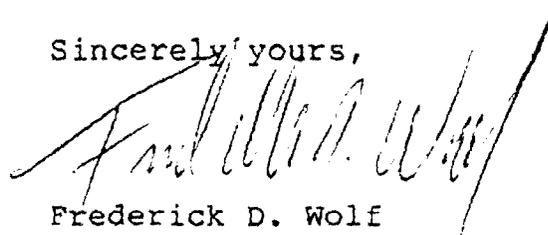
BACKGROUND ON AIR FORCE CONTRACTING
THROUGH THE CIA AND STATE DEPARTMENT

From 1981 through 1983, the Air Force's Office of the Assistant Chief of Staff, Intelligence, ordered a total of \$2.6 million in economic and intelligence research studies from the CIA and State Department, which then awarded contracts to fulfill the Air Force requirements. In almost all cases, the orders were placed and accepted during the last few weeks of September -- the end of the fiscal year. These orders were financed with 1-year Operation and Maintenance funds. In all cases, the CIA and State Department awarded the new contracts or amendments to existing contracts before the end of the fiscal year when these Operation and Maintenance funds expire.

Air Force Intelligence officials informed us that in order to obligate funds before the authorization for these needed studies expired at the end of the fiscal year, they ordered the services through the CIA and the State Department. They said Defense Supply Service - Washington and the Washington Area Contracting Center, the two DOD contracting offices that normally provide contract services for their Air Force office, do not usually accept requests for contractual services after June of each fiscal year. The two contracting offices established the June cutoff date so they can process and finish, before the end of the fiscal year, the large number of contractual requests normally received from the Air Force and other DOD components during the first 9 months of the year. In contrast, the CIA and the State Department accept contractual requests until late in the fiscal year. The Air Force officials advised us that for the contracts in question the funding was not received in time to use the two DOD contracting offices.

Please let us know if you want us to provide any additional information or if you have any questions.

Sincerely yours,



Frederick D. Wolf
Director