

The Limits of Competition in Defense Acquisition
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Keywords

Competition, Procurement Data, Bridge Contracts

Competitiveness in the Services Sector: Understanding the Contracting Data

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Abstract

The study investigates whether competed service sector contracts with a single offer or sole source awards indicate a lack of qualified firms or significant barriers to entry. The study concludes that: (1) the prevalence of service sector contracts receiving only a single offer is about half as large as the data appear to suggest; and (2) the use of short-term contracts and modifications to fill the gap in services between the end of one contract and the beginning of the next is a significant source of sole source contracts.

Two-line summary

This study finds that the prevalence of service sector contracts receiving only a single offer is smaller than the data appear to suggest and that the use of bridge contracts is a significant source of sole source contracts.

1. Introduction

The presumption established in the *Federal Acquisition Regulation (FAR)* is that federal contracts should be awarded on a competitive basis whenever possible and that competed contracts should be available to multiple offerors. This presumption applies to all Department of Defense (DOD) contracts for services. DOD supports vigorous competition for federal government contracts.

In a focus on the services sector, the data on competition raises some questions. In FY 2008, DOD committed approximately \$200 billion¹ in contracts for services. Over \$28 billion of this total consisted of competed contracts that attracted only a single offer.

¹ A \$13.9 billion data error was discovered after the FY 2008 data set was frozen. Although the error results in an overstatement of services contracts and competed contracts with multiple offers, it does not qualitatively or substantively change our conclusions.

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Moreover, nearly \$26 billion in DOD service contracts were awarded sole source. Together, these two categories accounted for \$54 billion in FY 2008, or over 25 percent of the total volume of DOD spending on service contracts in that year.

In 2009, the DOD Office of Industrial Policy (IP) asked IDA to examine DOD contracts for services that are (1) competed but that receive only a single offer and (2) sole source. We were asked to determine whether the prevalence of single offer and sole source contracts for DOD services represents an industrial base concern, such as a lack of qualified firms or significant barriers to entry.

This paper focuses on two findings of the IDA study that highlight the necessity of carefully reviewing top level statistics, such as those above, before drawing conclusions regarding the level of competition in DOD services contracts. During the study we found that (1) the prevalence of competed DOD services contracts receiving a single offer is only about half as large as the data cited above appear to suggest, and (2) a significant number of sole source DOD services contracts are bridge contracts—short-term contracts that fill the gap in services between the end of one competed contract and the beginning of the next.

2. Data & Methodology

A. Data

Our two primary data sources were the FY 2008 Federal Procurement Data System-Next Generation (FPDS-NG) database, supplied by the sponsor, and a database containing Justification and Approvals (J&As) for not-competed contracts, which we created from publicly available data on the FedBizOpps website.

1. FPDS-NG FY 2008 Data Set

The FPDS-NG database records all contract actions greater than \$3,000. Initial contract actions receive a contract number. Contract actions that alter an existing contract are assigned a modification number while retaining the original contract number. Contract award types include purchase orders, task orders, and definitive contracts.

- *Purchase orders* are used for items purchased using simplified acquisition procedures and are typically for less than \$100,000 (*FAR*, Subpart 13.3, 2010).²

² However, the limit in FY 2008 was typically \$5 million for purchases of commercially available supplies and services, but can be up to \$11 million in certain national security areas. The limit for commercially available supplies and services has increased to \$5.5 million.

- *Task orders* are orders written against Single or Multiple Award Indefinite Delivery Vehicles (IDVs) that act as large master contracts. In the database, these task orders automatically inherit the terms of the master contract. Each master contract can have multiple task orders written against it.
- *Definitive contract awards* are standard individual contracts.

The FPDS-NG database records information about each contract action. Of particular interest to this study were the contract value fields (Dollars Obligated, Current Contract Value, and Base and All Options Value), the Type of Contract field, the competition information (Extent Competed, Reason Not Competed, and Number of Offers Received), as well as the Statutory Exceptions to Fair Opportunity in the case of multiple-award IDVs.

The FPDS-NG database is a live database, meaning that updates and changes to past entries can be made at any time. In fact, changes to contract actions in any fiscal year can be made well past the fiscal year end. To ensure consistent results for queries regarding these contracts, we were provided a version of the FY 2008 FPDS-NG data containing DOD contract actions frozen as of 15 January 2009³.

We used the Extent Competed field of the FPDS-NG database to categorize contract actions as competed if the Extent Competed field was given as:

- Full and Open Competition
- Full and Open Competition after exclusion of sources
- Competitive Delivery Order
- Competed under Simplified Acquisition Threshold

We classified a contract as sole source if the reason not competed was given as:

- Unique Source
- Follow-on Contract
- Unsolicited Research Proposal
- Patent/Data Rights
- Utilities
- Standardization⁴
- Brand Name
- Only One Source

³ A \$13.9B data error was discovered after the FY 2008 data set was frozen. Although the error results in an overstatement of services contracts and competed contracts with multiple offers, it does not qualitatively or substantively change our conclusions.

⁴ Standardization programs seek to standardize equipment and services to reduce training and maintenance costs.

2. Justifications and Approvals Database

For our research into significant causes of sole source contracts, we collected the J&As posted on the FedBizOpps website between 1 March 2009 and 30 September 2009. The J&As state which *FAR* exception was applied and provide supporting documents explaining the use of the exception. For example, for some sole source contracts, the FPDS-NG database would specify Only One Source as the *FAR* exception. The additional documentation might state that a short-term contract to an incumbent was awarded because the replacement contract had not yet been competed. We used this additional detail regarding the *FAR* exceptions to indicate whether or not the not-competed contracts were bridge contracts.

B. Methodology

We conducted interviews with contracting office personnel and contractors to gain insight into the factors driving the number of bids on government contracts. In addition, we conducted a literature review for a theoretical model governing the number of bids or the use of sole source contracts (Williams et al., 2010).⁵

We selected contracting offices to interview based on the following criteria: (1) the office was one of the top locations in terms of dollars or contract actions in a given industry segment, or (2) it had a high percentage of single bids or sole source contracts compared with other offices working in the same industry segment. We selected at least one contracting office from each of the industry segments that had been identified by IP.

In addition to the contracting offices, we interviewed contractors from three trade organizations: the Tidewater Government Industry Council, TechAmerica, and the Coalition for Government Procurement. The Tidewater group primarily comprises small businesses, while TechAmerica and the Coalition for Government Procurement primarily comprise large firms.

Our discussions with contracting officers and contractors led us to look at the data more closely. Specifically, they helped us to understand anomalies in the competed contract data (discussed in the next section) and suggested bridge contracts as a cause of sole source contracts.

We were asked to investigate causes that underlie or go beyond the *FAR* exceptions. There was a consensus among the contracting offices that bridge contracts—written when the competition or the award for the new contract has been delayed—are a significant source of sole source contracts. Delays can come from various sources for various reasons: the requiring agency may have a holdup in preparing the requirements

⁵ The literature review and interviews suggested the following areas for exploration: set-asides, contract size and structure, geographical constraints, specialized requirements, time allotted for bid preparation, and the presence of an incumbent.

documents or experience a change in requirements; the contracting office may be unable to use an existing contract vehicle or an issue may arise during any of the several review boards that constitute the process; or other sources, such as protests, may be responsible.

3. Single Offer Results

A. Scope of the Single Offer Problem

Using the 15 January 2009 snapshot of the FPDS-NG database for FY 2008 contract actions, we find that of the \$155.3 billion in competed contracts, \$28.4 billion, over 18 percent, appears to have been awarded after receiving a single offer (see Figure 1). Unless otherwise noted, by “competed contract dollars” we mean the total dollars obligated on the original contract, plus the contract modifications. This is the standard method of reporting contract dollars used by IP. For the single-offer analysis, all not-competed contracts under any of the *FAR* exceptions were excluded.

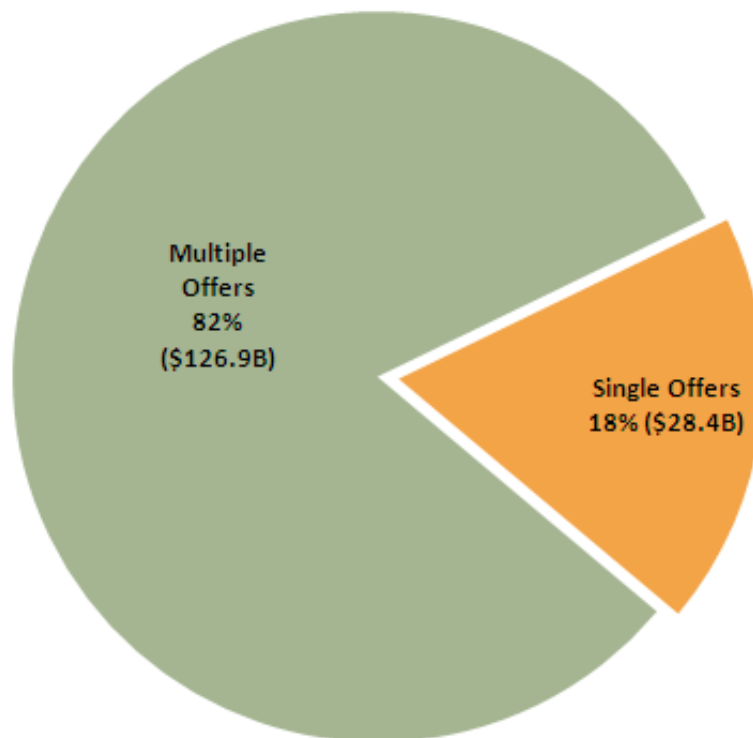


Figure 1. FY 2008 Competed Contract Dollars, Multiple and Single Offers

IP classifies services into various industry segments. Figure 2 shows the relative shares of competed contract dollars by industry segment. Construction-related (CR)

contracts receive the largest share of competed contract dollars, with Management Support, Professional and Administrative (MSPA) and Research, Development, Test & Evaluation (RDT&E) receiving significant shares as well.

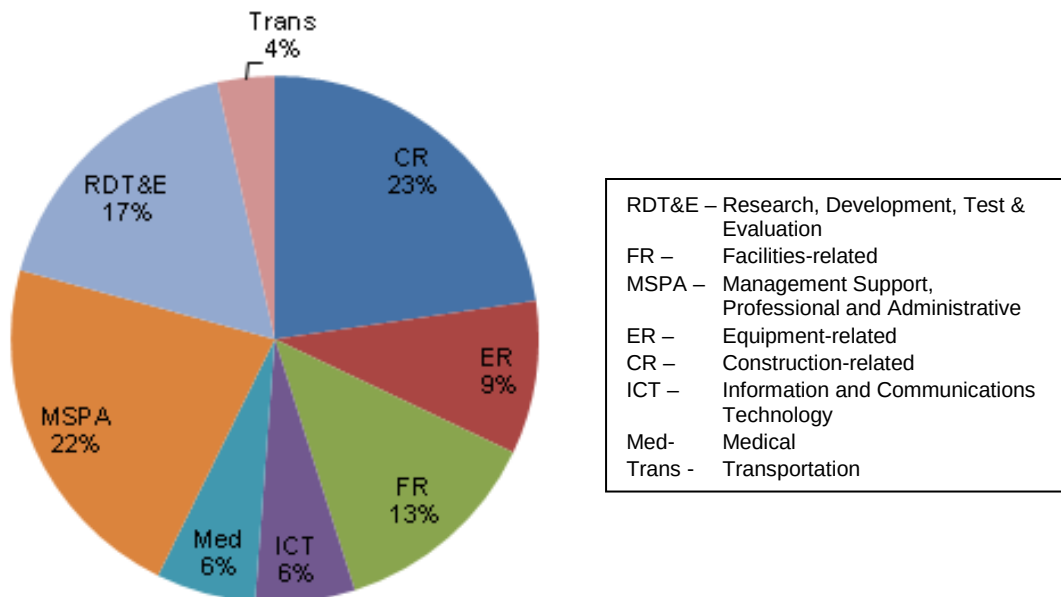


Figure 2. FY 2008 Competed Contract Dollars by Industry Segment

Figure 3 shows the relative shares of single offers on competed contracts by industry segment. For single offers, MSPA and RDT&E take over the largest shares, with Equipment-related (ER) as the third-largest segment. CR falls to the sixth-largest share of single-offer dollars.

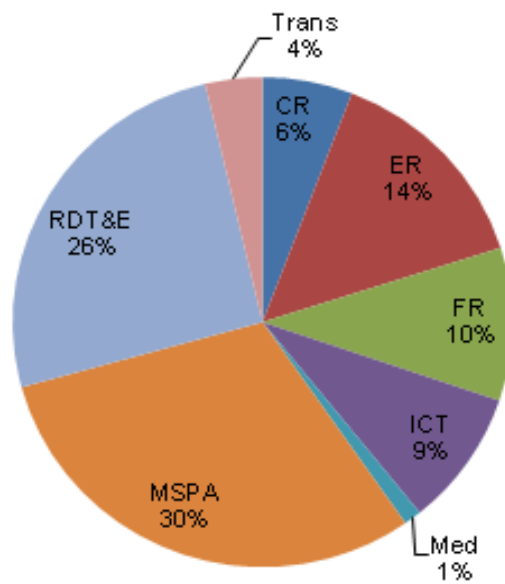


Figure 3. FY 2008 Single-Offer Contract Dollars by Industry Segment

B. Single Offers in RDT&E

From Table 1, we see that RDT&E accounts for close to 26 percent of FY 2008 competed dollars awarded after receiving a single offer. A closer look at the data shows that RDT&E is an obvious outlier with respect to single offers on definitive contracts, accounting for over 50 percent of all single offers. However, we found upon closer examination that definitive contracts in RDT&E are frequently Broad Agency Announcements (BAA) and Small Business Innovation Research (SBIR) contracts. These contracts often appear as if they were competed contracts receiving a single offer in the FPDS-NG database, regardless of the number of offers received.

Table 1. Single-Offer Contracts by Award Type and Industry Segment (Millions of Dollars)

Industry Segment	Purchase Orders	Single-Award Task Orders	Multiple-Award Task Orders ^a	Definitive Contracts	Total	Percent of Total
CR	\$9.3	\$91.3	\$574.9	\$975.4	\$1,650.9	5.81%
ER	\$129.4	\$2,399.0	\$779.7	\$747.9	\$4,056.0	14.28%
FR	\$92.7	\$664.7	\$1,067.5	\$1,043.1	\$2,868.1	10.10%
ICT	\$80.2	\$515.7	\$1,807.9	\$150.1	\$2,553.8	8.99%
Med	\$50.4	\$102.9	\$123.0	\$45.0	\$321.2	1.13%
MSPA	\$122.0	\$2,474.6	\$4,928.3	\$1,112.5	\$8,637.3	30.41%
RDT&E	\$25.9	\$1,732.7	\$737.0	\$4,768.0	\$7,263.5	25.58%
Trans	\$41.5	\$75.9	\$852.8	\$79.7	\$1,049.8	3.70%
Total	\$551.4	\$8,056.6	\$10,870.9	\$8,921.7	\$28,400.6	

^a Multiple-award Task Orders that received a single offer under Fair Opportunity.

BAAs differ from a standard request for proposal in that they (1) are focused on advancing the state of the art or increasing knowledge and understanding, rather than on a specific system or solution, and (2) are defined by a statement of the problem rather than a statement of work. Each proposal presents a unique solution to a problem and is evaluated on its own absolute merits rather than its merits relative to the other proposals received. A single BAA could receive 100 proposals and make two awards or could receive 20 proposals and make 20 awards. BAAs may remain open for up to a year, and firms may make proposals and receive awards throughout that time (DARPA, 2009). SBIRs are similar to BAAs but have additional requirements: the firm must be a for-profit small business with 500 or fewer employees, the work must be performed in the United States, and the principal investigator must be employed at least half-time by the proposing firm (Department of Defense Office of Small Business Programs, 2012). In

addition, SBIR requests for proposals usually have a fixed ending date, after which all proposals are evaluated.

Both BAAs and SBIRs are considered competitive solicitation procedures, and the FPDS-NG Data Dictionary (Version 1.3, 102) directs contracting offices to code these procedures as full and open competition. Almost all the contracting offices we spoke to said that they enter the number of offers for successful BAA proposals as “1,” regardless of the number of proposals actually received.⁶ The results for SBIRs were more mixed; some offices said they enter the total number of proposals received, and others said they enter a “1,” for all research proposals. As a result, most BAAs and many SBIRs appear in the FPDS-NG database to have received a single offer, whether or not multiple proposals were submitted.

Because BAAs and SBIRs represent a fundamentally different type of competition from the standard definitive contracts, we believe that they should not be counted as competed actions receiving a single offer. Unfortunately, there is currently no method for separating BAA records in FPDS-NG from other definitive contract actions in RDT&E. For SBIRs, some of the contract descriptions state SBIR Phase I or SBIR Phase II, but most do not. Instead, the contract documents must be examined individually.

To determine the portion of the apparent single offer RDT&E contracts that are actually BAAs or SBIRs, we asked nine contracting offices to identify whether their single-offer contracts in FY 2008 were actually BAAs or SBIRs.⁷ For this effort, we did not perform a scientific sampling; we focused instead on contracting offices with the highest volume and value for RDT&E definitive contracts.

The results were surprising. Based on the responses of the contracting offices surveyed, BAAs and SBIRs accounted for 69 percent of the single-offer RDT&E definitive contracts issued in FY 2008 and 62 percent of the contract value attributed to single-offer definitive contracts. Table 2 shows the detailed breakout of BAAs and SBIRs for each of the contracting offices that categorized their contracts.

⁶ One office said they entered “999” as the number of offers received for BAAs, but the rest said “1.”

⁷ We provided the offices with lists of the initial contracts. We excluded modifications to reduce the size of the lists.

Table 2. BAAs and SBIRs Identified by Contracting Offices (Millions of Dollars)

Contracting Office	Single Bid Contracts	Total Dollars	BAA Contracts	Percent BAAs	BAA Dollars	Percent BAA Dollars	BAA & SBIR Contracts	Percent BAA & SBIR Contracts	BAA & SBIR Dollars	Percent BAA & SBIR Dollars
FA8750	81	\$49.2	56	69.14%	\$39.9	81.10%	56	69.14%	\$39.9	81.10%
N00014	113	\$111.5	67	59.29%	\$62.2	55.81%	89	78.76%	\$89.7	80.46%
W91CRB	60	\$27.8	40	66.67%	\$20.8	74.82%	57	95.00%	\$25.6	91.92%
W31P4Q	160	\$35.5	37	23.13%	\$10.5	29.51%	37	23.13%	\$10.5	29.51%
W9113M	66	\$120.4	3	4.55%	\$3.7	3.10%	3	4.55%	\$3.7	3.10%
W15P7T	147	\$99.8	82	55.78%	\$16.1	16.14%	145	98.64%	\$98.8	99.02%
W912HZ	65	\$18.7	51	78.46%	\$16.0	85.60%	61	93.85%	\$17.2	92.13%
W15QKN	47	\$48.1	2	4.26%	\$2.0	4.11%	41	87.23%	\$18.6	38.65%
W911QY	59	\$40.2	44	74.58%	\$38.2	94.93%	59	100.00%	\$40.2	100.00%
Total	798	\$551.2	382	47.87%	\$209.4	37.99%	548	68.67%	\$344.2	62.45%

Our sample represented 11.5 percent of the total value of single-offer definitive contracts in RDT&E.⁸ This is a large enough sample that we are comfortable assuming that the proportion of remaining RDT&E single-offer definitive contracts dollars that are actually BAAs or SBIRS is also close to 62 percent (totaling about \$3 billion). Based on this estimate for the proportion of BAAs and SBIRS, RDT&E accounts for \$4.3 billion (17 percent) of all single-offer contract dollars rather than \$7.3 billion (26 percent). Removing BAAs and SBIRS from the total pool of single-offer contracts reduces the total dollar value of single-offer contracts to \$25.4 billion, as shown in Figure 4.

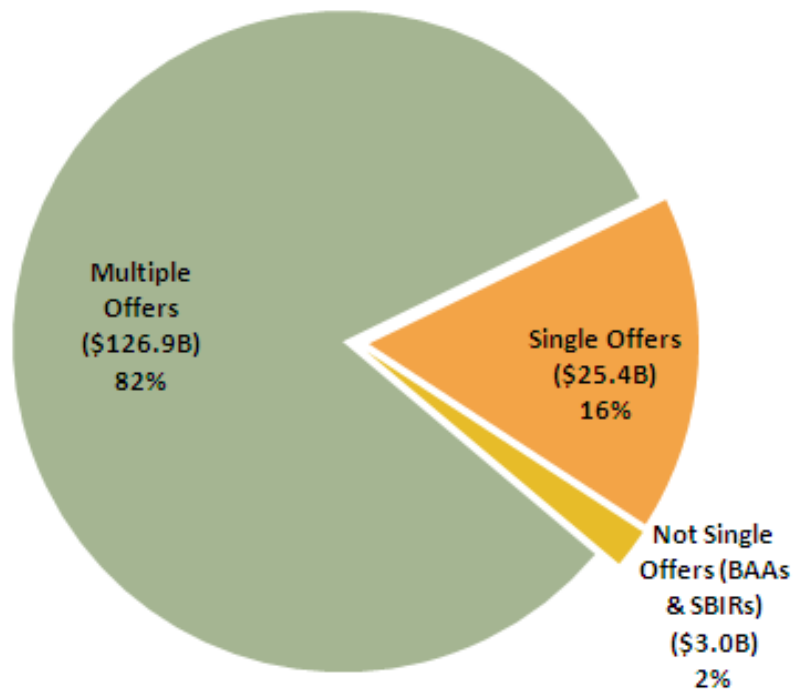


Figure 4. FY 2008 Single-Offer Contract Dollars—Excluding BAAs and SBIRS

Our sample from the contracting offices allows us to estimate the proportion and dollar value of BAAs and SBIRS; however, it does not allow us to identify such contracts in the FPDS-NG data. As a result, we excluded RDT&E definitive contracts from our statistical analyses below. Additional research into this area would be facilitated by the ability to reliably identify BAAs and SBIRS in the FPDS-NG database.

C. Award Type and Single Offers

Although not raised as a factor in either the literature review or the interviews, award type turns out to be a predominant factor affecting the total value of competed contracts receiving a single offer. As discussed above, the DOD uses three primary

⁸ This is the total value of the contracts we provided, including modifications.

contracting vehicles (purchase orders, task orders, and definitive contracts) to contract for services. Each type of award places different requirements on the contracting officers with regard to competition and the parameters of the acquisition:

- *Purchase orders* are used for items purchased using simplified acquisition procedures and are typically for less than \$100,000.⁹
- *Task orders* are orders written against established Multiple Award or Single Award IDVs. IDVs allow the government to purchase goods or services on an as-needed basis through the issuance of task orders.
- *Definitive contract awards* are standard individual contracts.

An IDV contract does not specify the actual quantity or specific service required. Instead, it provides a quantity range or general description of required services. Actual quantities and detailed service requirements are specified in the subsequent task orders. The IDV establishes qualified sources of the goods or services. In a Single Award IDV, all the services will be purchased from a single contractor, with the orders placed as needed. A Multiple Award IDV establishes a pool of qualified contractors. When the government issues a task order for services, those qualified contractors compete to provide the service.

As shown in Figure 5, purchase order contracts account for only 1 percent of the total competed contract dollars. Single Award IDV task orders represent 30 percent, Multiple Award IDV task orders are 23 percent, and definitive contracts account for 46 percent.

⁹ A \$13.9B data error was discovered after the FY 2008 data set was frozen. Although the error results in an overstatement of services contracts and competed contracts with multiple offers, it does not qualitatively or substantively change our conclusions.

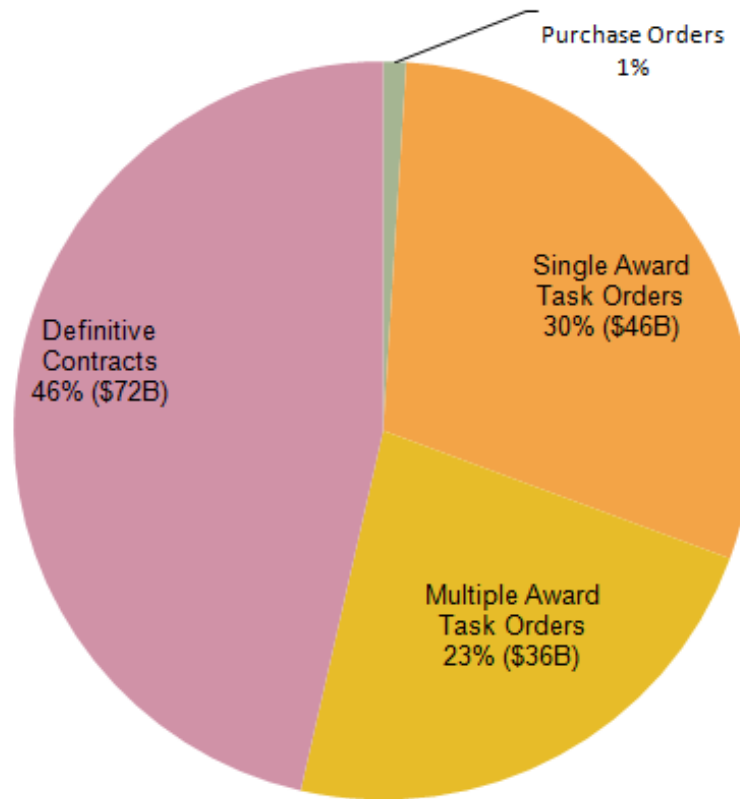


Figure 5. FY 2008 Competed Contract Dollars by Award Type

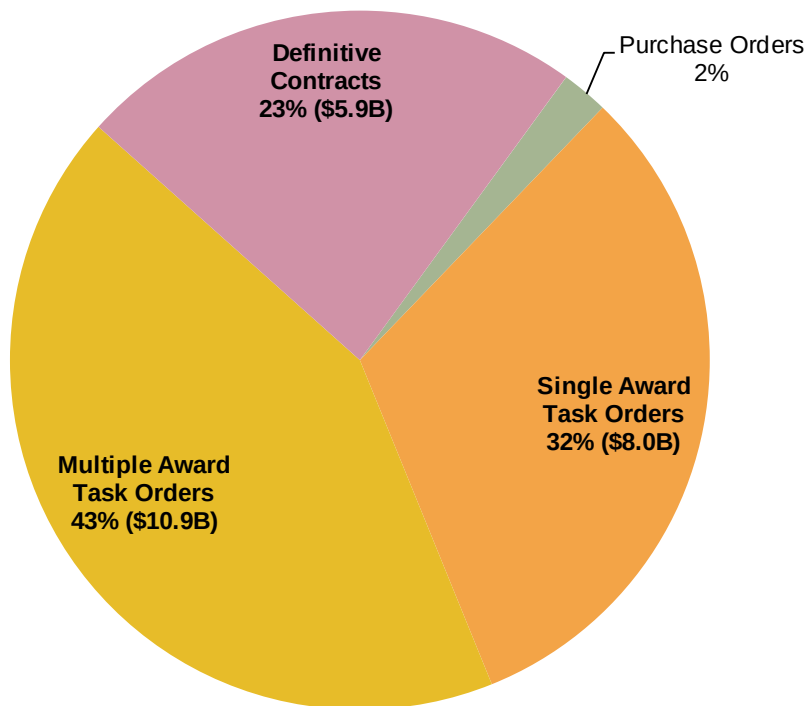
1. Categorizing IDV Task Orders as Single versus Multiple Offer

It is important to distinguish between Single Award and Multiple Award IDV task orders. In a Multiple Award IDV, the master IDV contract competition had multiple offers (by definition), and multiple firms were selected. These firms are exclusively allowed to compete on the task orders that are issued over the course of the contract. If only one of the selected firms bids on a task order, the value of that task order is counted as a single offer contract.

For Single Award IDVs, the master IDV contract competition may have had one or many offers. One firm is selected to perform the work specified in the task orders that are issued over the course of the contract. In the case that the master IDV contract competition received only a single offer, the value of all the task orders on the contract are counted as single offer.

Determining whether a particular task order belongs to a Single or Multiple Award IDV is complicated by the fact that IDV contracts tend to run over several years. The FPDS-NG database snapshot used in this study contains many IDV task orders whose master IDV competitions occurred in previous years. Previous-year master IDV contracts are not included in the data we used (Appendix A of Williams et al., 2010).

The value of single-offer contract dollars shown in Figure 6 indicates that IDV task orders make up a larger than expected proportion, based on their prevalence in the total competed dollars pool. Multiple Award IDV task orders account for 23 percent of all competed contracts, but 43 percent of single offers. By contrast, definitive contracts account for 46 percent of competed contracts, but, after excluding BAAs and SBIRs, just 23 percent of single offers. Single Award IDV task orders fall in between—accounting for 32 percent of single offers and 30 percent of total competed dollars. Purchase orders account for only 2 percent of competed contract dollars receiving a single offer and will not be analyzed further in this study.



**Figure 6. FY 2008 Single-Offer Contract Dollars by Award Type
(Excludes BAAs and SBIRs)**

2. Effect of Multiple Award IDV Task Orders on Single Offers

We see that Multiple Award IDV task orders are disproportionately responsible for single offers. We believe, however, that Multiple Award IDV task orders that receive a single offer do receive a level of competition. The competition for the master IDV contract received multiple offers, and multiple qualified contractors were selected to supply the services specified in the task orders. The second stage provides fair opportunity for all multiple award contract holders to compete for the task order unless an exception to fair opportunity is approved. Individual firms know that their competitors are qualified, but do not know if they will bid on the task orders. The threat of other bids

prevents an individual firm from bidding as a monopolist. Thus, to the extent that firms believe there will be multiple bidders on the task orders, the benefits of competition are conferred from the IDV competition to the task order competition even if only one offer is received.

D. Single Offer Conclusions

In FY 2008, RDT&E and services together represented more than 50 percent of DOD contracts. Of the \$155.3 billion in competed DOD service contracts, \$28.4 billion, or 18 percent, appeared to be awarded after receiving a single offer; however, this appearance is misleading. Approximately \$3 billion in RDT&E single-offer contracts actually came from BAAs and SBIRs, which appear as single offers in the FPDS-NG database regardless of the number of proposals received.

An additional \$10.9 billion was due to single-offer Multiple Award IDV task orders. The pool of firms eligible to bid on the task orders was selected based on an IDV competition with multiple offers. Although it is difficult to quantify the benefit, to the extent that firms believe there will be bids from the other qualified firms on the Multiple Award, the benefits of the competition for the master IDV contract confer to the task orders. We therefore characterize the single-offer Multiple Award IDV task orders as having received some competition.

The final \$14.5 billion, 9 percent of competed DOD service contract dollars, in single-offer definitive contracts (\$5.9 billion) and Single Award IDV task orders (\$8.0 billion) was awarded without multiple offers at any stage.¹⁰ Figure 7 shows the revised breakout of competed contract dollars based on these findings.

¹⁰ The total does not add to \$14.5 billion due to single offer purchase order contracts, which are not analyzed here.

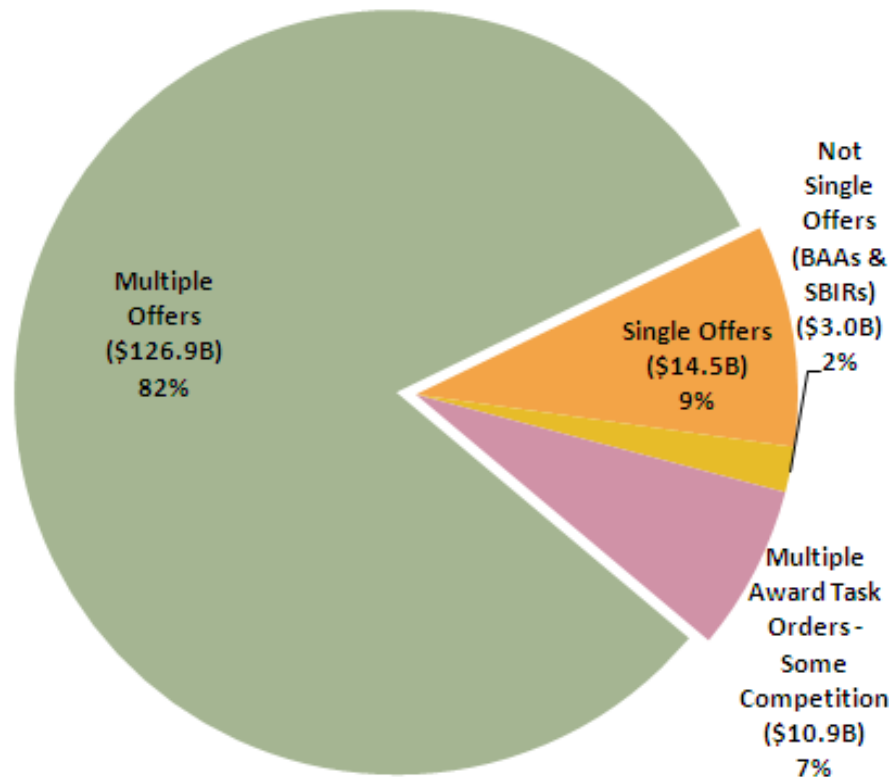


Figure 7. FY 2008 Competed Contract Dollars

As a final point, we argue that receiving a single offer does not necessarily mean that the competitive process was ineffective. Firms have limited resources with which to prepare bids and proposals, a time-consuming and costly process. Firms are selective, choosing proposals for which they believe they have a competitive advantage. These subjective expectations are, in part, a result of the firms' beliefs about which other firms will bid the project. For this reason, number of offers may not be a sufficient metric for gauging the level of competition for these contracts.

4. Sole Source Contract Results

Although a clear preference is found in law and regulation for full and open competition in federal government contracting, in accordance with the *FAR*, contracts may be awarded without competition under certain circumstances. These exceptions to full and open competition include the existence of only one source, unusual or compelling urgency, international agreements, and public interest, among others. In FY 2008, of the \$201.9 billion in DOD contracts for services, \$46.5 billion was awarded without competition. Contracts awarded under circumstances other than full and open

competition are further categorized into “Sole Source” and “Other Not Competed.” Table 3 shows the *FAR* exceptions that are considered sole source and those considered other not competed.

The purpose of this study is to determine whether there are underlying causes, beyond the stated *FAR* exceptions, driving the number of sole source contracts. We focus on sole source contracts, but discuss our results in the context of all not-competed contracts when appropriate.

Table 3. Classification of Sole Source and Other Not Competed

Sole Source	Other Not Competed
Unique Source	Urgency
Only One Source - Other	Particular Sources Mobilization, Essential Research & Development (R&D) Capability, or Expert Services
Follow-On Contract	International Agreement
Unsolicited Research Proposal	Authorized for Resale
Patent/Data Rights	Authorized by Statute
Brand Name	National Security
Utilities <i>FAR</i> 41.2	Public Interest
Standardization	

A. Scope of Sole Source Contracts

Not-competed contracts account for \$46.5 billion (23 percent) of the DOD service sector contracts awarded in FY 2008. Sole source contracts account for \$25.9 billion (56 percent) of all not-competed contract dollars.

Sole source contracts can be used for all award types, including task orders issued under Multiple Award IDVs that utilize an exception to fair opportunity. Figure 8 shows the relative percentage of sole source contract dollars by award type. Definitive contracts account for the majority, followed by Single Award IDV task orders. As was explained above, we categorize a Single Award IDV task order as sole source if the original Single Award IDV contract was awarded sole source. For Multiple Award IDVs, the IDV competition selects a set of contractors who compete for the task orders. All contractors selected for a Multiple Award IDV are expected to receive fair opportunity to compete for the task orders. However, just as *FAR* exceptions to competition are allowed in standard contracts, exceptions to fair opportunity are allowed for Multiple Award IDV task orders. Multiple Award IDV task orders awarded without allowing fair opportunity are categorized as not-competed contracts and included in the total value of not-competed contracts. Those task orders awarded under exceptions to fair opportunity that are not considered sole source are not included in our sole source analysis.

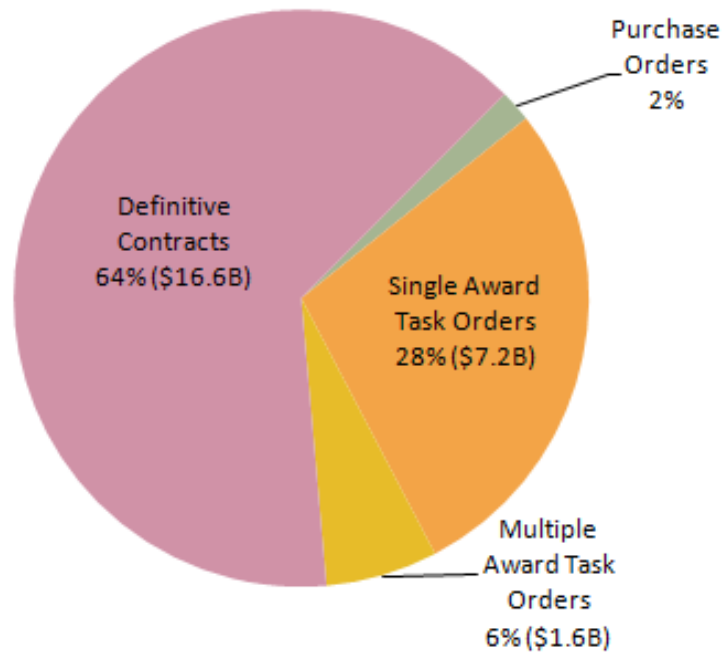


Figure 8. FY 2008 Sole Source Contract Dollars by Award Type

B. Bridge Contracts

As noted earlier, there was a consensus among contracting officers that the use of bridge contracts was a major contributor. A bridge contract, which may be a new contract or an extension to an existing contract, is typically short term, usually less than six months, but may be written for a year or more.

Bridge contracts are used when a delay in the acquisition process causes the existing contract to expire before the new contract is ready to be put into place. Delays in the acquisition process may come at any point in the process due to such events as:

- The requiring agency changing the requirements or failing to submit requirements in time.
- The contracting office discovering that the planned contract vehicle cannot be used or a problem occurring at any of the several review and approval boards that constitute the process.
- Protests of the contract award or other obstacles.

While we were unable to quantify the effect of the possible causes of acquisition delays, we did examine the scope of bridge contracts in DOD services sector contracts.

1. Bridge Contracts in FPDS-NG

Since we were unable to determine a way to definitively distinguish bridge contracts in the FPDS-NG data, we attempted to use the information about the typical length of bridge contracts as a proxy for identifying them in the database.

Many task orders and definitive contracts have initial terms of one year plus options, so we examined contracts with terms strictly less than twelve months and those with terms of six months or less. Figure 9 shows that 31 percent of new sole source definitive contracts are written for six months or less and 58 percent are written for less than one year. Task orders are even more likely to be short-term: 52 percent are written for six months or less and 73 percent for less than one year.¹¹

As we learned, due to the fact that the majority of all sole source task orders and definitive contracts are written for less than one year, there is no way to determine whether these contracts are bridge contracts, short-term projects, or an artifact of the way contracts are written using a base year plus options format. In addition, this analysis excludes modifications, which are often used for bridge contracts as well. We therefore turned to another source to estimate the effect of bridge contracts.

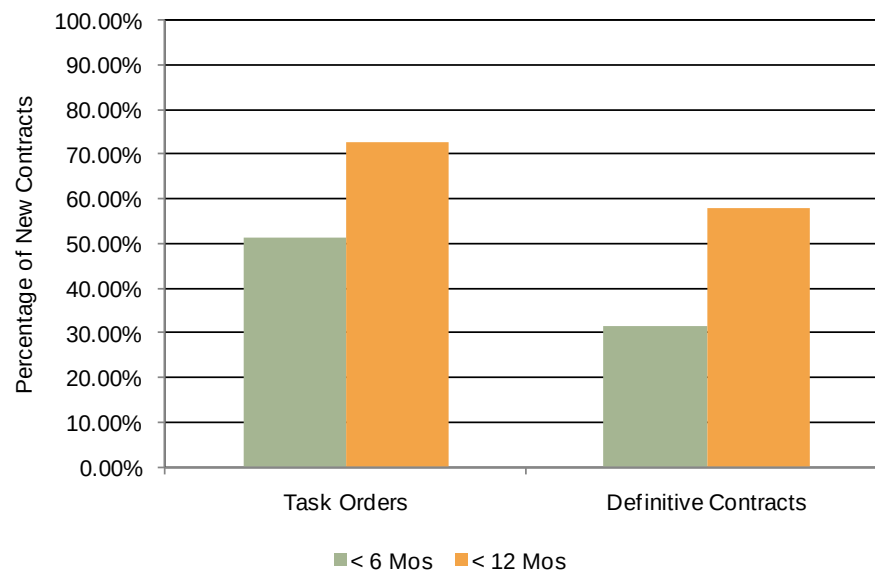


Figure 9. Percentage of New FY 2008 Contracts by Contract Length and Award Type

2. Justification and Approval Database

A J&A is a document required to justify and obtain appropriate level approvals for contracts awarded without the benefit of full and open competition as required by the

¹¹ Purchase order contracts, which we have excluded from this analysis, are typically used for small purchases, which are also likely to be short-term.

FAR. In early 2009, a requirement was implemented for federal agencies to post their J&As, with supporting documents, to the FedBizOpps website within fourteen days of their approval.

We collected all J&As posted on the FedBizOpps website between 1 March 2009 and 30 September 2009. Using the text of the J&A and attached documents, we attempted to determine whether each of the J&As was for a bridge contract. Although “bridge contract” is not an official term—and we could not find an official definition—J&As frequently (but not always) state that the sole source contract is a bridge contract. Determining which contracts are bridge contracts requires some interpretation. For the purposes of this study, we classified a contract as a bridge contract if:

- It was a not-competed contract or a sole source extension to an existing contract due to a delay, and the award process or competition was planned or had already been held, or
- The J&A stated that the contract or extension was a bridge contract.

3. Results of J&A Analysis

Over the seven months from March through September 2009, we obtained 958 J&As from the FedBizOpps website. Of these, 777 were for DOD contracts and 217 were for DOD services. The J&As showed that bridge contracts occurred in all federal agencies and in both sole source and other not-competed categories. Figure 10 shows the breakdown of the data.

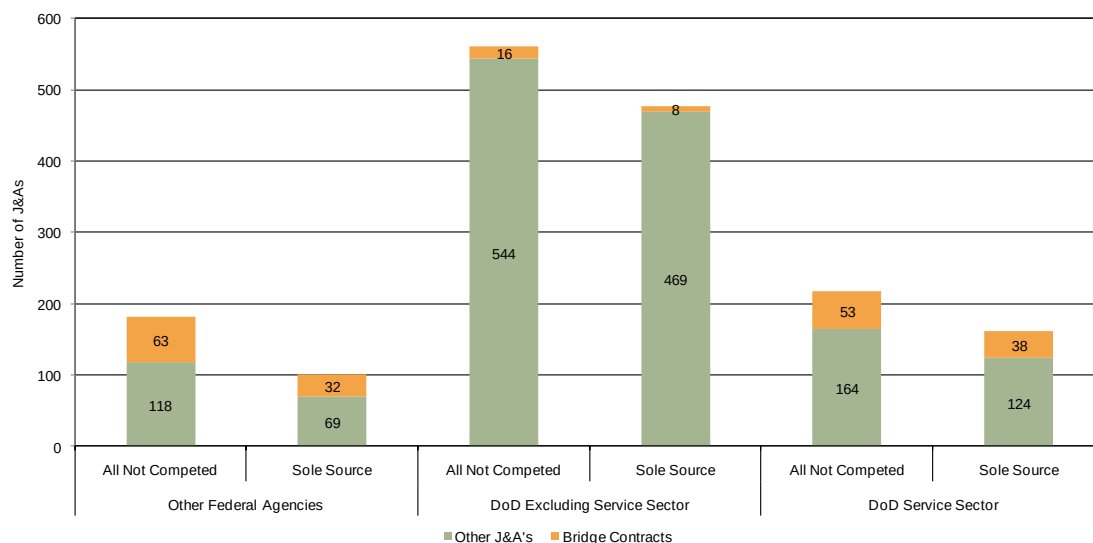


Figure 10. Breakdown of J&A Data

Figure 11 shows the percentage of sole source J&As that we classified as bridge contracts. For sole source J&As, bridge contracts were a higher percentage in the DOD services sector than in DOD as a whole, but not as high as in other federal agencies. Over 23 percent of the DOD services sector sole source J&As were identified as bridge contracts, compared with less than 2 percent of non-services DOD J&As.

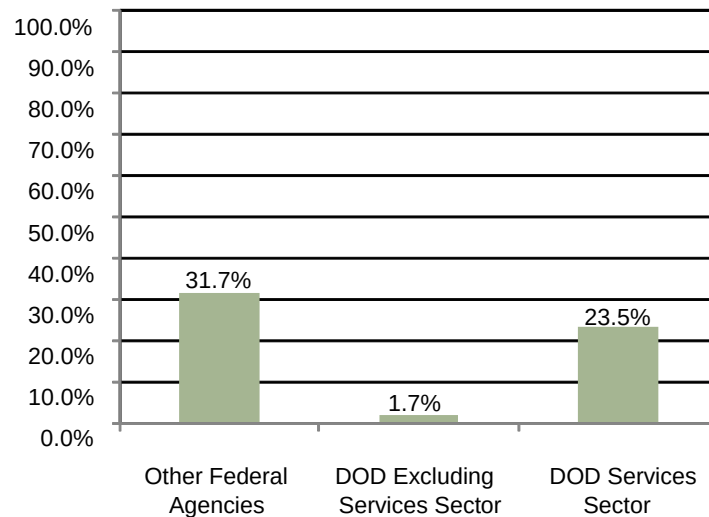


Figure 11. Percentage of Bridge Contracts in Sole Source J&As

To determine the value of the DOD services sector bridge contracts identified through the J&As, we called on the Defense Manpower Data Center (DMDC) to pull the contracts from its database and provide the contract values. The DMDC was able to match 135 (62 percent) of the 217 DOD services sector contracts, of which 25 were bridge contracts.

Of the DOD services sector J&As for which we obtained a contract value, bridge contracts represented over 10 percent of the sole source DOD services sector contract values. Due to the amount of data missing from both the bridge and non-bridge J&As, we hesitate to extrapolate this finding to estimate the total value of bridge contracts in DOD services. Due to the short-term nature of bridge contracts, however, the total contract value likely underestimates the cost of their use.

C. Sole Source Conclusions

In FY 2008, of the \$200 billion in DOD contracts for services, not-competed contracts accounted for \$46.5 billion (23 percent). Sole source contracts, a subset of not-competed contracts, accounted for \$25.9 billion (56 percent) of all not-competed contract dollars. The purpose of this study was to determine whether there were underlying causes, beyond the stated *FAR* exceptions, driving the number of sole source contracts.

The one underlying cause that we uncovered was the use of short-term contracts to fill the gap in services between the end of one contract and the beginning of the next. These bridge contracts, as they are called, are due to delays in the acquisition process. Delays can be caused by many factors at either the requiring agency, the contracting office, or from external sources.

To analyze this issue, we collected J&A documents from the FedBizOpps website from March through September 2009. We found that during this period, nearly one in four J&As for not-competed DOD services posted was a bridge contract.

The value of these short-term contracts appears to be small, about 10 percent of the total sole source J&As whose contract values we were able to obtain. However, the use of bridge contracts represents a potentially large cost to the DOD due to process inefficiencies. This cost must include the costs of preparing and administering the bridge contracts at the requiring agency, the contracting office, and the contractor. The use of bridge contracts also places a strain on the limited DOD contracting workforce because the contracts must be justified and awarded in addition to the follow-on competitions for the required services that must be performed. Finally, the DOD does not receive the benefits of competition during the period that the bridge contracts are in force.

The ability to identify bridge contracts in the FPDS-NG database would facilitate further research into this area, allowing the DOD to more definitively quantify the use of these contracts in the services sector and possibly to evaluate the cost to the Department of their use.

D. Some Policy Implications

The question that prompted the original study was whether single-offer and sole source contracts represent a lack of competition for DOD services. What we found was that the top level data may overstate the lack of competition for DOD services. Of the \$28 billion in apparent single-offer contracts, half received some level of competition. Significantly, the BAAs, SBIRs, and Multiple Award task orders are not readily identifiable from the FPDS-NG data.

This suggests, first, that the problem is much smaller than the top level statistics indicate and, second, that policies based on the assumed \$28 billion in single offer contracts may have little impact if the true number of single offer contracts is much smaller. Policies will need to be tailored to specific award types. Policies to reduce single offers on Multiple Award task orders may do little to increase offers on definitive contracts and vice versa.

Our sole source results are similar in that a significant cause, bridge contracts, cannot be identified from the FPDS-NG data. Sole source contracts account for \$25.9 billion (56 percent) of all not-competed contract dollars for DOD service sector contracts

awarded in FY 2008. In the data we collected from FedBizOpps, nearly one in four sole source DOD service contracts was a bridge contract. Bridge contracts put in place due to acquisition process delays caused by requirements documents not having been prepared in a timely manner, issues that arise during the contract review and approval process, or award protests, for example, cause services that were meant to be competed to be awarded sole source, at least in the short term.

The contract value for these contracts appears to be small, about 10 percent of the total sole source J&As whose contract values we were able to obtain. However, the cost to the DOD of their use is much larger. The cost includes the costs of preparing and administering the bridge contracts at the requiring agency, the contracting office, and the contractor. The use of bridge contracts also places a strain on the limited DOD contracting workforce because the contracts must be justified and awarded in addition to performing the follow-on competitions for the required services. Addressing process inefficiencies that cause competitive contract award delays could reduce the number of bridge contracts and save the DOD the cost of administering them.

DOD cannot address the costs of bridge contracts if it cannot identify and quantify them. In addition, general policies aimed at reducing the use of sole source are likely to have little effect in reducing bridge contracts unless those policies also address the causes of delays.

Author Biography

Susan Rose is a research staff member at the Institute for Defense Analyses. During her five years at IDA, Dr. Rose has worked on a variety of competition-related tasks for OSD. She has a Ph.D. in Economics from The Ohio State University.

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Competitiveness in the DoD Services Sector

Understanding the Contracting Data

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Institute for Defense Analyses

September 2012



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Problem Statement

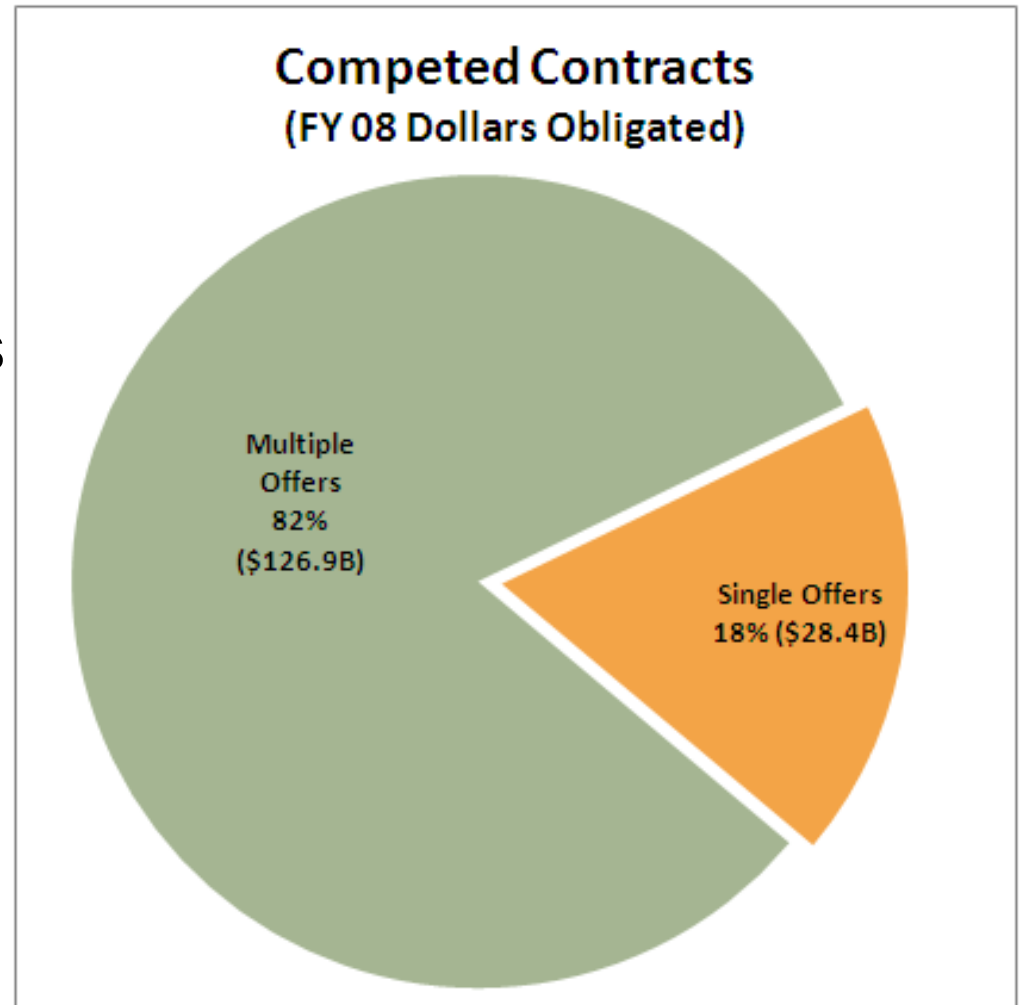
- In FY08, RDT&E and services together represented more than 50% of DoD contracts—\$201.9B
- OUSD(IP) has observed what may be less than vigorous competition in the supply of RDT&E and services to DoD
- We were asked to investigate two subsets of RDT&E and services contracts
 - ◆ \$28.4B of competed contracts that appear to have received a single offer
 - ◆ \$25.9B of contracts awarded to a sole source
- The primary objective of this briefing is to explain why high-level contracting data needs more scrutiny before drawing conclusions



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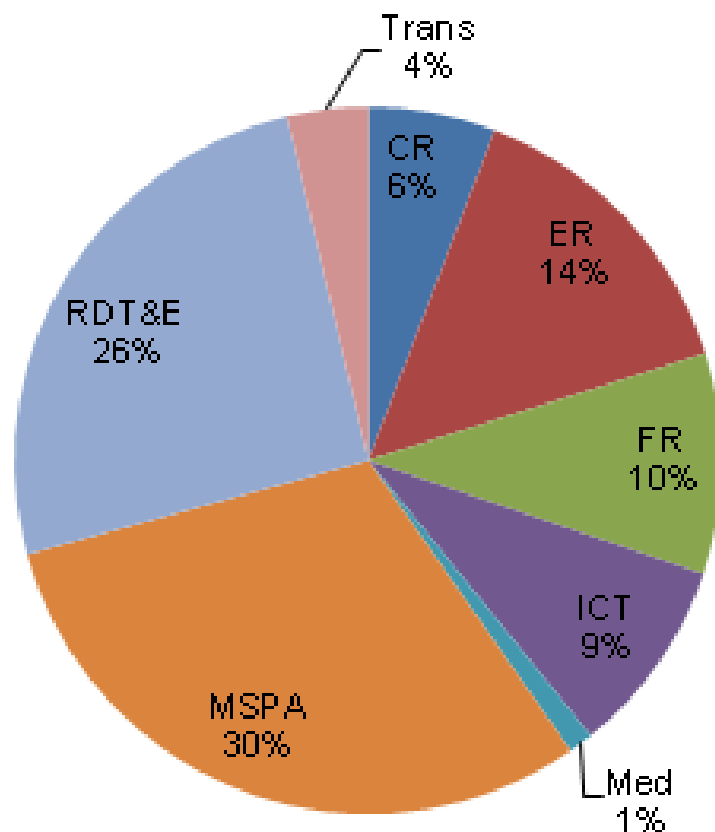
Scope of Single Offers

- In FY08 \$155.3B in competed contract dollars were awarded for RDT&E and services
- 18%, or \$28.4B, appear to have received only one offer



Single Offers by Industry Segment

- MSPA and RDT&E segments have the largest share of single offers
- However, the RDT&E numbers are misleading



RDT&E – Research, Development, Test & Evaluation
 FR – Facilities Related
 MSPA – Management Support, Professional and Administrative
 ER – Equipment Related
 CR – Construction related
 ICT – Information and Communications Technology
 Med- Medical
 Trans - Transportation

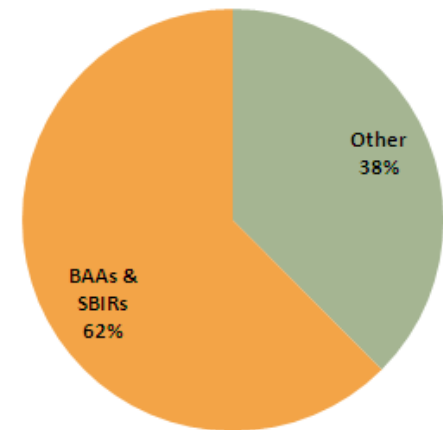


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BAAs and SBIRs in RDT&E Contracts

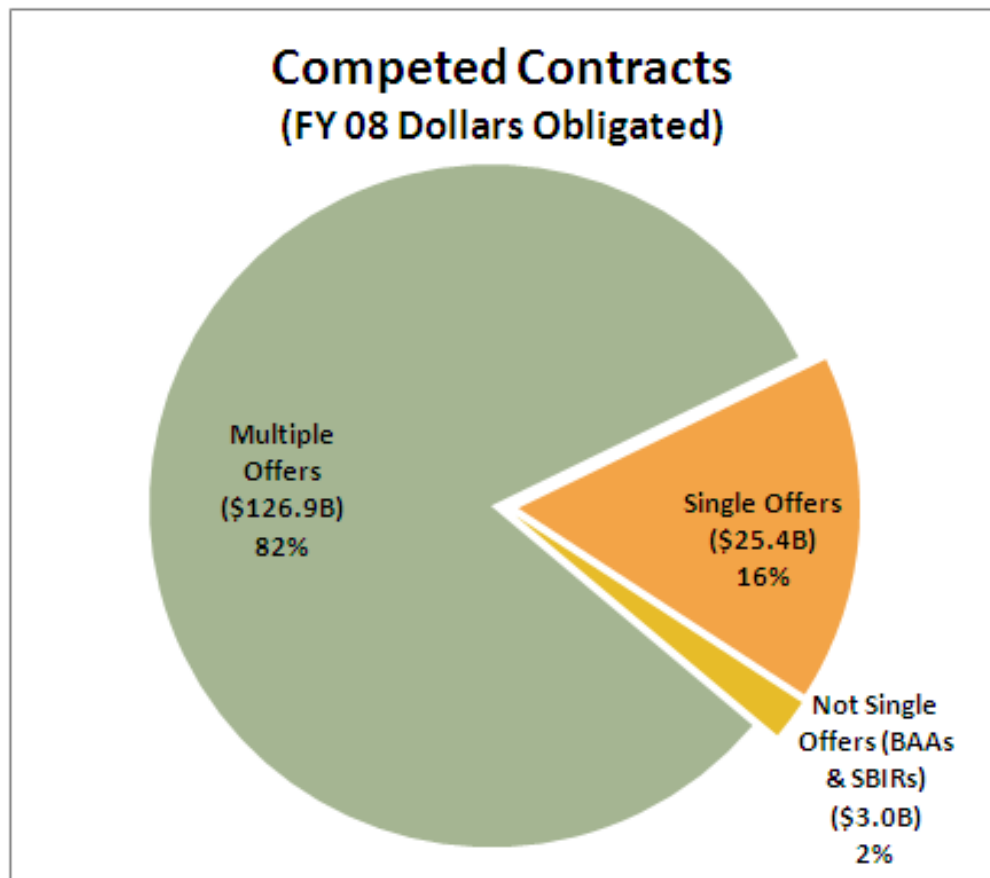
- Broad Agency Announcements (BAAs) and Small Business Innovation Research (SBIR) solicitations are a special competition category
 - ◆ BAAs and SBIRs often appear as single offer contracts in FPDS, regardless of the number of offers that were received
 - ◆ Each offer is evaluated independent of the others, and multiple awards may be made, or no award may be made
- In FPDS, BAAs and SBIRs are not distinguishable from single offers
- We asked nine contract offices representing 11.5% of RDT&E definitive contracts to categorize contracts that appeared as single offers
- Of these, BAAs & SBIRs accounted for 62%

**Single Offers on RDT&E
Contracts (FY 08 Dollars Obligated)**



Scope of Single Offers: Excluding BAAs and SBIRs

- We estimate that \$3B of the \$4.8B in apparent RDT&E single offer contracts are actually BAAs or SBIRs
- This reduces the competed contracts that appear to have received only one offer to 16%, or \$25.4B
- Additional research into this area would be facilitated by the ability to identify these BAA and SBIR contract types in the FPDS-NG database

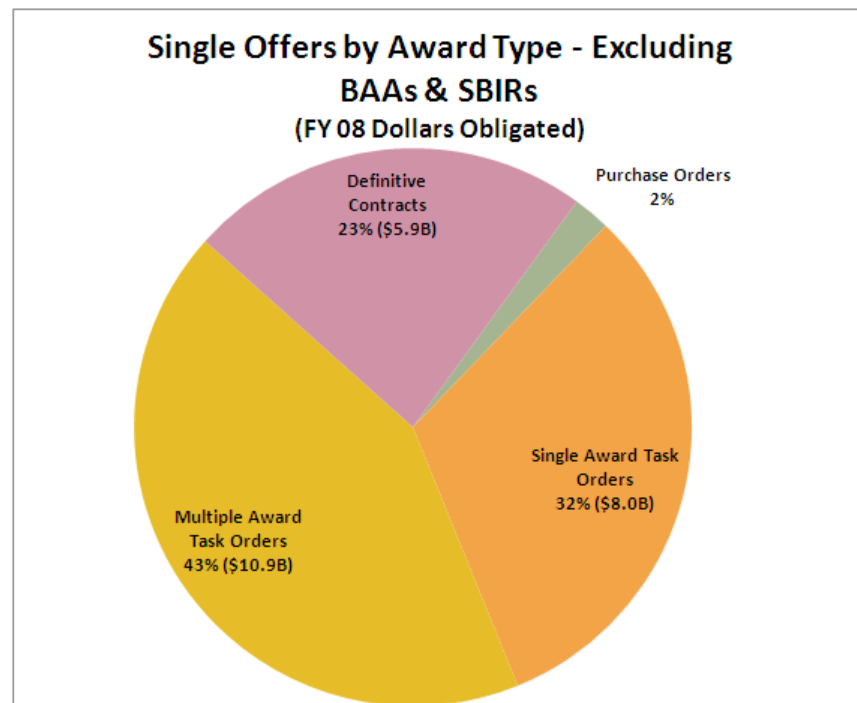


Definition of Single Offers by Award Type

- Definitive contracts include specific requirements to be provided by a single selected contractor
- Single Award Indefinite Delivery Vehicles (IDVs) select a single contractor, who will provide all of the services described in the IDV, with task orders placed as needed
 - ◆ A single award IDV task order is counted as a single offer if the original IDV contract received only a single offer. In this case, all the task orders on the IDV will be counted as having received a single offer.
- Multiple Award IDVs establish a pool of qualified contractors allowed to compete for the individual task orders
 - ◆ In this case the original IDV competition received multiple offers
 - ◆ The single offer will arise on the task order if only one of the selected contractors bids

Effect of Multiple-Award IDV Task Orders

- In FY08, excluding estimated BAAs and SBIRs, there appeared to be \$25.4B in competed contract dollars from single offers
 - ◆ Multiple award IDV task orders account for over 43% of dollars awarded by single offer (\$10.9B), but represent only 23% of competed dollars awarded
 - ◆ Single award IDV task orders account for nearly 32%, \$8.0B (30% of all competed dollars)
 - ◆ Definitive contracts account for 23%, \$5.9B (46% of all competed dollars)
 - ◆ Purchase orders account for \$0.5B, less than 2%.



**Multiple Award IDV Task Orders
are disproportionately
responsible for single offers**

Multiple Award Task Orders Receive Some Benefit of Competition

- Multiple Award IDV task orders are disproportionately responsible for single offers; however:
- We believe that it is incorrect to classify multiple award task orders receiving a single offer as having had no competition
 - ◆ The IDV competition selects a set of technically qualified contractors
 - ◆ Individual task orders are awarded through a second competition amongst the selected contractors
 - ◆ It is not clear how much of the task order parameters are competed during the original competition (price, schedule, quality...)
 - ◆ However, the existence of other qualified bidders imposes discipline on any one bidder, preventing some monopolistic behavior

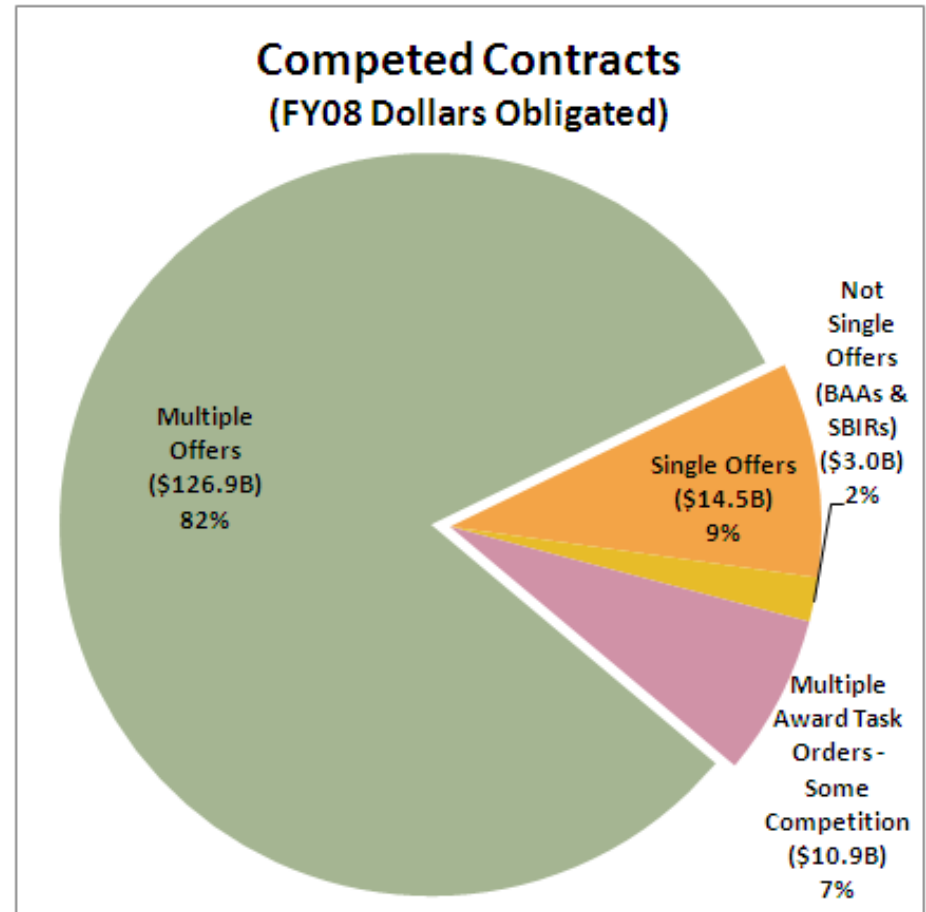
To the extent that firms believe that there will be multiple bids on the task orders, the task orders benefit from the competitive process



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Bottom Line

- In FY08, 9% (\$14.5B) of competed contract dollars received only one offer at any stage
 - ◆ 5% (\$8.0B) are from task orders written on single award IDV contracts
 - ◆ The remaining 4% (\$5.9B) are from definitive contracts



Single Offers: Conclusions

- In FY08, 18% (\$28.4B) of competed contract dollars in the service sector appeared to have been awarded with no competition. This appearance is misleading.
- \$3.0B (estimated) resulted from BAAs or SBIRs and should be excluded.
- 16% (\$25.4B) received single offers at the final award stage, but many received multiple offers at an earlier stage.
 - ◆ 7% (\$10.9B) are due to multiple award task orders for which there is an initial competition to select the firms allowed to submit offers on task orders.
 - These awards receive some level of competition due to the initial stage of competition, although it is unclear how much of the benefit is passed through
- 9% (\$14.5B) were awarded without multiple offers at any stage.

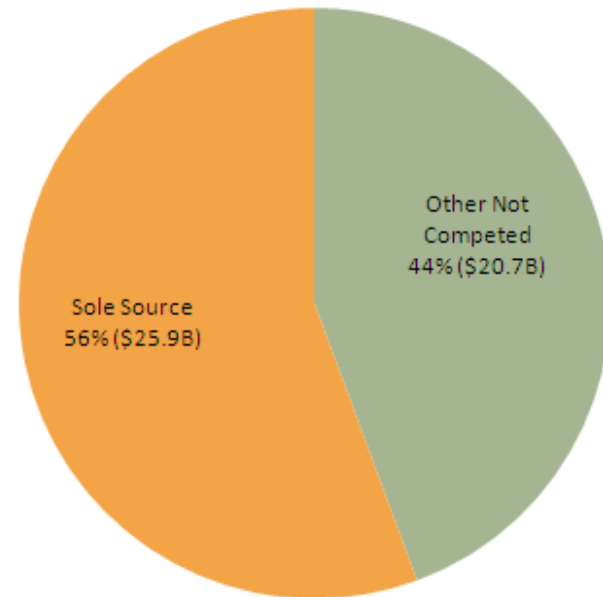


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Introduction to Not-Competed Contracts

- In FY08, not-competed contracts account for \$46.5B of DoD services contracts
- Sole source, a subset of not-competed, includes contracts exempted from competition requirements by specific FAR exceptions:
 - ◆ Follow-on contract
 - ◆ Only one source
 - ◆ Patent/data rights
 - ◆ Standardization
 - ◆ Utilities
 - ◆ Unsolicited research proposal
- Sole source contracts account for \$25.9B, 13% of all DoD service and RDT&E contract dollars

**Sole Source and Other Not Competed
(FY08 Dollars Obligated)**





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Bridge Contracts

- We identified bridge contracts as a cause of sole source contracts.
- A bridge contract is written to cover the gap between the end of one contract and the beginning of the next
- A delay in the process either delayed the new competition, or prevented the timely award of the new contract
 - ◆ Delay on customer side (e.g., requirements not submitted on time or a change in requirements)
 - ◆ Delay at contracting office (e.g., inability to use existing contract vehicle)
 - ◆ Delay from other sources (e.g., protests)

Bridge Contracts in FPDS

- FPDS does not identify bridge contracts, so we tried to quantify them using contract length as a surrogate.
- Bridge contracts appear to be a significant factor based on this analysis, but several factors complicated our assessment:
 - Some contract modifications may be bridge contracts
 - The high percentages may be an artifact of the base plus options contract format
 - Task orders may be more likely to be short-term



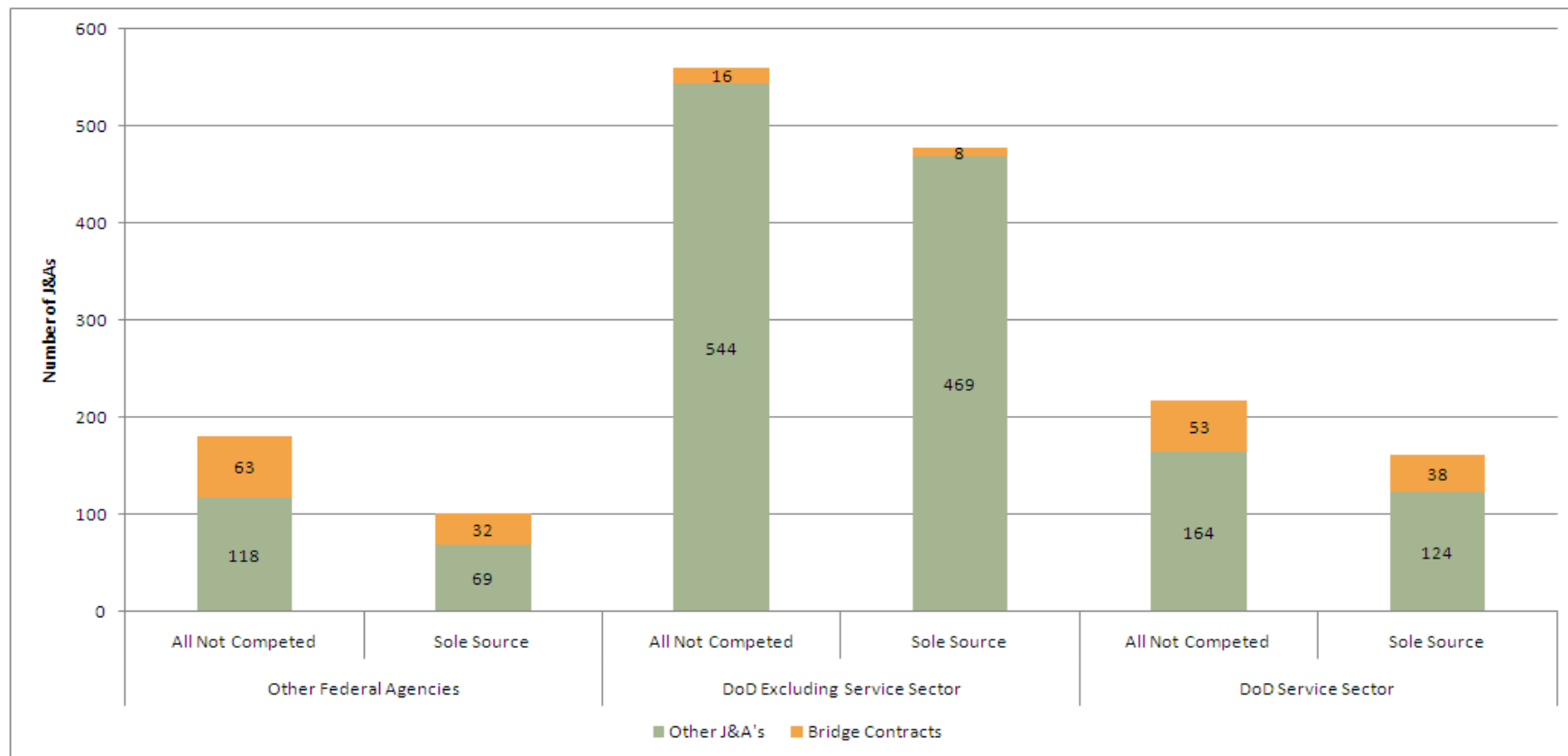
Due to the difficulty in accurately identifying bridge contracts in FPDS, we base our conclusions on the Justification and Authorization (J&A) data we collected from FedBizOpps

Bridge Contracts in FedBizOpps

- We collected all J&As posted on the FedBizOpps website from March 1, 2009 through September 30, 2009
- We define a bridge contract as follows:
 - ◆ Not-competed contract or an extension to an existing contract due to a delay and the award process or competition is planned or has already been held, or
 - ◆ The J&A states that the contract or extension is a bridge contract
 - ◆ Existence of a delay, by itself, is not enough to designate a contract as a bridge contract
- We used the text of the J&A and supporting documents to classify the contracts
- We collected 958 J&As for the seven-month period

- | | |
|---|---|
| <ul style="list-style-type: none">◆ 81% (777) were DoD contracts◆ 23% (217) were DoD service contracts | These numbers appear low, given the number of not-competed contracts in the FY08 FPDS |
|---|---|

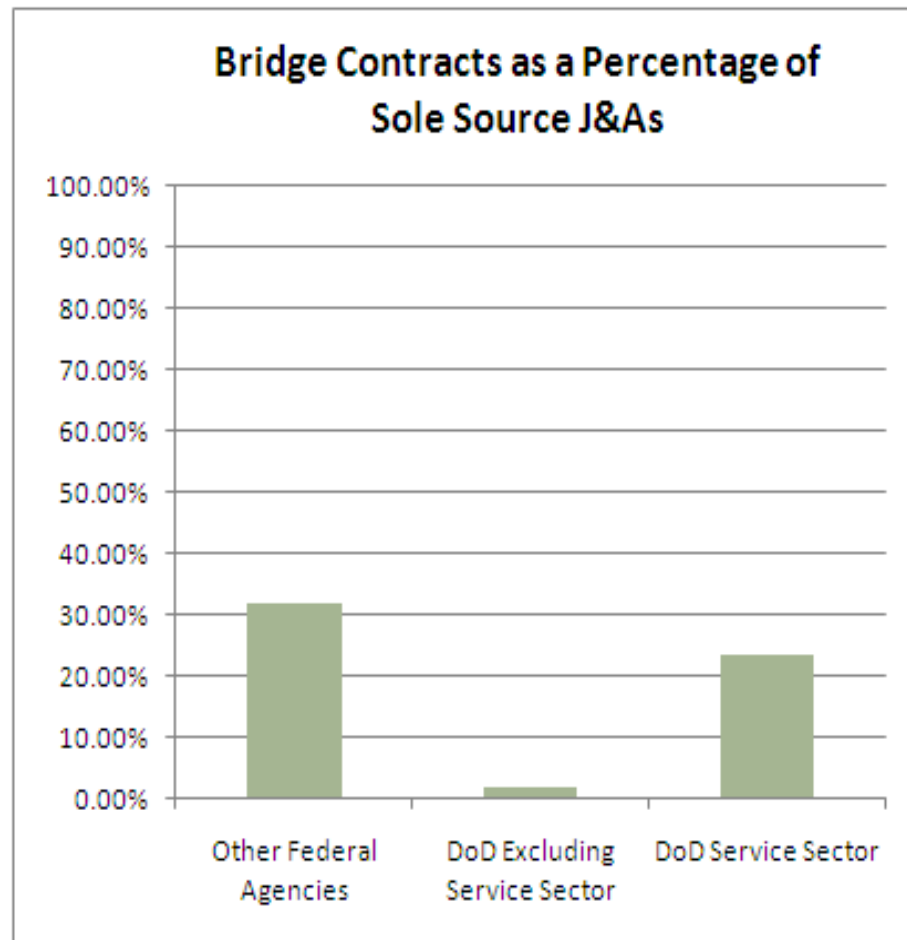
Bridge Contracts – Big Picture



- Bridge contracts occur in all Federal agencies, both in sole source and in other not-competed categories

Bridge Contracts Conclusions

- Bridge contracts are a significant source of sole source contracts in DoD services
 - ◆ 23.4% of the DoD service sector J&As collected are bridge contracts vs. 1.7% in DoD (excluding service sector) as a whole or 31.7% in all other Federal agencies
 - ◆ We were able to obtain contract values for 62% of the DoD service sector sole source J&As
 - Of these, bridge contracts account for just over 10% of the contracted value



Sole Source Conclusions

- Nearly 1 in 4 DoD service sector not-competed contracts are bridge contracts
- Though the total value of these contracts is small, this represents a potentially large cost to the DoD due to process inefficiencies
 - ◆ Administrative costs of preparing and administering the bridge contracts
 - Contracting office
 - Customer
 - Contractor
 - ◆ Places an additional strain on the limited contracting workforce
 - ◆ The DoD does not receive the benefits of competition while the bridge contracts are in force
- We have some concern that our seven months of data are not representative
 - ◆ 217 J&As collected for DoD services; however, FY08 FPDS reports over 4,000 new not-competed definitive contracts



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Backups

Differences Between BAAs, SBIRs, and RFPs

BAAs & SBIRs are not Single Offers

Many of the single offer Definitive Contracts in RDT&E are actually BAAs.

	RFP	BAA
Type of Research and Development	Focusing on a specific system or hardware solution	Scientific study and experimentation directed toward advancing the state-of-the-art
Statement of Work	The Government drafts a common SOW to which all offerors propose	The Government drafts a statement of the problem or general research interest. Each offeror proposes its own statement of work and technical approach
Proposal Comparison	All proposals are supposed to do the same thing. Winner is selected by comparing proposals	Proposals contain stand-alone unique solutions. They are not compared to one another
Nature of the Competition	Proposals address common SOW and compete, one against another. Cost, price, or best value is the deciding factor.	Each proposal presents a separate approach to solving the problem. There is technical competition in the “marketplace of ideas.” Cost or price is rarely the deciding factor on the winning proposal.
Evaluation Process	Closely follows a predetermined source selection plan	Proposals undergo a scientific review process. A proposal that is otherwise weak could be selected if it shows great technical promise



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Bridge Contract J&A Example

- **FAR 6.302-1 Only one responsible source (except brand name)**
NAICS Code: 561720 - Janitorial Services
Class Code: S - Utilities and Housekeeping Services
Contract Award Date: 03/31/2009
Subject: S--Brooke Army Medical Center Hospital Housekeeping and Linen Services
- **Description of Action:** Approval is requested to award a fixed price ***interim contract for four months*** to Quality Services International, incumbent contractor. This interim contract is necessary to ensure the continuity of services in support of the patient care and wounded warriors at the Brooke Army Medical Center until the follow-on contract is awarded...
- **Other Facts:** Proposals were received 02 Jun 2008. The Source Selection Evaluation Board (SSEB) convened from 09 Jun through 20 Jun 2008. ***Due to inconsistencies in the evaluations***, the SSEB was reconvened on 15 Aug, 18 Aug, and 24 Sep 2008. Discussion letters were issued 24 Nov 2008 with responses due 8 Dec 2008. The responses were evaluated 19 Dec 2008 and additional discussion letters were issued 22 Jan 2009 with responses due on 30 Jan 2008. The SSEB finalized their evaluations on 3 Feb 2009. On 19 Feb 2009 an amendment was issued to change the unit pricing from 2 to 5 decimal places with responses due 25 Feb 2009.



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Bridge Contracts in the J&As

Statutory Authority	All Agencies		All DoD		All DoD Services		DoD Services with Values Attached			
	Total J&As	Bridge	Total J&As	Bridge	Total J&As	Bridge	Total J&As	Bridge	J&A Values (\$M)	Bridge Values (\$M)
FAR 6.302-1 - Only one responsible source (except brand name)	615	73	527	43	147	35	95	19	\$187.10	\$19.18
FAR 6.302-1(c) - Brand name	125	5	112	3	15	3	6	1	\$1.44	\$0.00
FAR 6.302-2 - Unusual and compelling urgency	130	35	75	14	38	12	26	5	\$20.81	\$0.19
FAR 6.302-3 - Industrial mobilization; engineering, developmental or research capability; or expert services	10	2	8	2	5	1	2		\$0.28	
FAR 6.302-4 - International agreement	3		2		1		1		\$0.00	
FAR 6.302-5 - Authorized or required by statute	35	11	18	3	4		2		\$0.25	
FAR 6.302-7 Public interest	2		2							
(blank)	38	6	33	4	7	2	3		\$0.06	\$0.00
Grand Total	958	132	777	69	217	53	135	25	\$209.94	\$19.37
Percentages		13.78%		8.88%		24.42%		18.52%		9.23%
Sole Source (FAR 6.302-1 & 6.302-1(c))	740	78	639	46	162	38	101	20	\$188.54	\$19.18
		10.54%		7.20%		23.46%		19.80%		10.17%
Percentage with values - Total							62.21%			
Percentage with values - Sole Source							62.35%			

- Indefinite Delivery Vehicle (IDV) – This type of contract does not specify the quantity or specific services required. Instead, it provides a quantity range or general description of the required services.
- Single Award IDV – one contractor is selected to provide all the services required in the IDV.
- Multiple Award IDV – several qualified contractors are selected. The selected contractors compete for the individual task orders.
- Task order – An order placed against an IDV contract that details specific service requirements.