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RECONNAISSANCE STUDY OF SERVICE

CONTRACT METHODOLOGY

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R E C E I V E D

SUMMARY

This reconnaissance study was generated by the Department of the Army as a result of problems experienced on some Army service contracts. The major Army problem was the difficulty of defending its selection of a contractor in a cost-reimbursement, non-price-competitive situation when the award was later protested to the General Accounting Office. This report examines and discusses a number of general problems in the area of contracting for services, in addition to focusing upon the key Army problem.

Most of the study findings and recommendations have DoD-wide applicability. Many findings of this study are applicable to contracting for supplies, as well as services, since the DoD generally follows the same policies and procedures for procurement of both supplies and services.

Some of the major factors which appear to have contributed to the Army's difficulty are:

- Inappropriate placement of contracting authority in some instances.
- Inadequate guidance on organizing for source selection and inadequate criteria for the evaluation of contractors' proposals.
- Lack of specialized knowledge and expertise in specific service areas.

The major recommendation of the report is that the DoD categorize services into discrete functional classes and assign specific classes of services to the military departments, which will act as the single DoD advisor on assigned classes. The military departments will then be in a position to specialize in assigned areas and to accumulate detailed information for use by others in writing and administering service contracts.

Other recommendations of the report point up the need for additional guidance pertaining to:

- The assignment of service contracting authority within the Department of the Army.
- The most effective ways to organize for proposal evaluation and source selection for specific classes of service contracts by dollar value.
- Specific proposal evaluation criteria to use in given functional classes of service contracting.
- Effective use of the "competitive range" concept.
- The most appropriate duration for service contracts.

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I. INTRODUCTION

A. PURPOSE

On 5 December 1968, the Assistant Secretary of Defense for Installations and Logistics requested LMI to perform a study of service contract methodology. Appendix A is a copy of the task order for this project.

This reconnaissance study examines a number of procurement problems in the general area of contracting for services. The purposes of this report are to discuss these problems, to make some recommendations, and to suggest areas where further study may be warranted. The study focuses its attention upon several Department of the Army procurement problems in the area of cost-reimbursement service contracts, since the Army initially requested this study.

Following this introduction, we discuss the major Army service contract problems and then examine general service contract problems.

The report assumes that the reader is generally familiar with the Armed Services Procurement Regulation (ASPR) and with current Department of Defense (DoD) procurement organizations.

B. BACKGROUND

During the past seven years, LMI has been conducting studies pertaining to the Department of Defense's procurement policies. Some of these studies have touched upon the procurement of services,¹ but the majority have been concerned with the procurement of hardware.

The Armed Services Procurement Regulation defines procurement as ". . . obtaining supplies and services."² While ASPR defines supplies in Section I, Part 2, "Definition of Terms," it does not attempt to define services. Section XXII of ASPR, "Service Contracts," states that ". . . a service contract is one which calls directly for a contractor's time and effort rather than for a concrete end product."³

¹LMI Tasks 8A and 65-11, "Guidelines for the Manner in Which Military Base Services are Provided" and "Base Support Services," respectively; these tasks were completed in 1964 and 1965 in conjunction with an Office of the Secretary of Defense Project Staff Report, "Contract Support Services," Volumes I and II, 31 March 1965, hereafter referred to as the Moot Report.

²ASPR 1-201.13.

³ASPR 22-101.

Service contracts run the gamut from very large to very small and from very difficult and complex to very simple. ASPR 22-101 lists 22 functional areas where the use of service contracts may be appropriate. The areas include such dissimilar ones as:

- Maintenance, overhaul, and repair of supplies, systems, and equipment
- Expert and consulting services
- Mortuary services
- Housekeeping and base services
- Research and development services
- Data processing
- Engineering and technical services
- Stevedoring

By way of example, the Air Force's Eastern Test Range is operating under a service contract in excess of \$100 million per year; in contrast, many base custodial service contracts run below \$10,000 per annum as, in fact, do the great bulk of all service contracts.

It may be helpful to indicate briefly the magnitude of annual service operations in the Department of Defense. As stated in the Moot Report, for Fiscal Year 1965, :¹

<u>Service Operations</u>	<u>Annual Cost (In Millions)</u>	<u>Method of Performance</u>	
		<u>In-House</u>	<u>Contract</u>
Equipment Repair, Rebuild	\$3,913	73%	27%
Operation & Maintenance of Facilities	869	38%	62%
Housekeeping Services	775	44%	56%
Storage	773	99%	1%
Transportation Services	789	32%	68%
All Other	<u>916</u>	<u>2%</u>	<u>98%</u>
<u>Total</u>	\$8,035	57%	43%

The support service area represents an annual cost of \$8 billion. Approximately \$4.5 billion of these services are performed within the Defense establishment, while \$3.5 billion are contracted out to private industry. Almost one-half of the total is expended for depot level maintenance of equipment, only 27% of which is performed by contract.

¹Moot Report, op. cit., p. 11.

The annual manpower devoted to support services is indicated by the following data:¹

<u>Fiscal Year 1967</u>	
<u>Number of People</u>	
Contract	155,401
In-house	<u>512,472</u>
total	667,873

C. STUDY SCOPE AND METHOD

1. Task Assignment

This reconnaissance study was requested by the Assistant Secretary of the Army for Installations and Logistics as the result of problems experienced on some of the Army's larger service contracts. The primary difficulty appeared to pertain to the selection of the successful offeror among competing contractors for award of a cost-reimbursement service contract, where technical considerations rather than cost considerations were paramount. The Army was having difficulty defending its

¹Back-up material prepared by the Directorate for Contract Support Services, OASD (I&L), for a presentation to the Congress of the United States, Tab D, March 1968; data taken from the FY 1967 inventory of commercial/industrial activities.

selection of contractors in some of these cases to the General Accounting Office. The result was that some of the contracts were recompeted before they otherwise would have been. These cost-reimbursement contracts were for such services as:

- Logistics and base support for an island missile range and test site.
- Field and organizational level maintenance for a fleet of training helicopters.
- Overhaul of a fleet of helicopters.

Consequently, the Assistant Secretary of Defense for Installations and Logistics requested LMI to conduct a reconnaissance study of service contract methodology. The task order did not limit the study to the Army problems, although they were to be the major concern. The task order specified that LMI would:

- Review DoD procurement policies and procedures for service contracts.
- Review criteria which determine the type of contract to be used.
- Identify the major problems that may confront a contracting officer in the procurement of services.
- Review the activities of the military departments in their use of service contracts.
- Evaluate alternative criteria and processes.

Although the task order did not list the items which were to be excluded from the scope of the study, there were some subjects with which we were not to be concerned. First, the question whether a specific support service should be performed within the DoD or by industry was not within the scope of the study. Second, the question whether a service contract is to be characterized as one for "personal" as opposed to "non-personal" services was not to be included. Third, formally advertised or firm fixed price negotiated contracts were not to be a primary concern. Our emphasis was to be upon the cost-reimbursement type of service contract.

2. Conduct of Study

Although our major effort was on certain Army cost-reimbursement service contracts, we also studied other types of contracts and service contracting in the Navy and Air Force.

We completed the investigative and analytic effort under this project within two months. We did not make an exhaustive analysis of a large sample of service contracts. We believe, however, that it is unlikely that additional study would have resulted in significant differences in our recommendations. Generally, a similar pattern and trend seemed to recur in the contracts we studied and in the views of the people we interviewed.

Appendix B is a listing of the organizations we visited. At the majority of these locations, we discussed local problems relating to service contracts and reviewed typical service contracts. We usually reviewed the complete contract files, including all available source selection material. Technical personnel, who generate the purchase request and work statement for service contracts, were contacted. At several installations, contractor personnel were also interviewed.

LMI would like to express its appreciation for the cooperation and assistance of the military departments in the conduct of this reconnaissance study, particularly for their quick reaction to our requests for visits and information. The report concentrates on problem areas and does not discuss the fine work that is being done in the field procurement offices.

II. MAJOR SERVICE CONTRACT PROBLEMS

A. MAJOR FINDINGS

The DoD generally uses the same procurement methods when contracting for services as when contracting for supplies. With relatively minor exceptions, the policies and procedures in ASPR are applicable to both areas. For this reason, some of the service contract problems are also applicable to supply contracts. Therefore, solution of some of the service contract problems may provide relief in corresponding supply contract problem areas. We concentrated on specific service contract problems, however.

This section summarizes the major problems that the Department of the Army encounters when contracting for services, particularly for some large dollar value service contracts. The selection of the successful offeror among competing contractors for award of a cost-reimbursement service contract was the primary difficulty in these cases. Technical considerations, rather than cost considerations, were the principal factors used in the evaluation of the contractors' proposals. In some cases, the Army had difficulty defending its selection of a contractor when the award was protested to the General Accounting Office.

LMI's reconnaissance study indicated that the Army's difficulty in gaining acceptability can be traced to weaknesses in both its procurement process and its review procedure.

The causes of the Army's primary problem may be summarized as follows:

- There has been an inappropriate placement of the contracting authority for some service contracts. This has resulted in procurement problems which are caused by a lack of experience and specialized knowledge in specific service areas on the part of the contracting officers.
- The source selection and review process is inadequate primarily because of the lack of criteria for evaluation of contractors' proposals. Inappropriate organization for source selection and a lack of uniformity of approach contribute to the difficulty.

While the above problems were generally unique to the Army, it appears that some of the recommended actions would also improve service contracting in the Departments of the Navy and the Air Force.

- LMI found that there is a minimum of feedback of information throughout the DoD on the more successful methods and techniques used on service contracts. Hence, we concluded that in addition to the contracting and review deficiencies which are organizational and "people problems," there is a basic weakness in the failure to recognize the different categories of support services in organizing for procurement and in establishing criteria for evaluation of proposals.

B. DISCUSSION OF PROBLEM AREAS

1. Inappropriate Placement of Contracting Authority

In the Navy and Air Force, authority to enter into service contracts is usually reserved to major headquarters, i.e., systems commands or large regional procurement organizations such as Navy Purchasing Offices or Air Materiel Areas. In contrast, the procurement of some large Army service contracts is effected by local posts or numbered headquarters units. Procurement personnel at these Army installations are generally not as familiar with complex source selection procurements as are the personnel at the Air Force and Navy regional buying offices or Army systems commands buying offices.

It appears to LMI that a different organizational placement of the contracting authority for some of these Army service contracts could reduce the severity of the Army's problems. Some local posts, camps, and stations should probably not have authority to contract for particularly complex services, regardless of the dollar value of the proposed contract. A strong argument can also be advanced for a greater centralization of the procurement of all non-price competitive service contracts within the Department of the Army. The fact that a service is to be performed at a specific post does not necessarily justify placing the contracting authority at that location.

Two examples illustrate the differing practices now employed by the military departments in contracting for services.

- Example A: The Air Force has a support service contract for the operation of one of its undergraduate pilot training bases. The base commander reports to the Air Training Command (ATC) which, in turn, reports to the Chief of Staff of the Air Force. In 1960, a decision was made to test the feasibility and cost effectiveness of letting a contractor run the base and perform organizational and field level maintenance on the fleet of training aircraft, in lieu of Air Force civilians or military personnel. As this was a unique procurement, Headquarters, Air Force Logistics Command (AFLC) determined that the local Air Materiel Area at San Antonio (SAAMA) should do the procurement on the contract, not the air base and not Headquarters ATC, which is also located near San Antonio. The contracting officers at SAAMA were experienced in novel, complex procurements, whereas the contracting officers at the base and ATC were not familiar with complex negotiated procurement actions. SAAMA successfully negotiated the support service contract and later a similar contract at another Air Force base. The history of the first contract is as follows:

FY 1960 - CPPF
FY 1964 - CPIF
FY 1967 - FPIF

Only now after movement from the cost-reimbursement environment to the fixed-price area are there plans under way to turn the procurement responsibility back to ATC.

On the other hand, the Army's Aviation Center and School has a very similar contract for operation and maintenance of its flight program. There is a high correlation between the responsibilities of the contractor at the Air Force base and the contractor at the Army post. The history of this Army contract is as follows:

- Before 1956 - CPFF - procured locally
- 1956 - CPFF - procured locally (change of locations of the school)
- 1964 - CPIF - procured locally.

This contract has been the source of many problems, according to Army officials. In contrast, the Air Force does not and has not considered its contracts for the air base to be a problem.

Another case which illustrates the problem with respect to the placement of procurement authority may be helpful.

- Example B: The military departments procure contractor engineering and technical services (CETS) by a wide variety of methods. The requirement for these types of services comes from the introduction of new, complex weapons, equipment, and systems into the inventory of the Department of Defense. These hardware items force the transmittal of technical know-how from producer to DoD personnel. They generally force the continuation of technical support and communication between the manufacturer and the DoD personnel until the

military department becomes able to maintain and operate the systems. Contractor engineering and technical services consist of:

- Contract plant services (CPS),
- Contract field services (CFS), and
- Field service representatives (FSR).

These contracts are usually sole source.

We believe that the techniques used by the Air Force for procurement of CFS and FSR have considerable merit and that the other military departments should study them to determine the advisability of adopting similar techniques.¹ The significant feature of the Air Force's procedure is that there is a single point of procurement for all Air Force CETS contracts. This office is located at Headquarters, Wright-Patterson Air Force Base, Ohio, in the Technical Services Branch (EWPT). All requirements for CFS or FSR are routed from the base through the respective major commands (TAC, SAC, MAC, etc.) to the cognizant air materiel area (for FSR) or Hq USAF (for CFS). Finally, after coordination and consolidation of requirements, they are routed to AFLC where the purchase request is cut and sent to EWPT. EWPT buys the total Air Force requirements.

¹See Air Force Manual (AFM) 66-18, 15 August 1966.

The advantages of this technique are many. There is a single point of contact which procures the total needs of the Air Force for any given contractor. The Government is in a unique bargaining position and can take advantage of quantity discounts. Further, the labor rate negotiations are conducted by one government representative for the total output of the respective contractors.

It was reported to LMI that there are over 32 locations in the Army that procure CFS and FSR services. In the Navy, reportedly there are eight locations which procure these services. The probability seems quite high of achieving advantageous rates through consolidated requirements and of reducing the possibility of inequitable rates for like skills in the same geographic area for the same contractor, through adoption of the Air Force method. Since the user would still determine his own requirements, there would be no significant infringement upon command prerogatives.

LMI concluded that one of the reasons the Air Force and the Navy have fewer problems with service contracting than the Army is that the former have placed the authority to contract for such services with experienced procurement personnel in major commands or buying offices, while the Army has delegated such authority to a lower level. We also concluded that both the Army and Navy could benefit from a review of their methods of procuring contractor engineering and technical services to determine if a greater centralization of this function may be desirable.

Recommendation No. 1

The Department of the Army should review its delegations of authority to contract for services to determine the feasibility of assigning such authority with respect to large, complex service contracts to organizations which possess the most experience and expertise in such contracts.

Recommendation No. 2

The Departments of the Army and the Navy should review their methods for procuring contractor technical and engineering services to determine if a greater centralization of this function would be desirable.

2. Inadequate Evaluation of Contractors' Proposals for Source Selection

The Army's difficulty in defending and supporting certain source selections is caused primarily by the use of inconsistent criteria for the evaluation of proposals. The lack of a rational, uniform basis for selecting one proposal out of many proposals leads to confusion on the part of both the unsuccessful bidders and the Government authorities to whom they protest.

The deficiency in criteria for proposal evaluation is primarily the result of inadequate central guidance. Lacking central guidance, each reviewing authority establishes its own criteria. The tendency of some Army procuring activities to over-organize for source selection further complicates the problem in that various local boards often establish criteria on a one-time basis for each procurement.

a. Organizing for Source Selection

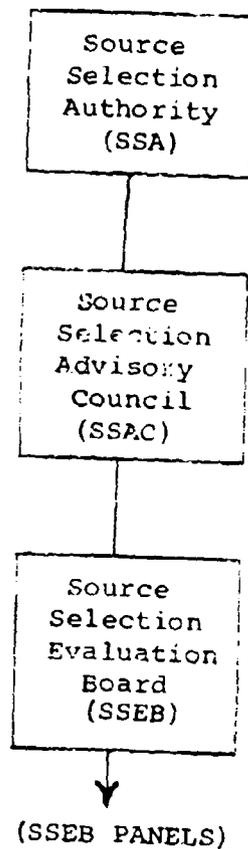
DoD Directive 4105.62, "Proposal Evaluation and Source Selection," establishes objectives, principles, and policy for the evaluation of proposals and the selection of contractual sources:

Proposal evaluation and source selection in accordance with this directive shall be conducted:

1. On each new production system/project proposed contract estimated to require in excess of \$100 million except where the award is to be made solely on the basis of price competition.
2. On each new Operational System, Engineering or Advanced Development proposed contract estimated to require in excess of \$25 million. For those systems/projects on which a Project Definition Phase (PDP) is required. . . the provisions of this directive shall apply both to the final PDP proposals and to the proposals for Phase II.
3. On other specific systems/projects as the Head of a DoD Component may designate.

This directive is applicable to a very limited number of procurements, and rarely, if ever, to service contracts.

DoD policy establishes three levels of organizational responsibility in the source selection process:



All the military departments have implemented the DoD directive with their own regulations. Army Regulation (AR) 715-6 established the same policies for large Army procurements. The Army Materiel Command (AMC) has written a draft supplement to the AR and has prepared AMC Pamphlet 715-3, "Proposal Evaluation and Source Selection," a guide to the systems commands. A new version of this guide is in final draft form. Thus, the large dollar value procurements are quite well covered.

AMC reports that the systems commands and the contractors have been well satisfied with the results of these formalized techniques. The number of protests on procurements falling under the scope of the DoD directive has been minimal.

For procurements of a lesser dollar value, AMC Procurement Instruction (AMCPI), Sections 1-302.81 and 30-201, requires the buying commands to prescribe policies, uniform procedures, and responsibilities for the establishment and operation of a solicitation review board (SRB) and a board of awards (BOA). The application of these boards to specific procurements is required by the AMCPI; it is applied quite frequently to contracts for services within the Army Materiel Command.

Some of the Army's buying commands under AMC have gone beyond the requirements of AMCPI and have established additional boards to assist the command in source selection. For example, at White Sands Missile Range, a part of the Test and Evaluation Command, the following organizations contribute

to proposal evaluation and source selection of proposals received by the local procurement office:

- Commanding General or Award Approval Authority
- Contracting Officer
- Board of Awards
- Source Selection Advisory Council
- Source Selection Board
- Procurement Evaluation Planning Committee
- Solicitation Review Board

There is an inconsistency in the Army's basic policy of avoiding costly source selection procedures on actions that are not relatively large, and the practice of some Army components of adopting procedures which appear to be beyond the DoD requirement.

Army procuring activities, not under the AMCPI jurisdiction, have generally followed a less rigorous approach toward organizing for source selection. For example, one Army post has created a single source selection board on a permanent basis. This board coordinates all selection activities, in lieu of three or more groups at some AMC activities.

Recommendation No. 3

The DoD should publish guidance for proposal evaluation and source selection which will provide suggested guidelines to the military departments on the best organizational arrangement to employ for various procurement actions by dollar value, and by type and complexity of procurement action.

It should basically be a guide to the military departments but would contain one requirement, i.e., the use of consistent terminology. The guide would continue the policy of allowing maximum flexibility to the head of the procuring activity with respect to organizing for source selection. One section of the guide could concentrate on organizing for source selection for service contracts. In the event the DoD should decide not to prepare a DoD-wide guide, the Department of the Army should prepare a uniform, Department of the Army-level guide on organizing for source selection.

b. Criteria for Evaluation of Contractors' Proposals

At the outset of this reconnaissance, Army procurement personnel stated that the guidance in ASPR 3-805.2 for the selection of contractors for negotiation and award was not considered adequate. In the absence of central guidance, each reviewing authority establishes its own. As a result of the use of numerous organizations, boards, and committees to accomplish source selection in the Army, there has also been a proliferation of proposal evaluation criteria.

As we studied contract files in the field, several patterns emerged with respect to evaluation criteria.

The RFP generally requires the contractor to submit either two or three separate documents to be evaluated:

- Technical and cost sections, without a management section, or
- Technical, management, and cost sections.

Usually specific criteria were applied to each section (except for cost) and a score was developed for each proposal. Sometimes the criteria were applied by point scale, for example, from 1 to 10 points; in other cases, the application was on an acceptable basis only.

The charts in Appendix C list typical evaluation criteria used for source selection on service contracts. These data indicate that some field organizations of the military departments have developed and are successfully applying specific evaluation criteria to cost-reimbursement service procurements. We found that each procurement is usually considered a unique case by the buying organization, insofar as proposal evaluation criteria are concerned. Even for similar tasks at the same site in the same military department, different evaluation criteria were being applied, depending upon the source selection board or committee.

The workload of source selection review authorities can be reduced by first screening out those proposals which are not within the "competitive range" and hence need not be considered.

ASPR 3-805, "Selection of Offerors for Negotiation and Award," states in part:

After receipt of initial proposals, written or oral discussions shall be conducted with all responsible offerors who submit proposals within a competitive range, price and other factors (including technical quality where technical proposals are requested) considered. . . .
/emphasis supplied/

ASPR 3-805 was an amendment caused by a similar provision in Public Law 87-653. One authority notes:

Many unsuccessful offerors have become familiar with this amendment to the Armed Service Procurement Act and numerous protests have been lodged with the Comptroller General for failure to comply with it. One of the most important lessons learned from these protests has been that the term 'within a competitive range' is not restricted to a range of prices, but that it also includes the concept of technical range. This latter concept is an extremely difficult one to define.¹

The competitive range differs for each procurement. As stated in Comptroller General Decision No. B-158042 "the most acceptable and objective way of handling this

¹G. W. Markey, "Let's Discuss Discussions," Headquarters Naval Material Command Procurement Newsletter, March-April, 1968.

difficult problem would be to provide in each RFP a formula for determining which firms will be considered to be within a competitive range."

LMI observed that a few field procurement offices have defined the competitive range, both conceptually and on individual procurements. Most field offices, however, continue to negotiate with all offerors, a time consuming, expensive process. We believe that the lack of adequate guidance on the competitive range concept may have detracted from efforts to increase efficiency at some DoD procurement offices.

Despite the difficulty of definition, it is essential that guidance on the applicability and use of the competitive range concept be developed. Language for inclusion in RFPs is needed, preferably on a class-by-class basis. Further review and analysis of the guidance issued by the Comptroller General might be productive. Examples of correctable and non-correctable proposal deficiencies, again on a class-by-class basis, would be helpful.

LMI found that some installations in the military departments have prepared guides, such as:

- Guide to Technical Evaluation of R&D Proposals, published by the R&D Procurement Office, U. S. Army Mobility Command, Engineering R&D Laboratory, Fort Belvoir, Virginia.

- Instruction Pamphlet for Source Selection Boards, published by the Purchasing and Contracting Directorate, White Sands Missile Range, New Mexico.
- Guide for Technical Evaluation, published by the Air Force Western Test Range, Air Force Systems Command, Vandenberg Air Force Base, California.

These documents are rather comprehensive and assist source selection personnel in their development of proposal evaluation criteria. Similar guidance should be available to all installations, and particularly to technical personnel who participate on the proposal evaluation team.

Recommendation No. 4

The DoD should develop specific guidelines for the technical evaluation of proposals by classes of services. (A later recommendation presents a technique which would facilitate publication of these guides.) The military departments should also require that each procuring installation prepare and maintain a general guide for the technical evaluation of proposals.

Recommendation No. 5

The ASPR should be revised to refine and increase the usefulness of the competitive range concept. Additional guidance for ASPR 3-805, RFP language, Comptroller General guidance, and examples of correctable and non-correctable proposal deficiencies are also needed.

3. The Need for Specialization in Dealing with the Various Categories of Service Contracts

The many dissimilar types of support services were mentioned in the "Introduction" to this study. A significant portion of the source selection problems and contract administration problems associated with service contracts could be reduced if major support service functions were categorized into various functional classifications. The accumulation of factual information on specific service functions and a consequent increase in contracting expertise would be the principal benefits from the creation of these categories.

In carrying out this reconnaissance study, LMI found that there are many significant differences among the methods employed by the three military departments to contract for support services. Some methods have proved more successful than others. We found that there is a minimum of feedback within the DoD on the more successful methods and techniques. For example, the Navy has gone to great lengths to develop a Navy-wide instruction for mess services, which contains schedules, specifications, and guidelines, but this information will not necessarily be made available to or utilized by Army or Air

Force units. Each Army command will presumably develop its own guidelines. We found there were other differences in types of contracts employed for similar services, in source selection procedures, and in incentives utilized, to name a few.

To put the proper management emphasis on these problems, LMI believes that there is a need for the DoD to group services into categories or classes, to focus upon similar approaches, and to determine inherent differences that call for special contractual treatment.¹ We also propose that the classes or categories, by line item, be divided among the military departments in an approach somewhat similar to the single commodity manager concept. For example, under this concept, one line item might be photographic support services, i.e., the contractor uses Government-furnished photographic equipment to film, record, or tape special missions or launches. Assume that the Air Force, being the largest single user of this service, were assigned responsibility as DoD support service advisor or manager for the service.

If the Army or Navy then generated a new requirement for photographic support services, they would have an assured advisor of considerable expertise to turn to for contractual advice. The contractual results, type of contractual instrument used, performance parameters, work specifications, proposal evaluation criteria, and all other matters pertaining to photo-

¹Special credit is extended to Rear Admiral (then Captain) Joseph L. Howard, SC, USN for the ideas contained in his paper, "Government Contracting for Services," DoD Logistics Research Conference, Warrenton, Virginia, 26-28 May 1965, pp. 5-34.

graphic support service contracts within DoD would be assembled by this single service advisor or manager. The significant difference from the single commodity manager concept would be that the Air Force, in such a case, would not write the contract, determine the requirements, or take any other procurement prerogatives away from the Army or Navy. The Air Force would simply be the most knowledgeable source for this particular service.

Similarly, the Army could be assigned the role of line item manager for mess operation by contract, with the Navy and Air Force continuing to write and administer their own mess contracts.

This single DoD point of contact could also be responsible for the development of cost analyses models for in-house versus contracting-out studies, which would reduce the total workload in all of the military departments. DoD Instruction 4100.33 requires these comparative cost analyses for each "new start," as defined in the instruction, and every three years for existing commercial/industrial activities of the Government. The results of these studies provide analyses which enable the Government to decide where and how the service should be performed.

If major support service functions were categorized into various functional classes and assigned to the respective military departments, this cost analyses workload would be reduced. More expertise would be brought to each specific functional area. Such expertise should, in turn, lead to more complete and detailed cost analyses. The more detailed the cost

analyses performed for a given service area are, the better the contract which can be written. The deeper the military departments review the sub-tasks of a function, determine costs by sub-task, and describe the requirement, the deeper the procurement officials can go into negotiations or ultimately achieve a firm fixed-price contract through formal advertisement.

Recommendation No. 6

The DoD should categorize services into discrete functional classes and assign specific classes of services to the military departments, which will act as the single DoD advisor on assigned classes.

The military departments will then be in a position to specialize in assigned classes and to accumulate detailed information for use by others in writing and administering service contracts. Work specifications, type of contract used, incentives used, and cost histories by sub-task would be maintained by the single point of contact and provided to requiring users on request. The single DoD advisor or manager would not write or administer contracts for the other military departments under this recommendation.

4. Other Areas for Improvement of Service Contracting

a. Lack of Advance Planning for Service Contracts

Several procurement officials in the Army stated that one of the most serious deficiencies within their system for service contracting was the lack of advance procurement (AP)

planning. They said that in some cases they have been able to keep communications open between technical and procurement personnel. In other cases, they point out that each new procurement, or even a reprocurement of a support service, is accomplished on a crash basis. LMI found that the exchange of information between technical and procurement personnel often ends after the award of a new contract. Procurement officials point out that it is after the award of the contract that they should start planning for the next contract for the same task, hopefully with better and more definitive work descriptions and cost histories. Such planning requires continuous dialogue between technical and contracting offices. It is here that the breakdown appears to occur.

ASPR Section 1, Part 21, "Advance Procurement Planning," defines AP planning as ". . . the means by which the efforts of all personnel responsible for the procurement of defense material by contract are coordinated as early as practicable. . . ." The term defense material does not include our subject, services. The same section, under the sub-paragraph entitled, "Applicability," states the following:

While the AP planning provided for herein applies to the more complex and costly programs to procure hardware developed and produced to satisfy the need for modern military equipment, its principles may also be adapted to the procurement of all supplies and equipment.

Thus, contracting for services is apparently not considered by some procurement activities to be within the scope of ASPR's guidance with respect to AP planning.

Many installations have automated their procurement planning systems, including those for support service contracts. For example, both the Mobility Equipment Command (MECOM) and the Test and Evaluation Command (TECOM) of the Army have automated systems. The next page is a copy of one of these reports, a procurement planning and status report, which lists 29 events along with the planned date, the actual date, and the reforecast date. Another useful device, not included herein, is a sequence chart or matrix which provides calendar days' output for specific procurement actions by dollar value. These tools have been used successfully for service contracts by some of the DoD buying offices, even though ASPR is silent on the matter. Of major concern, and probably an underlying cause of some service contracting difficulties, is that some DoD installations are much further along in the development and use of such planning aids than other installations.

b. Duration of Performance Under Support Service Contracts

Many procurement agencies within DoD now use a three year policy in the purchase of services. A contract is awarded to a competitively selected contractor for one year, with an option to the Government to continue the contract for two additional fiscal years if the contractor has successfully performed during the initial period.

Within the Army, the three year policy is in existence at several systems commands under the Army Materiel Command. For example, the Test and Evaluation Command has had a three to five year renewal plan for service contracts since 1964. The Army's Aviation Systems Command also has a three year policy. The Army does not, however, have an overall policy on duration of service contracts.

RCS:

PROCUREMENT PLANNING AND STATUS REPORT

PROCUREMENT PLAN NUMBER:
ITEMS/SERVICES:

CONTRACT SPECIALIST:
ACT PROC IDEN:
COR/TECH REP:

DATE:

1968 FUNDING ACTION TYPE:

EST AMT: \$

<u>NO.</u>	<u>EVENT</u>	<u>PLANNED DATE</u>	<u>ACTUAL DATE</u>	<u>REFORECAST DATE</u>
1	Secretarial D & F Data Due			
2	Secretarial D & F to Command			
3	Development of Requirement Complete			
4	Activity Evaluation Plan Start			
5	Activity Evaluation Plan End			
6	Secretarial D & F Received			
7	PR Due			
8	Source Selection Adv Council Start			
9	Source Selection Adv Council Eng			
10	Solicitation Review Board			
11	Plan to Proposal Comm			
12	Plan From Proposal Comm			
13	Issue Solicitation			
14	Symposium			
15	Bid/Offe: Due			
16	Cost/Price Analysis Start			
17	Evaluation of Bid/Offer Start			
18	Evaluation of Bid/Offer End			
19	Issue 2nd Step 2 St FA			
20	Open 2nd Step 2 St FA			
21	Cost/Price Analysis End			
22	Negotiation Start			
23	Negotiation End			
24	Contract Prep/SSAC-Briefing Complete			
25	Board of Awards			
26	Request for Contract Approval			
27	Contract Approval Received			
28	Congressional Notification			
29	Award			

The Air Force also has implemented a three year policy, but on a somewhat broader scale. The Air Force Logistics Command, in an internal memorandum of 2 March 1964, stipulated the use of a three year policy for AFLC service contracts. Since the delegation of procurement authority flows through AFLC to major Air Force commands, the use of the three year policy gets much wider application than AFLC. To illustrate, the Military Airlift Command Commander requests AFLC's permission if he wants to use the AFLC three year policy on contracts that exceed \$350,000 per year. A strong case has recently been presented within the Air Force to move this policy to the Air Force Headquarters level and thus achieve even broader use of the three year rule. A similar argument may be advanced for centralization of this procurement policy at the departmental level in the Army.

Procurement personnel at AFLC Headquarters stated that the present three year policy may become more effective if extended to five years, particularly on overhaul contracts. They report serious difficulties with first year performance by all contractors on new aircraft systems. (They do not mean "new" in the sense that the system recently entered the Air Force inventory, but "new" in the sense that the contractor has not worked on the aircraft before.) Contractors' first year performances are usually characterized as somewhat disappointing, and by the time the contractor is fully acquainted with the system at the three year mark, it is time to recompute the procurement. Thus, they believe a longer period of contractual performance may be the answer.

LMI found in a previous study that the use of option provisions which extended service contracts for two or more years attracted new sources, increased the competition among all bidders, and resulted in a 20-30% savings over prior years' contract costs.¹

In view of the benefits which appear to accrue from use of options over a long period of time in service contracts, LMI believes that a DoD policy endorsing use of three to five year contracts would be appropriate.

Recommendation No. 7

The DoD should review its policy with respect to the appropriate duration of performance under support service contracts to determine the feasibility of adopting a permissive three to five year rule.

c. Personal Service Contract Limitations

Although we did not study "personal" versus "non-personal" service contract considerations in depth, we observed that this matter was of considerable concern to some DoD and industry personnel.

¹LMI Tasks 8A and 65-11, loc. cit.

Their concern stems from Civil Service Commission (CSC) opinions¹ which questioned the legality of certain Government service contracts on the ground that the services to be performed by the contractors' employees were "personal" services. The general rule is that "personal" services are to be performed by Government employees, unless specific authority is granted to use contractor personnel.²

One result of those opinions appears to have been an undesirable regression in the type of contract employed for some support services, because of a fear of after-the-fact criticism. We are not sure if this regression has been widespread, but it has occurred at some installations.

Specific examples of this regression in contract type follow. At a major proving ground for one military department, a contract for operation of an airfield was a fixed-price-incentive contract two years ago. Now, it is a cost-plus-fixed-fee contract, without a significant change in scope of work. At another large installation, three contracts were competed under two step, formally advertised procedures; now, the same contracts are cost-plus-award-fee, again without a significant change in work. The primary reason for these regressive steps apparently was the difficulty of placing contractual language in the contract which would assure commanding officers, technical personnel, and contracting officers that there would not be a backlash of criticism on the ground that the DoD was contracting for personal services. Therefore, the

¹Opinion of the General Counsel, Civil Service Commission, July 7, 1964; Opinion of the General Counsel, Civil Service Commission, October 7, 1967.

²ASPR 22-102.1.

procuring office revised the statements of work and moved the contract form from fixed-price to cost-reimbursement to avoid possible repercussions.

Another example of contracting problems stemming from limitations affecting personal service contracts is a rigorous local review of all service contracts at some installations, including a disproportionate use of proposal evaluation and source selection boards and committees. By and large, such review may be justified, but not if carried down to very low dollar value contracts, and not if it results in an undesirable dilution of the responsibility and authority of the contracting officers. We observed this to be the case at some installations and sometimes questioned the benefit to the Government from these reviews for relatively low dollar-value contracts.

Prior to the two CSC opinions, contracting officers had a rather free hand with respect to the use of some desirable procurement techniques in this area; i.e., two step formally advertised procedures and specifying minimum personnel quantities by skill level. Since those opinions, contracting for services has become more complex and rigorous. Commanding officers, base legal officers, and contracting officers are having difficulties with these problems. In their minds, they are largely unsettled issues.

APPENDIX A

LMI TASK ORDER 69-9

COPY

APPENDIX A

ASSISTANT SECRETARY OF DEFENSE

Washington, D. C.

Installations and Logistics

DATE: 5 December 1968

TASK ORDER SD-271-101
(TASK 69-9)

1. Pursuant to Articles I and III of the Department of Defense Contract No. SD-271 with the Logistics Management Institute, the Institute is requested to undertake the following task:

A. TITLE: Reconnaissance Study of Service Contract Methodology

B. SCOPE OF WORK: The purpose of this task is to conduct a reconnaissance to review DoD procurement policies and procedures for services contracts. The effort will concentrate on a review of criteria which determine the type of contract to be used, on methods to evaluate proposals, and on selection criteria and processes.

The effort will include the following:

(1) a review of existing criteria to determine the type of contract to use, i.e., cost plus, fixed price, etc.

(2) identification of pertinent problems that may confront a contracting officer in the procurement process for services.

(3) a review of the activities of the military departments in their use of services contracts.

(4) an evaluation of alternative criteria and processes.

2. SCHEDULE: An informal memorandum report will be submitted by 1 April 1969.

/S/ Thomas D. Morris

ACCEPTED /S/ William F. Finan

DATE 5 December 1968

APPENDIX B

LIST OF ORGANIZATIONS VISITED

LIST OF ORGANIZATIONS VISITED

DEPARTMENT OF DEFENSE

Office of the Secretary of Defense

Contract Support Services Directorate
Procurement Policy Directorate

Department of the Army

Procurement Policy and Review Directorate
Army Materiel Command Headquarters
Aviation Systems Command Headquarters, St. Louis, Missouri
Mobility Equipment Command Headquarters, St. Louis, Missouri
Test and Evaluation Command Headquarters, Aberdeen, Maryland
White Sands Missile Range, New Mexico
Fourth Army Headquarters, Fort Sam Houston, Texas
Army Aviation Center, Fort Rucker, Alabama

Department of the Navy

Naval Materiel Command Headquarters
Naval Air Systems Command Headquarters
Naval Ship Systems Command Headquarters
Naval Supply Systems Command Headquarters
Navy Purchasing Office, Los Angeles, California

Department of the Air Force

Headquarters, United States Air Force
Air Force Logistics Command Headquarters, Dayton, Ohio
San Antonio Air Materiel Area, Kelly Air Force Base, Texas
Sacramento Air Materiel Area Headquarters, McClellan Air
Force Base, California

Department of the Air Force (continued)

Military Airlift Command Headquarters, Scott Air Force
Base, Illinois

Twenty-Second Air Force Headquarters, Travis Air Force
Base, California

Air Force Systems Command Headquarters

Eastern Test Range, Patrick Air Force Base, Florida

Western Test Range, Vandenberg Air Force Base, California

INDUSTRY ASSOCIATIONS

National Aerospace Services Association

National Council of Technical Service Industries

CONTRACTORS

Hawthorne Aviation, Inc.

Lear Siegler, Inc.

Page Aircraft Maintenance, Inc.

Technicolor, Inc.

APPENDIX C

TYPICAL PROPOSAL EVALUATION CRITERIA FOR
COST-REIMBURSEMENT SERVICE CONTRACTS

TYPICAL PROPOSAL EVALUATION CRITERIA FOR
COST-REIMBURSEMENT SERVICE CONTRACTS

Army - \$25 million contract for a total facility management contract	Air Force - \$3 million contract for operation & maintenance of a technical facility	Air Force - \$2 million total facility contract
<u>Technical Evaluation</u> 100%	<u>Management Approach</u> 70%	<u>Operation and Maintenance</u> 600 Points
Experience 25%	Organization 25%	Supply operations 80
Quantity and mix of personnel 25%	Staffing 20%	Civil engineering 120
Qualifications of personnel 25%	Phase-in 10%	Aircraft and marine operation and maintenance 180
Technical approach (No Management Section)	Data management 10%	Other maintenance 100
	Training 5%	Transportation 60
	<u>Qualifications of Bidder</u> 20%	Quality control 60
	Previous related experience 10%	<u>Management</u> 150
	Qualifications of key people 10%	Financial management 70
	<u>Other Factors</u> 10%	Management 50
	Recognize local labor situation 3%	Phase-in plan 30
	Accommodation to local wage environment 3%	<u>Basic Support</u> 250
	Understand interface relations 3%	Security & law enforcement 50
	Security 1%	Communication 30
		Housing & mess 50
		Commissary services 40
		Revenue production activities 40
		Recreation activities 40
		<u>TOTAL</u> 1000

TYPICAL PROPOSAL EVALUATION CRITERIA FOR
COST-REIMBURSEMENT SERVICE CONTRACTS

Army - \$100,000 contract for a single support service task	Army - \$3 million contract for instru- mentation support	Army - \$8 million contract for instru- mentation support
<u>Points</u> 500		<u>Points</u> 26.7
<u>Proposed Approach</u>	<u>General Quality & Respon- siveness of Proposal</u>	<u>Quality & Responsiveness of Proposal</u>
Recommended configura- tion 100	3 sub-factors	Completeness & thorough- ness 5.3
Program cost analysis 100		3 sub-elements 10.9
Recommended test plan 100	<u>Organization & Personnel</u>	4 sub-elements 10.5
Production cost 100	25.6%	
Analysis of opera- tional characteris- tics 50	4 sub-factors	
Technical factors 50		
<u>Company Capabilities</u>		
40		
Capabilities 40	<u>Technical Competence</u>	<u>Organization, Personnel and Facilities</u>
Financial status 30	6.4%	26.3
Facilities 40	5 sub-factors	8 sub-elements
Related experience 40		
<u>Qualification of Key Personnel</u>		<u>Technical Approach</u>
150		47.0
Personnel experience 75		Project planning 30.9
Number of people available 75		4 sub-elements
Fee 100		Project improvement 5.0
Estimated cost 100		Property & supply control 11.1
<u>TOTAL</u> 1000	<u>TOTAL</u> 100%	2 sub-elements <u>TOTAL</u> 100

TYPICAL PROPOSAL EVALUATION CRITERIA FOR
COST-REIMBURSEMENT SERVICE CONTRACTS

Air Force - \$75 million contract for support of technical operation	Air Force \$500,000 contract for single support task	Air Force - \$3 million contract for operation & maintenance for technical task
<u>Points</u> 150	<u>Points</u> 10	<u>40%</u>
Management	Company experience	<u>Technical Qualification of Proposer</u>
Instrumentation operation	Qualification of proposer	Organization & management
Communication	Method	7%
Data	Production	8%
Instrumentation (Detailed)	Manning	10%
Test Plan	Key personnel	15%
Schedule	Environmental maintenance	<u>20%</u>
Safety	Organization	Understand tasks
Engineering Support	Phase-in plan	10%
Logistics	Logistics	3%
Cost	<u>Scale:</u> 0-100 per above element; then apply the indicated weighting factor. Set threshold value for all acceptable proposals. Obtain IFB from all qualified.	7%
<u>100</u>		<u>30%</u>
<u>1000</u>		<u>10%</u>
<u>TOTAL</u>		<u>10%</u>
		Analysis technique
		Method for anticipating problems
		15%
		Presenting results
		5%
		<u>Miscellaneous</u>
		Phase-in plan
		3%
		Security
		1%
		Quality assurance plan
		2%
		Familiarity with work environment
		4%

TYPICAL PROPOSAL EVALUATION CRITERIA FOR
COST-REIMBURSEMENT SERVICE CONTRACTS

<p>Air Force - \$3 million contract for operation of a technical laboratory</p> <p><u>Technical Operations</u></p> <p>5 sub-factors</p> <p><u>Management</u></p> <p>5 sub-factors</p> <p><u>Support</u></p> <p>3 sub-factors</p> <p>(No further data available)</p>	<p>Air Force - \$25 million contract for total facility</p> <p><u>Technical Operations</u></p> <p>5 sub-factors</p> <p><u>Management</u></p> <p>5 sub-factors</p> <p><u>Support</u></p> <p>3 sub-factors</p> <p>(No further data available)</p>	<p>Air Force - \$25 million contract for total facility</p> <p><u>Technical</u></p> <p>Operation & engineering support</p> <p>Quality of data</p> <p>Maintenance practices</p> <p><u>Non-technical</u></p> <p>Purchasing systems</p> <p>Quality assurance</p> <p>Accounting</p> <p>Supply system</p> <p>Management responsibility</p> <p><u>Contractor</u></p> <p>Labor/wage rate contract</p> <p>Authorized vs. actual manpower</p> <p>Overtime control</p> <p>(No further data available)</p>
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13. ABSTRACT This report examines and discusses a number of general problems in the area of contracting for support services. Most of the study findings and recommendations are applicable for supply contracts as well, since the DoD generally follows the same policies and procedures for procurement of both supplies and services. Briefly, the discussion concentrates on source selection and proposed evaluation problems in contracting for services. The major recommendation of the report is that the DoD categorize services into discrete functional classes and assign specific classes of services to the military departments, which will act as the single DoD advisor on assigned classes. The military departments will then be in a position to specialize in assigned areas and to accumulate detailed information for use by others in writing and administering service contracts.			