Defense Waste & Fraud
Camouflaged As
Reinventing Government

September 1999
# Defense Waste & Fraud Camouflaged
## As Reinventing Government

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Defense Waste & Fraud Camouflaged
As Reinventing Government

EXECUTIVE SUMMARY

Overpriced spare parts horror stories from the 1980s taught us how to prevent fraud, and led to useful reforms. By the 1990s, however, defense industry interests dovetailed with Vice President Gore’s Reinventing Government campaign, and new policies bypassed some of the earlier reforms.

In the name of adopting “commercial” practices, the Administration’s defense Acquisition Reform effort has gone beyond cutting red tape into throwing out important protections against contractor abuse that are needed even in a more commercial environment. For example, a new greatly expanded definition for a “commercial” product has exempted many more purchases from normal oversight.

The problem has predictably begun to appear in the form of more overpriced parts stories:

- AlliedSignal corporation was found to have overcharged the government for spare parts by as much as 618%. The government overpaid on the overall contract with AlliedSignal by 54.5%.

- Prices were inflated by more than 1,000 percent on a variety of spare parts. For example, the Boeing price for a commercially-available $24.72 “spoiler actuator sleeve” was $403.39 – a markup of 1,532 percent. Another contractor charged $714 for an electric bell worth $46.68.

The cause - Acquisition Reform’s new policies, including drastic staff cuts to oversight agencies:

- The AlliedSignal cases provide examples of the government paying more for spare parts under the new “commercial” rules than it paid under the earlier reforms. As the Defense Department’s Office of the Inspector General has noted, the loose definition of commercial items “qualifies most items that DoD procures as commercial items” [Emphasis added].

- A Defense Department Inspector General’s report indicates how adopting commercial practices has come to mean subservience to contractors and blind acceptance of their claimed costs and prices: “contracting officers shall require information ... when necessary to determine price reasonableness for commercial items, but there is a strong DoD [Department of Defense] preference not to use that mechanism and the Government has not asserted its right to have the data.” [Emphasis added.]

- Despite highly favorable dollar returns on taxpayer investment in oversight agencies, many of them have been gutted by personnel cuts. For example, the Defense Contract Audit Agency saves almost $10 for each dollar invested, but staff positions have been cut by 19% from Fiscal Year (FY) 1993 to FY 1997. As of 1998 the Administration scheduled it to suffer a total loss of more than 3,000 staffers – a 44% cut – over the period FY 1990 to FY 2002.
The Administration has pushed defense corporate mergers, at a time when Acquisition Reform has failed to create adequate competition, a key requirement for the government to benefit from commercial markets. As a Department of Defense Inspector General noted, “If anything, the risks may be greater today because there is such market dominance by a few very large suppliers. In this environment, getting cost information and maintaining audit rights is a prudent business practice. Failure to do so will be very costly for the Department and ultimately the taxpayer.” [Emphasis added.]

The solution lies in making use of what we have already learned about preventing contractor abuse:

- Restore meaning to the definition of “commercial.”
  1) Restore the definition of commercial as actual sale of items to the general public, not just to the government.
  2) Restore the definition of commercial to mean substantial sales in a large free market.
  3) Restore the definition of “competitive bidding” to be at least two bidders.

- Clarify that the government can and should still negotiate actively for some commercial items.

- Restore the use of cost or pricing data where prices are not set by a true free market.

- Preserve funding for the auditors, investigators, and independent rule-setting Boards like the Cost Accounting Standards Board.

- Defend the False Claims Act against industry assaults.

- Improve price-based contracting by increasing competition and reversing the trend of mergers leading to fewer competing contractors.

Following Pentagon acknowledgment of “readiness” problems and after the war in Kosovo, defense budgets – and procurement spending – are being increased sharply. For this reason it is especially imperative for us not to forget what we already know about good acquisition reform – there is no need to re-invent the wheel. If we do forget, the budget surpluses the Defense Department is enjoying will quickly be frittered away on overpriced weapons and parts, and the taxpayers’ money will, once again, be wasted.
INTRODUCTION

In the 1980s, as military spending boomed, numerous stories of waste in weapon buying surfaced in the media. The Project on Military Procurement, as the Project On Government Oversight was then known, along with others, brought to light $7,600 coffee makers, $435 hammers, and $640 toilet seats billed by unscrupulous defense contractors. The cases were disturbing because they implied that if such prices were being paid for simple items whose prices citizens understood, the total overcharging for complex weapons as a whole was enormous.

As a result of these revelations, measures were taken to tighten up oversight of defense contractors. Then, in the 1990s, the defense industry counterattacked, arguing that these reforms had gone too far. By 1994, with a Congress hostile to government regulation, and an Administration adopting a particularly accommodating relationship with business, the rhetoric of acquisition “reform” and “reinventing government” was used to justify moving beyond cutting red tape into bypassing key earlier reforms. For example, a new greatly expanded definition for a “commercial” product has exempted many purchases from normal oversight.

The results of these changes have already begun to show, with cases of gross overcharging for spare parts surfacing once again. The cause is an “Acquisition Reform” effort conducted by the Department of Defense (DOD) and supported by some in Congress. Acquisition Reform unabashedly seeks to reduce oversight of contractors and replace it with “trust,” and has dovetailed with Vice President Gore’s “Reinventing Government” campaign. The problem is that by going so far in reducing oversight, the reforms have thrown the baby out with the bathwater, resulting in cases of 618% overpricing again.

We already know how to protect against defense contractor abuses. We have been through many previous rounds of hyped reform initiatives that blew a lot of hot air but did not do much. But pushing the new “Acquisition Reform” too far and bypassing proven checks and balances now could actually make the situation worse - it is leading to de-inventing the wheel, not re-inventing it.

This report first looks at recent cases of defense contractor overcharging. It then examines the elements of Acquisition Reform that have caused the problem in more detail. The report concludes with suggestions for remedies.

THE PROBLEM: PENTAGON WASTE RETURNS

Why We Need Oversight – 618% Overpricing

Evidence of the results of loosening oversight is beginning to surface. A Department of Defense January 1999 report reveals that defense money is again being wasted on spare parts, as it was in the 1980s. In the report by the DOD Inspector General (IG), AlliedSignal corporation was found to have overcharged the government for spare parts by as much as 618%. The government overpaid on the overall contract with AlliedSignal by 54.5%. The irony is that these parts were bought under the
new, much-touted “commercial” price system promoted by the Administration and Congress.

According to the January 1999 investigation by the Inspector General:¹

The government “paid Allied prices that were higher than fair and reasonable in FYs [Fiscal Years] 1996 and 1997 when compared to the noncommercial prices paid to Allied in previous years.” The parts included items such as gearshafts, wheels, nuts, bearings, seals, filters, and valves.

The Defense Department “paid a 54.5 percent premium for commercial parts from Allied”—in other words, were overcharged by more than 50%.

For parts that AlliedSignal did not even make itself, but merely bought from original manufacturers or dealers and then sold to the government, some items were variously marked up by as much as 294%, 325%, and 618%.

The Defense Department paid an even higher average markup in Fiscal Year (FY) 1997 (60.1%) than it did in FY 1996 (45.8%). It appears that in this case an Acquisition Reform “learning curve” is not being realized.

Defenders of the acquisition system argue that the government paid higher prices because the prices included more stocking services— but the Defense Department failed to use the services.

The Defense Department report blacks out the names of specific spare parts that were grossly overpriced. (See p.12 of Appendix A.) Although contractors routinely claim such information is “proprietary,” the real effect is that the public cannot easily find out how much they are overpaying for items they might recognize.

The Inspector General report on AlliedSignal followed 1998 IG reports of overcharging under “commercial” contracts with Boeing and Sundstrand corporations. The earlier reports (see “Acquisition Reform: A Study in Hasty Deregulation,” Project On Government Oversight Alert, October 1997) found that:

Prices were inflated by more than 1,000 percent on a variety of spare parts. For example, the Boeing price for a commercially-available $24.72 “spoiler actuator sleeve” was $403.39—a markup of 1,532 percent.²

Sundstrand billed the government $6.1 million for parts that were worth only $1.6 million.³

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Boeing charged $5 million for parts that were worth $3.2 million in the competitive market. A contractor charged $76 for 57¢ screws. Another contractor charged $714 for an electric bell worth $46.68.

The Inspector General found that higher prices were paid for “commercial” items than had been paid earlier because:

- although Acquisition Reform allowed the Sundstrand items to be purchased under loose “commercial” item rules, in fact “there was no competitive commercial market to ensure the reasonableness of the prices”;
- Sundstrand “refused to provide DLA [Defense Logistics Agency] contracting officers with ‘uncertified’ cost or pricing data for commercial catalog items”;
- items were defined as commercial as long as they were merely “offered for sale, lease, or license to the general public” (emphasis added); and
- in the Boeing case, “contracting officers accepted Boeing commercial catalog prices as fair and reasonable without adequate support for price reasonableness, even when DoD was the ‘primary’ customer procuring significantly larger quantities than other commercial customers and there was no competitive commercial market to ensure the price integrity. The contracting officers made no attempt to exert the leverage that a major customer ought to be able to exert to negotiate significant discounts, as is common commercial practice.”

The DOD IG notes that the loose definition of commercial items “qualifies most items that DoD procures as commercial items” (emphasis added), with the result that:

“This opens up a major loophole for sole-source vendors to charge prices that cannot readily be evaluated for reasonableness. This concern will continue to grow as more companies merge and the aerospace industry becomes more of a sole-source environment.”

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6 Ibid.
Similarly, items under the loose definition can be merely “of a type” sold to the public, rather than a product that actually is sold to the public.

**Acquisition Reform 101**

The widely-promoted “Acquisition Reform” initiative emphasizes buying more products for the government on a “commercial” basis. **Commercial item** purchases bypass many of the protections and oversight put in place to prevent the infamous overcharging by defense contractors that occurred during the defense spending increases of the 1980s. The 1980s reforms included tougher Truth in Negotiations Act enforcement, re-establishment of the Cost Accounting Standards Board, strengthening of the False Claims Act, and passage of the Competition in Contracting Act.

The report on AlliedSignal provides examples of the government paying more for spare parts under the new “commercial” rules than it paid under the old rules. This is the opposite of what Acquisition Reform is intended to achieve. According to the Inspector General, the government “paid higher prices for commercial spare parts on the Allied corporate contract when compared to previous noncommercial prices for the same items.”

Astoundingly, government officials have been sent to training courses on commercial item acquisition run by the defense industry and taught by executives from AlliedSignal and Sundstrand! (See Appendix B.)

Hinting that Acquisition Reform may have gone too far, the Inspector General report noted that if the government could not make commercial buying work as intended in the contract with AlliedSignal, it “will need to revert back to the previous buying practice of negotiating better prices for the spare parts ....”

**A Detailed Study: Getting Good Prices Without Acquisition Reform**

The government offices designing Acquisition Reforms have done precious little analysis of the actual effect of Acquisition Reform so far. Fortunately, a military officer undertaking an academic study has completed one of the few in-depth analyses to date comparing prices paid by commercial firms and by the government.

This study by Major Joseph Besselman examined a large number of DOD electronic, engine, and software commodity purchases. (See Appendix C.) In contrast to the conventional wisdom that “commercial” prices are lower than what the government has obtained in the past, the report found that when the government is allowed to negotiate prices, and when the government has access to the manufacturer’s cost data, it performs better than the commercial sector – obtaining even

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lower prices than commercial firms making similar purchases:

“Overall, weighted price difference analysis reveals the DoD outperformed the average commercial sector organization using commercial wholesale prices by 41.5 percent.”

This key finding even held up when the government’s costs of employing extra oversight and contracting people to gather cost data and negotiate prices is included:

“This research’s case studies provide evidence that cost and pricing data enhances the DoD’s buying position in high dollar value procurements, even when the costs of collecting that data are considered.”

The study sums up with guidance for how Acquisition Reform can avoid oversimplifying the real world in its enthusiasm for reducing oversight:

“The DoD’s leadership needs to more realistically evaluate its push towards ‘one size shoe fits all’ public policy decisions as it tries to commercialize its operation to a greater degree. This research suggests that buying commercial items off commercial price lists will cost the taxpayer more money. Uniformly eliminating in-plant oversight personnel that collect cost and pricing data will adversely affect the DoD’s purchasing power. Cost and pricing data is a valuable commercial sector tool the DoD buyer should exploit under the appropriate circumstances.”

Government procurement practices are not all bad, and can successfully use commercial practices without necessarily abandoning other protections that have proven effective in preventing overpricing.

**Acquisition Reform’s Claims: Confusing What the Government Buys With How It Buys**

Reduced to its substance, Acquisition Reform is about changing the way the government buys goods and services, not changing what the Government buys. Acquisition Reform proponents argue that by changing how the Government buys, a lot of money can be saved. Yet, they produce little evidence to bolster their arguments – such as examples of prices lowered because of savings. In some of the instances where they do present “evidence,” it is apparent that they have actually changed “what” they were buying instead of “how.” In other words, it is an apples-and-oranges comparison.

For example, Steven Kelman, the Administration’s former chief “point person” on acquisition reform as head of the Office of Federal Procurement Policy from 1993-97, tells stories of how the

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13 Ibid., p.20.

14 Ibid., p.24.
Government saved large sums by allegedly changing the way it purchased shipboard telephones. According to Kelman, under Acquisition Reform the Navy was able to reduce shipboard telephone costs from $400 to $20 per unit. When asked how the Navy did this, Kelman answered that they went from using custom telephone specifications (or “mil specs”) to buying regular commercial phones. While this might be laudable if the phones really did not need to have special capabilities for a naval combat environment, it really has nothing to do with the “how” part of the buying process. Instead, what was changed was the “what” part – it was decided that commercial phones were capable of the job. It is like saying you reduced the price of a car from $40,000 to $20,000, but omitting the fact that you stopped buying Cadillacs and started buying Chevrolets.

Another instance comes from one of the most famous Acquisition Reform stories – the image of Vice President Gore smashing an allegedly overpriced ashtray on the David Letterman Show. The story was that by purchasing commercial ashtrays instead of using lengthy and almost unintelligible custom government specifications for these ashtrays, a lot of money could be saved. The Vice President pointed out to the television audience that ashtrays were only one example of Government custom specifications run amuck. But, what he failed to explain was that this was not a “how” to buy issue, it was a “what” to buy issue. Of course, it probably made no sense to continue purchasing custom made ashtrays (or chocolate chip cookies or t-shirts). But, it wasn’t a procurement or contracting procedure change that made for all of the allegedly big cost savings. It was a decision to buy cheaper, standardized ashtrays, instead of the custom models.

According to Acquisition Reformers, the Government can save a lot of money if it changes the “how” part of the buying process. But, most of what the contractors (and their supporters in Congress and the Administration) want changed are exactly the parts of the “how” to buy process that ensure fair and reasonable contract pricing and value to taxpayers.

THE CAUSE: WHY AND HOW IS THIS HAPPENING?

Today’s “Acquisition Reform:” Rolling Back Yesterday’s Reforms

In the 1990s, the defense industry has taken up the offensive against what it saw as overbearing procurement reforms of the 1980s. Most of these reforms, however, were useful protections for the taxpayer against contractors that had already taken advantage of us in the 1980s. The reforms, including 35 procurement reform initiatives ordered by the Secretary of Defense in 1983, have had positive results: a DOD Inspector General report notes that “Implementation of the Competition in Contracting Act, enacted in 1984, and the 35 spare parts procurement initiatives resulted in dramatic increases in reported competitive procurements and savings from 1985 to 1988.”

Former DOD Inspector General Eleanor Hill noted the dangers of rolling back these reforms:

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“We remain concerned about suggestions to limit or repeal controls that have been proven effective over time, such as the False Claims Act, the Truth in Negotiations Act, the Cost Accounting Standards, the statute that prohibits contractors from charging unallowable costs, and the Defense Contract Audit Agency. We believe that these controls have been critical to maintaining the Government’s ability to adequately protect its interests in the acquisition area.”"16

Some of the key reforms targeted by the defense industry and their current status are described in the table on the next page.

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16 Statement for the Record, Eleanor Hill, Inspector General, Department of Defense, Before the Subcommittee on Readiness and Management Support, Senate Committee on Armed Services, on Acquisition Reform in the Department of Defense, Report Number 99-117, March 17, 1999, p.12.
## Important Procurement Reforms of the 1980s and Their Current Status

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<th>Reform</th>
<th>Purpose</th>
<th>Status Today</th>
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<td><strong>False Claims Act Strengthened</strong></td>
<td>1986: The False Claims Act was originally Civil War-era legislation intended to halt war profiteering. Amendments to the Act in 1986 increased the penalties for fraud and encouraged whistleblowers to come forward when they were aware of defrauding of the government.</td>
<td>The law has been under heavy assault by the defense industry. Industry claims that “innocent disagreements” are being prosecuted as fraud. The Defense Department has flirted with pushing changes to the Act, and has worked with industry to gather information to support weakening the law. DOD and the industry have repeated the theme that companies are deterred from doing business with the government for fear of alleged excessive vulnerability to fraud lawsuits. The Department of Justice, however, has strongly rebutted claims that the False Claims Act is burdensome and needs amending. Justice noted in a response to the claims of the Defense Policy Advisory Committee on Trade (DPACT), an industry group that, for example, “DPACT provides no support beyond mere assertion for the proposition that False Claims Act liability has any substantial effect on defense industry profits or on the industry’s relationship with DOD. Moreover, analysis of the data available to us shows no such effect.”&lt;sup&gt;17&lt;/sup&gt; So far, strong resistance from Congressional supporters of the False Claims Act such as Senator Charles Grassley (R-IA) and from the Department of Justice – bolstered by the fact that billions of dollars have been recovered for the taxpayers – have kept efforts to weaken the law at bay, but industry attempts to overturn the strengthened law continue.</td>
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<td><strong>Truth in Negotiations Emphasis</strong></td>
<td>1980s: The Truth in Negotiations Act (TINA) requires that contractor data submitted to the government be current, accurate, and complete. Enforcement and emphasis on TINA were boosted in the 1980s. Congress kept a close eye on the issue, and the General Accounting Office (GAO) did many reports that emphasized the importance of TINA.</td>
<td>The Federal Acquisition Streamlining Act and the Federal Acquisition Reform Act (Clinger-Cohen Act) exempted so-called commercial item contracts from TINA. Using false and misleading logic, Acquisition Reform proponents have tried to link application of TINA and application of Cost Accounting Standards, suggesting that anywhere TINA does not apply, neither should the Cost Accounting Standards.</td>
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<sup>17</sup> Letter from Assistant Attorney General Frank Hunger to DOD General Counsel Judith Miller, November 9, 1998, p.1.
| **Procurement Integrity Statute Created** | 1988: Amendments to the Office of Federal Procurement Policy (OFPP) Act attempted to prevent the types of corruption that were exposed by Operation Ill Wind. The scandal revealed that contracting officials were selling source selection information – the strengths and weaknesses of competing bids based on the proposals under review – so that their associates could strengthen their own proposals when they went into negotiations. The Amendments pulled together a variety of laws that prohibited revealing information to contractors and required that officials and contractor employees sign statements saying they were aware of the integrity laws. | In response to industry criticism that the legislation merely duplicated other laws, and was unnecessarily burdensome, the paperwork was simplified in the 1990s. |
| **Cost Accounting Standards Board Reestablished** | 1988: The OFPP Act Amendments also re-established the Cost Accounting Standards (CAS) Board. The CAS Board sets accounting rules designed to achieve uniformity and consistency in the accounting practices contractors must follow when pricing contracts or submitting bills to the government. The original CAS Board was terminated in 1980 when Congress failed to continue its funding (after heavy defense industry lobbying to abolish the Board). | After a steady drumbeat of industry pressure, by 1999 the Board has been “demoted” as an organization within the Office of Management and Budget, Board Members and staff are largely being bypassed, a government-industry review panel has proposed dramatically raising the dollar thresholds for applying the Standards among other limitations on the Board’s rules, and DOD-inspired legislation has been submitted to allow exemptions from the rules for any contract or any contractor. |

*(continued on next page)*
| Competition in Contracting Act Passed | 1984: Several factors were behind the important Competition in Contracting Act. First, an influential GAO report concluded that only a small share of contracts were being competed, and noted that competed contracts brought down prices sharply. Also, scandals involving spare parts overcharging were caused in part by markups as prime contractors supplied parts to the government that were actually produced by subcontractors. Finally, the small business community lobbied to be able to sell more to the government directly. The Act opened up competition by requiring contracts to be "fully and openly competed." The Defense Department's ability to choose whomever it wanted for a contract was narrowed. | The Act has been weakened. Technically, full and open competition is still in place, but now only to the extent that it is "consistent with efficiency." In many cases, the competition requirement is now just for a "reasonable opportunity to be considered" for a contract. The rules have been bypassed in part by expanding another form of contracts, those in which specific deliverable products are not specified exactly in the contract, but the contractor is available to perform services or produce products if called upon. Major weapon contracts are not usually of this form. The new form of contracts—which are more like "supplier agreements" or "licenses to sell to the government"—were exempted by the Federal Acquisition Streamlining Act of 1994, so that requirements for full competition are much less robust. |
| Penalties Increased for Disallowed Costs | 1985: The 1985 DOD Authorization Act increased the penalties for costs submitted for reimbursement by contractors that the government determines are not valid claims. | The statutes are currently still on the books, but are under industry criticism, since the industry feels the statute excessively "criminalizes" what they see as "civil" violations. |
Counterattack in the 1990s

Industry has lobbied hard to reverse or bypass many of the reforms of the 1980s. In the climate of cutting back government of the 1990s, both Congress and the Administration have pushed for loosening of oversight over defense contractors.

Part of the rationale for the reforms developed out of the overpriced spare parts scandals of the 1980s. The scandals were often the result of line items in “cost-plus” contracts—the type of contracts in which the government pays all of a contractor’s permitted costs in executing a contract, plus an amount of profit on top. (Often the profit was set as a percentage of the total costs, creating an even stronger incentive to the contractor to push the direct costs as high as possible.)

The bad name that these cost-based contracts gave to defense procurement helped lead to official enthusiasm for price-based contracts—contracts based on a fixed price, agreed beforehand. The commercial world usually operates with price-based contracts. For example, a person contracting with a builder to construct a house would have to be pretty crazy or very rich to use a cost-based contract that allowed the builder to spend whatever he or she wanted, with a guaranteed profit on top. Instead, in the commercial world, a contractor has to keep down costs, or the expected profits will drop, or even disappear.

The new enthusiasm for price-based contracting had perfect timing to mesh with the new buzzwords of adopting best commercial practices and privatization popularized by the Clinton-Gore Administration and the Congress in the 1990s. Unfortunately, though, what Acquisition Reform began pushing was price-based commercial contracting without the normal constraints, appropriate incentives, and oversight. Price-based contracting does not work if it just means accepting whatever price a contractor asks.

Acquisition Reform has interfered with keys to getting good price-based contracts—the government’s ability to bargain hard, to get the information it needs from a contractor to verify that prices are fair, and to analyze costs to make sure they are based on what things should cost, not what they did cost before, which may have been illegitimate itself. This is nothing new - the procurement system was documented suppressing government access to contractor cost data at least three decades ago (see Appendix D). But now the effort to blind the government is much broader and has progressed much farther.

Above all, good price-based commercial contracting relies on a healthy level of competition. Yet many of the overpricing problems that have come to light under the new “commercial” Acquisition Reform rules involve inadequate competition. Much of the savings obtained in the 1980s were attributable to strengthened competition, including techniques such as “breaking out” the purchase of component parts from the prime contractor, who often does not make the parts, but purchases them from subcontractors and adds a large markup. Acquisition Reform’s failure to promote adequate competition has been sorely compounded by the Clinton Administration’s zealous promotion and subsidy of mergers in the defense industry,\(^\text{18}\) which has drastically reduced the number of competitors.

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\(^{18}\) See Testimony of Danielle Brian, Project On Government Oversight, before the Senate Armed Services Subcommittee on Acquisition and Technology, April 15, 1997, and “Payoffs for Layoffs:” Much More than a Sound
in each sector of the industry.

It is only the lavish, unquestioning kind of price-based contracting that industry wants. But if Acquisition Reform is to work for the taxpayer and not solely for private contractors, it will have to adopt the normal kind of commercial price-based contracting, the kind that is not subservient to industry, but rather corroborates industry claims in a non-adversarial but informed fashion.

The Clinton-Gore Administration

From its beginning, the Clinton-Gore Administration has pushed for changes to make things easier for contractors through its Acquisition Reform program in the Defense Department. The initiative was the culmination of a long process of working closer with industry and its campaign contributors undertaken by the Democratic Party when it began targeting corporate campaign contributions more aggressively in the 1980s.

The defense industry succeeded beyond its wildest dreams in winning endorsement of its proposals after the 1992 presidential election. Their plans proved to be in the right place at the right time when Vice President Gore was looking for new changes to make through his Reinventing Government initiative. Industry wishes were compiled by a Congressionally-created committee known informally as the “Section 800 panel,” which was industry-dominated.\(^\text{19}\) The panel’s report was completed soon after the Clinton-Gore Administration took office. Its recommendations helped shape the Reinventing Government plan, which was put together under a tight deadline and needed new proposals quickly.

The approach of the Reinventing Government initiative was to blame the very procedures that were put in place to prevent waste and fraud, saying they were actually adding to the problem. As the first “National Performance Review” in September 1993 stated:

“In recent years, our national leaders responded to the growing crisis with traditional medicine. They blamed the bureaucrats. They railed against “fraud, waste, and abuse.” And they slapped ever more controls on the bureaucracy to prevent it.

But the cure has become indistinguishable from the disease. The problem is not lazy or incompetent people; it is red tape and regulation so suffocating that they stifle every ounce of creativity.”\(^\text{20}\)

Cutting out red tape is an undeniably worthy goal, and the National Performance Review identified many areas for improvement. The original report acknowledged that protections were usually put in place for good reason, but argues they got out of control:

“But not one inch of [government] red tape appears by accident. In fact, the

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\(^\text{19}\) Formally, the Advisory Panel on Streamlining and Codifying Acquisition Laws, established by Section 800 of the Defense Authorization Act of Fiscal Year 1991.

government creates it all with the best of intentions ....

Because we don’t want employees or private companies profiteering from federal contracts, we create procurement processes that require endless signatures and long months to buy almost anything.”

The difficulty in cutting red tape comes in deciding what really is red tape, and what are vital protections to prevent waste. Unfortunately, the defense industry took the wisdom of the Reinventing Government campaign and pushed it much too far, persuading its allies in Congress and the Administration to apply it where it benefits them alone. The industry has pushed to apply liberalized rules for “commercial” products to non-commercial products too – for example in attacking the Cost Accounting Standards, which apply only to non-commercial products.

If there is a common element to the various defense “Acquisition Reform” initiatives, it might be a reliance on trusting contractors to do the right thing, rather than keeping an eye on them with close oversight. The evidence is beginning to mount that — as might be expected with reforms that weaken the government’s ability to discover, correct, and deter contractor abuses — these elements of Acquisition Reform are backfiring.

Receiving industry’s views is necessary, as long as the relationship does not become too close, and government does not start working for private industry’s interests rather than the public’s interest. Just one example of how closely industry is involved in developing policy for the Clinton Administration is provided by a case of having industry representatives on the distribution list “for your review and coordination” of a government internal policy review. (See Appendix E.)

In building their case for reducing oversight, contractors have claimed that the rules are excessively burdensome, and the Defense Department argues that, as a result, a lot of companies do not want to contract with the government. But the Department’s claim about deterred companies is not very persuasive: leading the lobbying charge of contractors against these sensible rules are the largest existing defense companies, who have shown little reluctance to bid for government contracts — including Lockheed Martin, Northrop Grumman, Raytheon, Boeing, and associations that represent the major defense contractors, such as the Aerospace Industries Association. If the changes were really to benefit up-and-coming new competitors in the defense industry, why would the existing contractors push the changes so hard? The Defense Department has mentioned few companies that are refusing to do business with the government.

Furthermore, the defense industry has been highly profitable recently compared to other industries, raising questions about the claims that defense work is so burdensome, unprofitable, and unappealing that companies are deterred from doing it. According to a PaineWebber report, “Profit margins in the defense industry are at the highest levels in history; operating margins have increased from 6% in 1990 to over 12% in 1997.”

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21 Ibid., p.11.
The Administration has touted billions of dollars of savings from Reinventing Government and Acquisition Reform, saying they overshadow the new stories of overpriced spare parts. But even those claims have been challenged in a recently-released General Accounting Office (GAO) report, which points out substantial unsupported and double-counted “savings” in its examination of some of the claims. The GAO’s conclusion regarding the claims of the National Performance Review (NPR), as the Reinventing Government effort is also known, was: “NPR claimed savings from agency-specific recommendations that could not be fully attributed to its efforts. OMB generally did not distinguish NPR’s contributions from other initiatives or factors that influenced budget reductions at the agencies we reviewed.”23

The Congress

The Administration’s efforts got a boost when anti-regulation sentiment swept the Congress after the 1994 election. Congress expanded the Administration’s initiatives with the Federal Acquisition Streamlining Act of 1994 and the Federal Acquisition Reform Act of 1996 (known as the Clinger-Cohen Act – one of its sponsors, Senator William Cohen, soon became Secretary of Defense.) (See Appendix F for a summary of legislative changes.)

The new laws made it easier for the government to buy “commercial” items, but they ended up making it too easy, by defining “commercial” too broadly. The original idea was to ease the government’s ability to buy “off-the-shelf” items whose prices could be trusted because they were set by a free market. But the definitions are so broad that “sole-source” items bought from just one company, or items bought by the government alone, can count as commercial items and avoid normal rules. Items such as the C-130J military transport aircraft – a far cry from simple items like ashtrays, bolts, and hammers – have been declared “commercial” purchases.

In practice, contractors can claim a wide variety of products are “commercial” in order to stop government contracting officials challenging them on their high prices. A DOD Inspector General investigation found in one case that, “the contractor has declined to offer prices or provide cost data. The contractor is now claiming all the spare parts are commercial items, thus making it difficult, if not impossible, for DLA [Defense Logistics Agency] to negotiate fair and reasonable prices for the sole-source spare parts.”24

The laws allow contractors to sell “commercial” items without having to provide or certify cost and price data to prove that their prices are fair. The problem is that there is not always a single true “commercial price” to rely on if cost data is denied. In particular, so-called “catalog prices” or “list prices” sometimes are not the best commercial prices available. Discounts are usually available for large orders, for example, and the government often makes very large orders yet cannot use its purchasing power under the new system.

24 Statement for the Record, Eleanor Hill, Inspector General, Department of Defense, Before the Subcommittee on Readiness and Management Support, Senate Committee on Armed Services, on Acquisition Reform in the Department of Defense, Report Number 99-117, March 17, 1999, p.4.
Acquisition Reform is drastically reducing access to cost data, reducing the number of government oversight personnel, and discouraging proactive price negotiating. Acquisition Reform proponents apparently believe that declaring something “commercial” creates market forces out of thin air – so that oversight is no longer needed and all the old rules and procedures can be thrown out.

An element of Acquisition Reform is that it is being used to discourage contracting officers from aggressively negotiating for discounts below “list” and “catalog” prices. There are various reasons why discounts from list prices may be justified, but the most basic is simply a discount for large purchase volumes. Again, this practice is not only a common large commercial firm practice, but also something almost every consumer shopper is familiar with – if you buy in bulk, you pay a lower price.

A simple analogy from our daily lives also illustrates that “commercial” prices are not set in stone. As most car buyers know, you do not necessarily have to pay whatever price the dealer puts on the sticker. Consumers trying to save money find out the “dealer invoice” price – that is, the seller’s cost data – and can use that to bring down the exorbitant sticker price. Acquisition Reform, however, pretends that consumers and companies in the commercial marketplace do not gather cost data, and so it limits the government’s ability to get the best out of commercial markets.

A June 1999 General Accounting Office study has found that under the new policies and procedures, government contracting officials were not challenging contractors’ prices sufficiently:

“The price analysis performed by contracting personnel were often too limited to ensure that prices were fair and reasonable. For example, some contracting personnel believed that when the offered price was the same as the catalog or list price, it could be considered a fair and reasonable price. In several cases, contracting personnel did not use pertinent historical pricing information contained in contract files that should have raised questions about the reasonableness of offered prices. ... Finally, many contracting officers were not documenting in the contract file how they determined that a price previously paid for an item was fair and reasonable and, therefore, could be relied on in evaluating the currently offered price.”

The legislation and the Administration’s policy have blinded contracting officials: when the officials are not buying “off the shelf” items where prices are truly set in the commercial marketplace, they are effectively restricted (and subtly discouraged) from negotiating down from so-called “commercial” prices offered by defense contractors. At the same time, contractors no longer have to provide certified cost information to prove that their prices are fair, even when the items are being acquired on a sole-source basis. A DOD IG investigation found that:

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“Acquisition reform legislation and the FAR [Federal Acquisition Regulation] still provide that contracting officers shall require information other than cost or pricing data which includes uncertified cost or pricing data when necessary to determine price reasonableness for commercial items, but there is a strong DoD preference not to use that mechanism and the Government has not asserted its right to have the data.”

[Emphasis added.]

Acquisition Reform defenders seem to pick and choose which parts of “commercial practices” to adopt. In particular, they have discouraged gathering cost data from suppliers, even though it is a practice often followed by large commercial companies. Large companies that buy from small companies have the leverage and the “market power” to get the smaller company to prove that its prices are reasonable. So should the government.

In addition to changing the rules, Acquisition Reform has used a variety of bureaucratic changes to reduce monitoring of the defense industry. The following sections look in more detail at how the Administration has made large-scale cutbacks in government personnel who negotiate, monitor, and oversee defense contracts.

Monkeying with Oversight: Hear No Evil, See No Evil, Speak No Evil

A deep reduction in the number of auditors, investigators, and other government personnel who oversee defense contractors is underway. Congress has cut budgets of oversight agencies, and in 1994 ordered the elimination of 272,900 positions throughout the government over several years. The likely cost of this reduced oversight will be more fraud and higher prices for the government. Until contractors improve their performance record and eliminate fraud, oversight remains crucial for protecting the public purse. DOD Inspector General Eleanor Hill noted in 1998, “As personnel reductions in the acquisition workforce have occurred, we have also seen reduction in programs for fraud prevention, detection, and reporting.”

The problem with simply trusting defense corporations – “contractor self-oversight” and “contractor self-governance,” as it has been called – is that the contractors have not yet earned that trust. As the DOD IG says:

“While we understand the many benefits of the new emphasis on Government/industry teamwork, the Department should not assume that procurement fraud no longer occurs. To the contrary, our criminal investigators report that their proactive undercover efforts regularly reveal significant fraudulent activity. ... Many advocates of drastic changes in Government acquisition practices are unaware of, or

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choose to ignore, the fact that procurement fraud remains a threat to the DoD and the U.S. taxpayer." (Emphasis added.)

A report by the Project On Government Oversight found that the defense industry returned more than $850 million to the government just to settle fraud cases under the False Claims Act from 1994 to 1996.  

**Penny Wise, Pound Foolish**

Investment in oversight performed by agencies such as the Defense Contract Audit Agency, the Defense Contract Management Command, the DOD Inspector General’s office, and the General Accounting Office produces a highly favorable return for the taxpayer. But large reductions in the DOD acquisition workforce and in these agencies in particular have already taken place, and more are planned. For example:


“We used to get hundreds of [criminal case] referrals from DCAA. Now I think I can count them on one hand.” – William Dupree, head of the Defense Criminal Investigative Service

✓ Saves almost $10 for each dollar invested. Produced documented savings of $3.7 billion and an additional $2 billion in unallowable costs that contractors would otherwise have charged in 1997.

✗ Staff positions cut by 19% from FY 1993 to FY 1997. Scheduled to suffer an additional loss of more than 3,000 staffers, a 44% cut, from FY 1990 to FY 2002.

**Defense Criminal Investigative Service (DCIS)** – Part of the DOD Inspector General’s office, detects, investigates and prevents fraud, waste, abuse, and other improper acts in the Defense Department.

“... there aren’t any inspectors anymore. Because we’re ‘working with industry.’ ... That’s part of the problem: where will it unfold and how will it unfold if you’ve got the government almost in concert with the contractor?” – William Dupree, Defense Criminal Investigative Service

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✓ Recovered $466 million in FY 1996-97 fraud investigations.  

✗ Overall DOD Inspector General staff, which includes Defense Criminal Investigative Service, cut 21% from FY 1994 to FY 1997. Planned cuts of 35% from FY 1995 to FY 2001, including a 37% cut in auditors and 26% in investigators.

Defense Contract Management Command (DCMC) – Manages defense contracts, including analysis, review, fraud investigation, and quality assurance assessments of contracts.

"Instead of workforce adjustments being a logical consequence of business process reengineering, the personnel reductions appear to have become a reform goal in and of themselves." – Eleanor Hill, Department of Defense Inspector General

✗ Referrals of fraud cases by the Defense Logistics Agency, which includes the Defense Contract Management Command, have dropped by 47% since 1995.

✗ 80% cut in personnel at the Defense Logistics Agency’s Office of General Counsel responsible for pursuing fraud cases. Total DCMC personnel cut 27% from FY 1993 to FY 1997. Quality assurance staff at DCMC cut 54% from FY 1990 to FY 1996.

General Accounting Office (GAO) – Audits, investigates, and assesses defense and other government programs.

GAO’s work "contributes to many legislative and executive branch actions that result in significant financial savings and other improvements in government operations." – GAO’s 1999 “Status of Open Recommendations” report

✓ Examples of GAO savings: “six GAO products on concurrency [buying designs while still testing them] and risk in the F-22 program were important influences on DOD actions to decrease concurrency, which included reducing the number of initial production aircraft from eight to six annually resulting in measurable savings of about $1.7 billion.” Similarly, “the House and Senate Committees on Appropriations conferees reduced DOD’s fiscal year 1998 operations and maintenance request by $199.3 million, based on funds we identified to be in excess of requirements.”

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39 GAO unpublished data.
41 Ibid., p.25.
42 Ibid.
GAO has been chopped a third in size from FY 1992 to FY 1996, losing almost 2,000 staffers.\(^{47}\)

**Cost Accounting Standards Board (CAS Board)** – Sets basic accounting rules for contractors covering $125 billion per year in noncommercial contracts – about $90 billion in defense.

*"If anything, the risks may be greater today because there is such market dominance by a few very large suppliers. In this environment, getting cost information and maintaining audit rights is a prudent business practice. Failure to do so will be very costly for the Department and ultimately the taxpayer."* – Eleanor Hill, Department of Defense Inspector General \(^{48}\)

✓ Estimated to save the government over $6 billion a year.\(^{49}\)

✗ The Office of Management and Budget (OMB) has made a variety of bureaucratic changes to weaken the Board and its small staff, and legislation to make further changes is under consideration in Congress.\(^{50}\) At Congressional direction, a Panel has reviewed the Board. (SeeAppendices G and H.) The Panel suffered from blatant conflict of interest – half of its members were from industry, including Northrop Grumman, which has paid $3.3 million in recent years to settle fraud claims against it under the False Claims Act.\(^{51}\) and AlliedSignal, which was recently found by a Defense Department Inspector General investigation to have grossly overcharged the government for spare parts. Not surprisingly, the Panel recommended weakening of the Board’s Standards. (See Appendix I.)

It does not normally make sense to cut back on highly profitable activities. **Drastically cutting oversight personnel blinds the government in its oversight of tens of billions of dollars of contracts** each year. This serves only to make the government and the taxpayer highly vulnerable to exploitation by an industry with a blemished track record. There can be non-monetary costs, too: in August 1999 a draft GAO report found that the Defense Security Service, which conducts background checks for security clearances, had a backlog of half-a-million cases. Officials cited as one cause the Administration’s Reinventing Government personnel cutbacks at the agency — since 1989 the staff was slashed from 4,080 employees to 2,466.\(^{52}\)

Unfortunately, Vice President Gore’s National Performance Review regards oversight personnel as **part of the problem:**

> "As we pare down the systems of overcontrol and micromanagement in government,

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\(^{47}\) *Downsizing at the U.S. General Accounting Office*, GAO, no date, p.4.


\(^{50}\) The statute establishing the Cost Accounting Standards Board is at 41 USC §422.


we must also pare down the structures that go with them: the oversized headquarters, multiple layers of supervisors and auditors, and offices specializing in the arcane rules of budgeting, personnel, procurement, and finance. We cannot entirely do without headquarters, supervisors, auditors, or specialists, but these structures have grown twice as large as they should be.\footnote{Creating A Government That Works Better & Costs Less: Report of the National Performance Review, Vice President Al Gore, September 7, 1993, p.13.}

But auditors, investigators, and other oversight personnel – who produce large net savings for the taxpayer – should not necessarily be lumped together with general management personnel. Again, Reinventing Government plans took steps in the right direction, but then were pushed too far.

The ideological goal of reducing oversight to work more “in concert” with the defense industry may explain the rush to cut staffs without doing sufficient monitoring and assessment of whether more oversight can be done with less personnel. The situation is made all the more dire by the increasing demands being put on oversight agencies. In the next few years they will have to deal with:

- A planned increase in the amount of spending on procurement contracts.
- New requirements to balance the federal government’s accounting books.
- A newly-mandated outsourcing of work formerly performed by the government, which will increase the number of contracts, and hence management and oversight requirements.
- A hampering of competition by the recent wave of defense mega-mergers. Competition used to be a silent ally in keeping contractors from playing games with the rules.

**Acquisition Reform: “Streamlining” Dollars from Our Pockets**

Another illustration of how Acquisition Reform has gone off track is the Administration’s proposals to start “streamlining” other contracting rules called the contract cost principles.\footnote{Cost principles are found at Federal Acquisition Regulation 31.205-46.} The initiative demonstrates the inconsistency of Acquisition Reform in claiming that it is merely trying to adopt commercial practices, but actually is asking for an even sweeter deal for industry.

**Paying for Luxury Hotels Again**

The cost principles are used, for example, to determine which costs that a contractor wants to bill to the government under a contract are “allowable,” or payable (e.g., salaries, material), and which are “unallowable” (e.g., costs of alcoholic beverages, club memberships).

Publicly, this streamlining is supposed to be about “Civil-Military Integration” – the merger of defense and commercial industries – which is supposed to bring technical and cost benefits. However, this latest initiative merely removes long-standing ceilings placed on defense contractor travel and
relocation costs billed to the government. These ceilings – **which ironically are based on commercial indices** – limit contractors to the same reimbursements that Federal employees can receive for hotels, meals, and moving expenses.

Since the amounts that Federal employees may be reimbursed are **set at standard commercial rates**, however, **contractors are already limited to operating as the commercial world does**. The new initiative, however, wants to eliminate any constraints, and let contractors charge even more than commercial standards. The ceilings were originally put in place to curb abuses such as claims for luxury hotel suites and excessive meal costs while performing government contracts. (See Appendix J.)

If the cost principles are weakened, horror stories about luxurious executive lifestyles at taxpayer expense are likely to come up once again. A recent GAO report notes how contractors charging travel rates much higher than the Federal standards contributed to excessive Department of Energy travel expenditures. Acquisition Reform should not be about making it easier for corporate officials to bill the taxpayer for $300-a-night hotel rooms.\(^{55}\)

**Accepting Data That Need Not Be “Current, Accurate, and Complete”**

A final example of the heedless attitude prevalent in the Acquisition Reform era is that the Federal Acquisition Streamlining Act and the Clinger-Cohen Act now allow use of cost or pricing data that oftentimes is not required to be “certified.” Such uncertified contractor cost or pricing data is that which “need not be current, accurate, and complete,” and is therefore far less useful for determining whether prices charged to the government are fair or not.

Accuracy of cost information is not a trivial matter: yet another investigation by the DOD Inspector General, this time a not-yet-released study, was reported in June 1999 to have found millions of dollars worth of overcharging by AlliedSignal - and attributed them to the flawed, inaccurate, and outdated pricing information provided by the company. The IG reportedly concluded that at least $53 million could be saved through the year 2005 with better data.\(^{56}\)

In an Orwellian attempt to confuse the situation, uncertified cost data is now referred to in the government as “information other than cost or pricing data” and certified data is referred to as “cost or pricing data.” Since uncertified data apparently cannot be relied upon, when submitting cost data, contractors should be required to certify the data.

**The $435 Hammer That Won’t Go Away**

Rocked by the spare parts horror stories of the 1980s, the Pentagon searched for some cover. They found it in the theories of a Harvard professor, Steven Kelman. Professor Kelman’s theory was that

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the spare parts horror stories were a myth, and were caused by an accounting procedure called the “equal allocation of overhead.” At the time, however, the equal allocation claim was exposed as bearing no relationship to reality.

Now, more than a decade later, Acquisition Reform advocates are turning to the same hoax, and astonishingly, Professor Kelman shows up as a major architect of Acquisition Reform – he was head of OMB’s Office of Federal Procurement Policy during the early Clinton Administration. A December 1998 National Journal article quoting Kelman led with the alleged revelation that a famous defense scandal story from the Reagan years – the $435 hammer – was a “myth.” By implication, all the other horror stories of overpricing were myths too. (See Appendix K.)

According to this hoax, the outrageous overcharging of the day had a simple and innocuous accounting explanation: simple items like hammers had an amount of company “overhead” expenses allocated to them equal to the amount allocated to much more complex and expensive items. Allocating large amounts of overhead “equally,” rather than in proportion to actual value, would naturally lead to bizarre outcomes like $435 hammers.

Unfortunately this convenient explanation was simply not backed up by the facts: contractors did not use such bizarre procedures – in fact they would not be permitted by Cost Accounting Standards. In the 1980s the Project On Government Oversight (then known as the Project on Military Procurement) worked extensively on Defense Department overcharging scandals and rebutted the equal allocation hoax when it first appeared. Simple examination of the data showed that allocation of the alleged equal amount of overhead as Kelman claimed would mean that many cheaper items found on contract price lists would actually have a negative price once the “overhead” was taken away. (See Appendix L.) The Project On Government Oversight pointed out that the proponents of the hoax actually never produced cases of the “equal allocation of overhead,” and in fact the Air Force was forced to admit there were no cases. (See Appendices M and N.)

Pentagon whistleblower Ernest Fitzgerald traces the history of the “equal allocation” hoax in his 1989 book The Pentagonitis. Fitzgerald presciently foretells that, “Doubtless in the future other writers as gullible as George Will and Professor Kelman will trot for the Pentagon again.” Who would have known that the original author of this hoax would return in the White House more than a decade later?

**THE SOLUTION: HOW TO STOP DE-INVENTING THE WHEEL**

Acquisition Reform is not necessarily what it sounds like – it is not reform in the old sense of tightening protections against contractor overcharging. To the contrary, it has focused on weakening or bypassing controls – and claiming that the free market will protect the government. But the real world is more complicated, and policies should be revised to take into account the complexities of the free market, and the necessary and desirable contracting and accounting procedures that aid the government in negotiating with large and powerful defense contractors. The following proposals, including suggestions for legislative changes, could help ensure that the new reforms do not come at
the cost of crippling previous reforms:

✓ **Restore meaning to the definition of “commercial.”** Commercial status should only apply to items that are bought and sold widely in true free market. This would require:

1) Restore the definition of commercial as *actual* sale of specific items to the general public, rather than the loosened definition of a commercial item as one not necessarily sold to the public, but merely “offered for sale.”

2) Also, restore the definition of commercial to mean a *large* free market — one that has a substantial level of sales. The Federal Acquisition Reform Act (Clinger-Cohen Act) watered down standards defining a substantial level of commercial sales, and if there is not a large market with numerous buyers and sellers, the “prices” set by contractors should not necessarily be relied upon for government purchases.

3) Finally, restore the definition of “competitive bidding” to require at least two bidders. The current alternative says that there is competition even if there is only one bid, as long as others *could have* bid. The phrase “sole-source commercial” is also an oxymoron — commercial exemptions should not apply when the supplier has a monopoly.

✓ **Clarify that the government can and should still negotiate actively for some commercial items.** Make clear that government contracting officers have full authority to pursue the *best* commercial price by negotiating down from “list” prices. Commercial prices are sometimes negotiable to other companies and individuals, so there is no need or rationale to prevent the government from negotiating in such cases too. Make clear that the “commercial price” is not necessarily whatever a contractor chooses to claim or list in its catalog, but rather the price that the government or a company could negotiate, based particularly on the normal commercial practice of bulk discounting.

✓ **Restore the use of cost or pricing data where prices are not set by a true free market.** Since commercial firms large enough to have “buying power” collect cost data from their suppliers, allowing the government to do so also is merely following best commercial practice. The data obtained should be “certified” data.

✓ **Preserve funding for the auditors, investigators, and rule-setting Boards like the Cost Accounting Standards Board.** Many of the oversight officials save us far more than they cost. To keep cutting back on their numbers is to throw away money.

✓ **Defend the False Claims Act against industry assaults.** The False Claims Act provides increased protections against fraud. It continues to be a target for industry lobbying. It, and the other reforms put in place to prevent abuses, should be strengthened and not weakened.

✓ **Improve price-based contracting by increasing competition and reversing the trend of mergers leading to fewer competing contractors.** Ensure that adequate competition exists wherever possible, and where it cannot, negotiate vigorously based on cost analysis of what products should cost now, not extrapolations of what was paid (or overpaid) in the past.
If the Administration and Congress are serious about using Acquisition Reform to adopt best commercial practices, they need to focus more on the most basic ones – such as testing and developing products fully before buying them – and to give government officials the ability to make use of all best commercial practices, even when it means that defense contractors do not get everything they want.

Following Pentagon acknowledgment of “readiness” problems and after the war in Kosovo, defense budgets – and procurement spending – are being increased sharply. For this reason it is especially imperative for us not to forget what we already know about good acquisition reform – there is no need to re-invent the wheel. If we do forget, the budget surpluses the Defense Department is enjoying will quickly be frittered away on overpriced weapons and parts, and the taxpayers’ money will, once again, be wasted.
APPENDICES


Appendix B: National Contract Management Association course materials, 1997-98


Appendix E: Memorandum and Coordination Sheet from Stan Soloway, Deputy Under Secretary of Defense (Acquisition Reform), re: Draft Final Report of the Section 912c Training, Processes, and Tools for the Acquisition of Services


Appendix G: Letter from Cost Accounting Standards Board Member James Bedingfield to Office of Management and Budget Director Jacob Lew, November 19, 1998

Appendix H: Letter from Senators Grassley and Harkin to GAO Comptroller General David Walker, March 3, 1999


Appendix J: Letter from Bobby Harnage, National President, American Federation of Government Employees, to the Federal Acquisition Regulation Secretariat, July 15, 1999


Appendix L: *Amendment of Solicitation / Modification of Contract*, Gould Simulation Systems contract, November 29, 1982, list of parts prices

Appendix M: Project on Military Procurement press memorandum on the “equal allocation of
overhead” issue, February 7, 1985