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

2/19/22

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DEFENSE DIVISION

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Dear Mr. Secretary:

On October 22, 1970, we sent you a draft report for comment, which dealt with Navy procurement of publication services for the revision of technical manuals under indefinite-quantity-type contracts (OSD case No. 3196). This report contained the findings from our review of five contracts awarded by the Navy and Marine Corps for such services as typing, editing, proofreading, writing, and illustrating.

Our findings were that the Navy had followed the practice of awarding an indefinite-quantity-type contract to the contractor who quoted the lowest hourly rate, and then paying the contractor at that rate for the hours billed by the contractor without checking the records to determine the actual number of hours that had been used to complete the work. The Marine Corps had a somewhat different system, but the results were about the same. The Marine Corps made awards of indefinite-quantity-type contracts to several of the most technically qualified contractors who bid the lowest hourly rates. The Marine Corps, however, did not follow its policy of having the several contractors compete for each order. Instead, it negotiated fixed-price orders almost exclusively with one contractor using, as the basis for the price, the hourly rates bid by the contractor and contractor estimates of the hours that would be needed to perform the work. Therefore, the Marine Corps was not getting competitive prices. Further, because it did not obtain information as to the hours actually expended doing the work, it did not know how the contractor's estimates and actual hours compared.

The Navy and Marine Corps' methods of handling these purchases made it possible for contractors to charge for a substantially larger number of hours than actually had been required to perform the work. In this respect our review of \$100,000 worth of orders, selected from the \$2.1 million worth then placed under the five contracts, showed that the contractors had received

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payments for 22,000 hours, although only 12,000 hours had been used in performing the work. During discussions held with Navy and Marine Corps officials, we were advised that, where appropriate, recovery action would be taken against the contractors for over-payments made under the contracts.

In view of the substantial overcharges resulting from this method of contracting, we recommended that the Navy issue instructions governing the use of indefinite-quantity-type contracts to provide the safeguards needed to secure reasonable prices for the Government and that the Armed Services Procurement Regulation (ASPR) Committee consider revising ASPR, to require improved control over the use of indefinite-quantity-type contracts.

We have received two replies to our report from the Deputy Assistant Secretary of Defense (Installations and Logistics), one dated December 16, 1970, and the other dated April 5, 1971. In these replies we were advised that, with regard to our first recommendation, the Navy had modified ongoing contracts, to establish a ceiling price for each order placed against these contracts and to limit the contractor's compensation to the actual hours expended, not to exceed the ceiling. Also the contractors will maintain specific and detailed records of the costs incurred, and the Government will have the right to audit the contractors' records. In addition, the Navy has issued specific and detailed instructions regarding the placing of orders under indefinite-quantity-type contracts where the price is established on the basis of estimated time. The Navy has issued also an appropriate warning to all contracting officers regarding the use of indefinite-quantity-type contracts for the procurement of services.

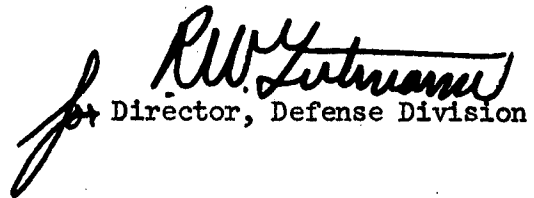
With regard to our second recommendation that ASPR be revised to require improved control over the use of indefinite-quantity-type contracts, we were advised that the current guidance in ASPR was considered adequate. We were advised also that it was the opinion of the Deputy Assistant Secretary that the problem identified was mainly one of ensuring the application of current guidance in the regulations governing the administration and payment of contracts. The Deputy Assistant Secretary also stated that a similar situation probably did not exist in the other services. The Air Force indicated that its requirements for such services usually were obtained by competition on a fixed-price-per-page basis. The Army indicated that it buys these services under time-and-material-type contracts and that, on such contracts, an audit is requested from the Defense Contract Audit Agency prior to final payment.

We believe that the vigorous action taken by the Navy in response to our report is commendable. In view of this action, and the indications that the Army and Air Force use other procurement methods to obtain these types of publication services,

we do not plan to pursue this matter further at this time. We plan, however, to review the results of the Navy's corrective action at an appropriate time to determine if the action has been effective. After we have reviewed the results of the Navy's action, we will give further consideration to the need for providing more specific guidance in ASPR.

We appreciate the cooperation extend to members of our staff by Navy and Marine Corps personnel during our review. Copies of this letter are being sent to the Secretary of the Navy and the Office of Management and Budget.

Sincerely yours,


Director, Defense Division

The Honorable
The Secretary of Defense