Overseas Contingency Operations Contracts after Iraq: Enabling Financial Management Research and Transparency through Contract Labeling

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What can we learn from contracting for past crises?

- Contracting during a crisis is replete with challenges. Speed and flexibility are essential because delay means urgent needs go unmet.
- As a result contracts relying on crisis funds (including emergency funds) may bypass many safeguards built into normal spending processes.
- The literature highlights three areas where crisis contracting diverges from conventional contracting: noncompetitive awards, undefinitized contract actions, and reach-back contracts.

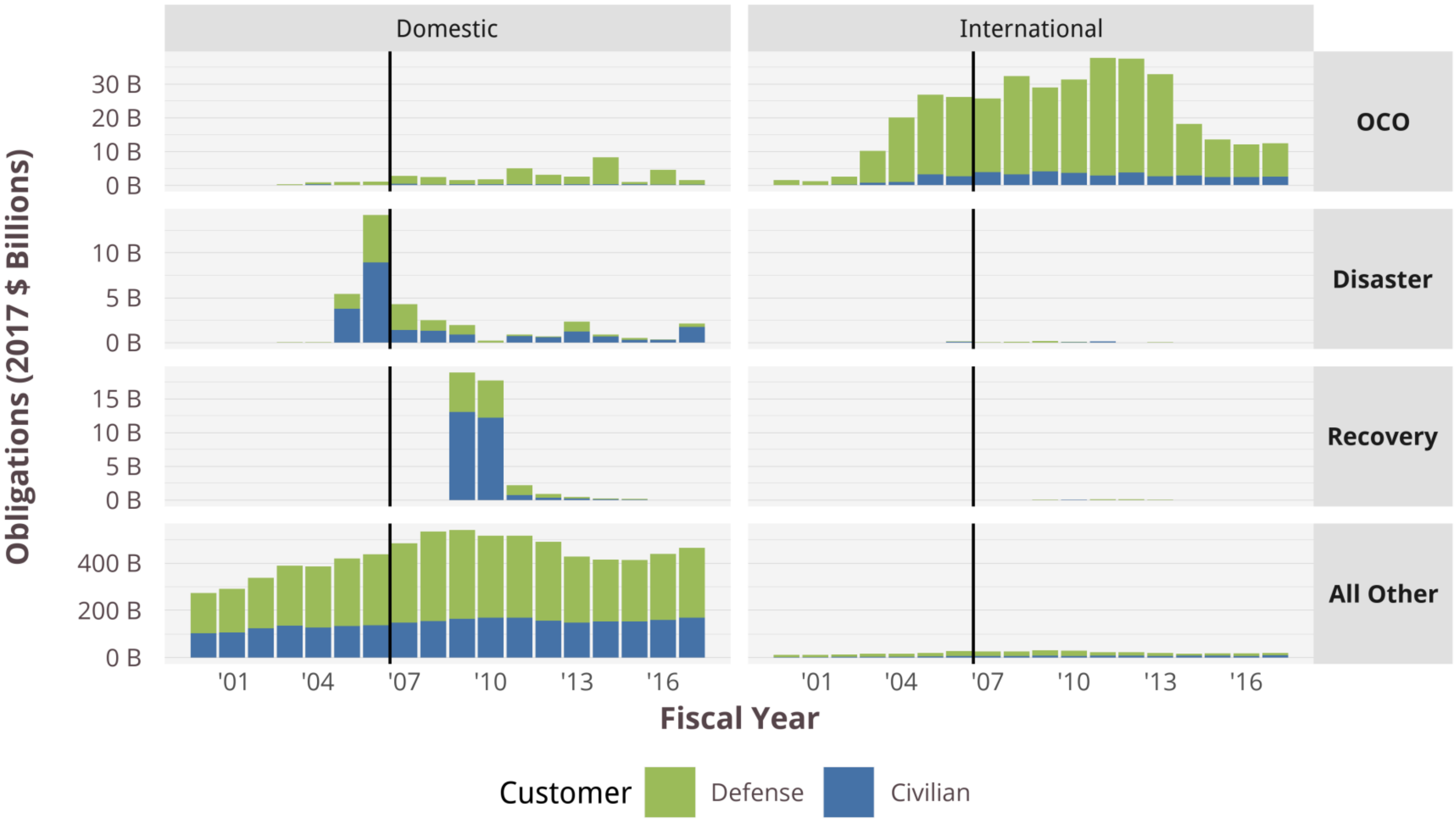
This project analyzes the interaction of these three traits with crisis contract performance across three datasets:

- Overseas Contingency Operations (OCO) funded contracting after the initial withdrawal from Iraq,
- American Recovery and Reinvestment Act (Recovery Act) contracts responding to the global financial crises, and
- Federal government contracts awarded in responses to natural disasters.

Identified Crisis-Funded Contracts

The study team identified crisis-funded contracts in FPDS:

- Disaster and Recovery identification relied exclusively on explicit contract labels.
- OCO contracting were classified using a decision tree that also included place of performance, funding account, contracting office, and product or service category.



Note: Excludes Unlabeled Place of Performance
Source: FPDS; CSIS analysis

Study period for proportion and performance comparison includes contracts begun between 2007 to 2015.

Hypothesis 1: Crisis-Funded Contracting and Performance

Crisis-Funding and Likelihood of Termination or Ceiling Breach– Direct Relationship

$\underline{H_1}$: Crisis-funded contracts are more likely to experience poor performance.

Results

$\underline{H_1 \text{ was partially upheld}}$. Recovery Act and Disaster contracts were more likely to face ceiling breaches than conventional contracts (odds ratio 2.18 and 1.41 respectively and significant at the 0.1 percent and 5 percent levels, respectively). OCO contracts were not more likely to experience breaches. None of the categories were significantly more likely to be terminated.

Photo Credit: U.S. Army (2014) "The role of administrative contracting officers"
Available at: https://www.army.mil/article/132475

Aggravating or Mitigating Factors for Crisis Contracting

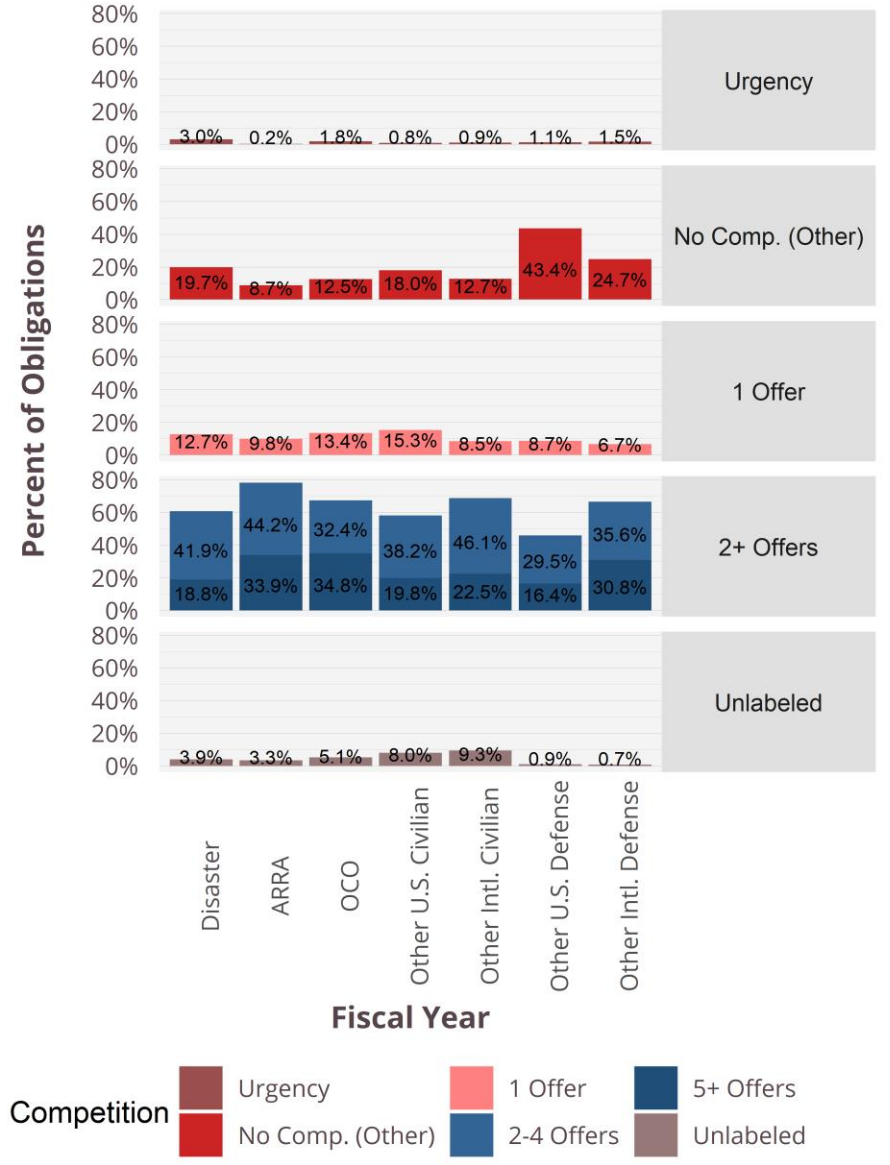
In reviewing the literature, we identified three contracting characteristics of relevance to crisis contracting

- **Noncompetitive Awards -** The ability to bypass competition when awarding contracts due to urgency is an important but controversial aspect of contingency contracting because competition can lead to delays.
- **Undefinitized Contract Actions -** Undefinitized contract actions (UCAs) allow production to start without defining all of the terms of the contract.
- **Reach-back Contracting –** Reach-back contracting allows contracting officers in the field to "reach-back" to domestic contracting officers for support in contingency operations.

Noncompetitive Awards and Crisis-Funded Contracts

- Recovery Act obligations achieve robust levels of multi-offer competition, 20 percentage points higher than other domestic civilian contracting.
- Disaster contracting is competed at rates comparable to other domestic civilian contracting but below rates for international contracting.
- OCO contracting is competed at rates comparable with other international defense contracts and 21 percentage points higher than domestic defense contracting.
- Urgency exceptions are rare across the board, though highest for disaster (3.0%), OCO (1.8%), and other defense international contracting (1.5%).

Share of Obligations by Extent Competed



Hypothesis 2: Non-Competive Awards and Crisis-Funded Contracts

Crisis-Funded Non-Competitive Awards and Likelihood of Termination or Ceiling Breach–Direct Relationship

$\underline{H_{2A}}$: Increasing (decreasing) competition makes poor contract performance less (more) likely for crisis-funded contracts.

$\underline{H_{2B}}$: The use of urgency exception to competition requirements makes poor crisis-funded contract performance more likely.

Results

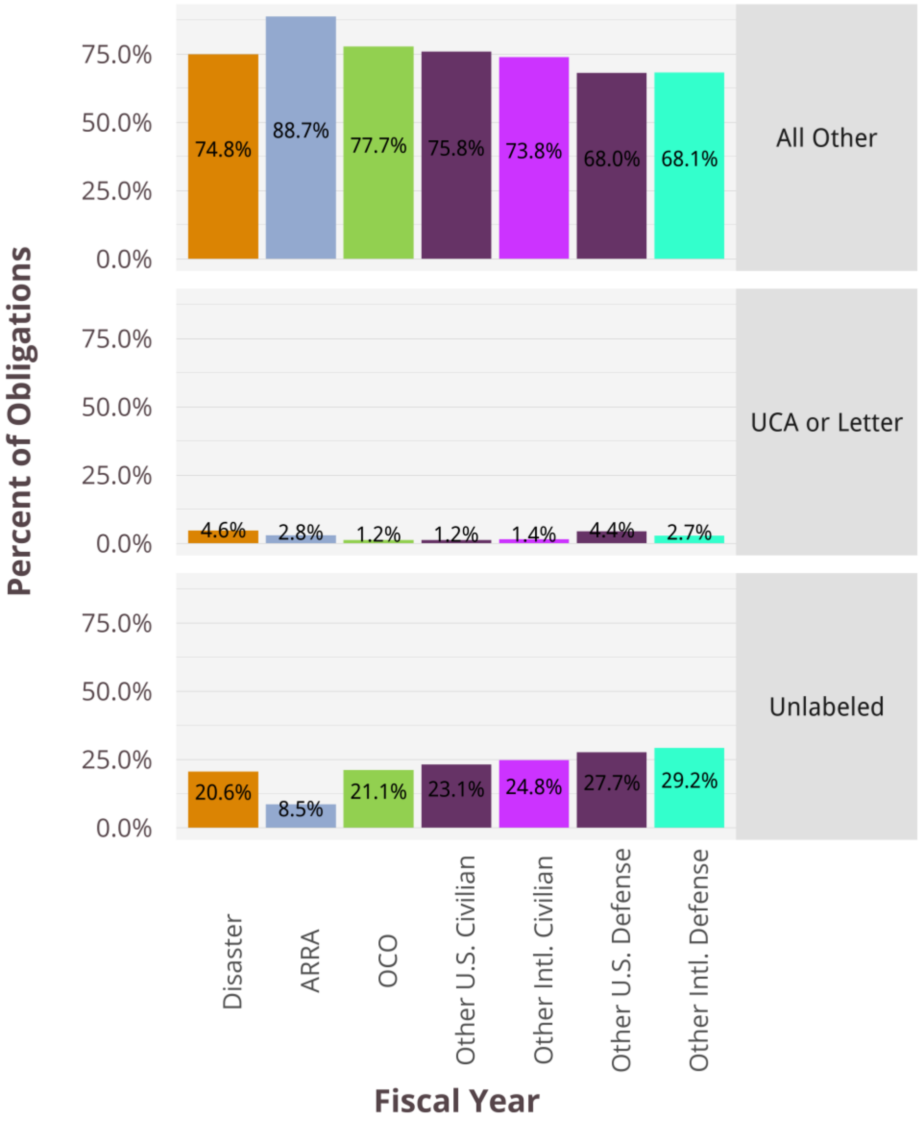
$\underline{H_{2A \text{ and }}H_{2B}}$ <u>were upheld for ceiling breaches but not terminations.</u>

- Relative to contracts competed with 2-4 offers, those with 5 or more offers were found to be 0.78 times less likely to experience ceiling breaches (significant at the 0.1 percent level). In the federal model, these contracts were significantly more likely to experience a contracting breach.
- In the crisis-only model, contracts using the urgency exception were breaches were 1.44 times more to experience ceiling breaches than those competed with 2-4 offers (significant at the 0.1 percent level). No relationship was found in the federal model.

UCA and Crisis-Funded Contracts

- At the time of dataset assembly, FPDS failed to report whether UCA contracts were employed in the later years of the study period.
- Obligations for disaster and Recovery Act contracts went to UCAs at rates of 4.6% and 2.8% respectively, notably higher than for U.S. civilian contracting.
- OCO contracts diverge in the other direction, with UCAs only accounting for 1.2 percent of obligations, less than half of the rate for international defense contracts and well below the rate for domestic defense contracting.

Share of Obligations by UCA usage



Source: FPDS; CSIS analysis

Hypothesis 3: UCA and Crisis-Funded Contracts

Crisis-Funded UCAs and Likelihood of Termination or Ceiling Breach– Direct Relationship

$\underline{H_3}$: The use of UCAs makes poor crisis-funded contract performance more likely

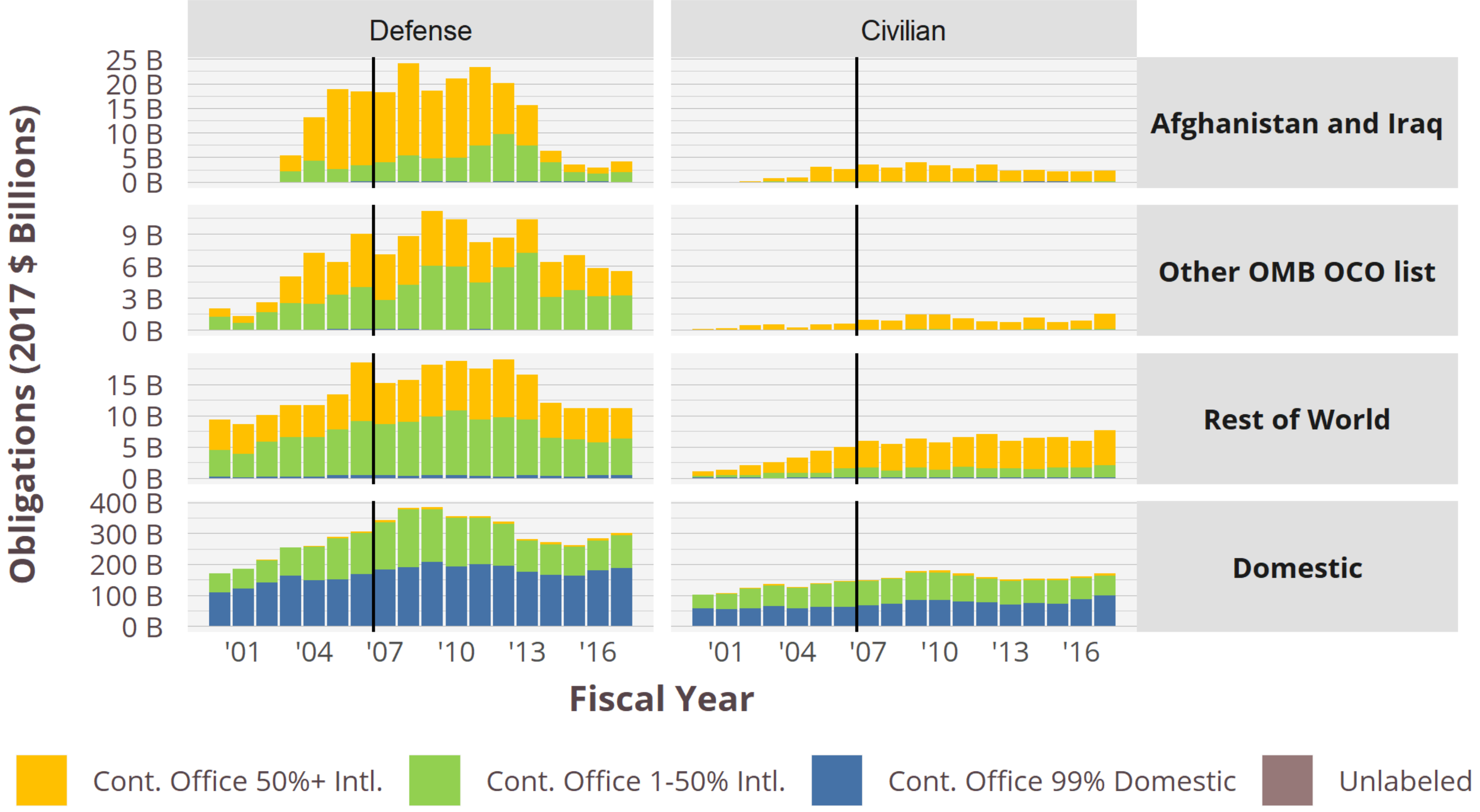
Results

$\underline{H_3 \text{ was not upheld.}}$ UCA contracts in the federal model were more likely to experience ceiling breaches (odds ratio 1.73 significant at the 0.1 percent level) and terminations (odds ratio 2.16 significant at the 0.1 percent level). However, no significant relationship between UCA and likelihood of ceiling breaches or terminations was for crisis-funded contracts.

Reach-Back and Crisis-Funded Contracts

- Contracting offices were categorized by the proportion of their obligations with an international place of performance.
- Internationally oriented contracting offices do little taking place domestically and vice versa. This relationship is stronger for civilian contracting.
- Drawdowns in Afghanistan and Iraq correlated with a greater reliance on mixed contracting offices.

Proportion of UCA by Dataset



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Source: FPDS; CSIS analysis

Study period for proportion and performance comparison includes contracts begun between 2007 to 2015

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Hypothesis 4: Reach-Back Contracting

Reach-Back Contracting and Likelihood of Termination or Ceiling Breach– Inverse Relationship

$\underline{H_4}$: The use of domestically focused contracting offices makes poor crisis-funded contract performance less likely

Results

$\underline{H_4}$ was not upheld.

- The domestic or international orientation of contracting offices had no significant relationship with the likelihood of ceiling breaches.
- In the terminations model, there was no significant difference between domestically-oriented and mixed offices. That said, crisis-contracts managed by offices with 50 percent or more of their obligations performed abroad were 0.61 as likely to be terminated as those managed by domestically oriented offices (significant at the 1 percent level).

Discussion and Conclusions

- Overcoming reporting gaps makes clear that defense OCO contracting has declined quickly and then stabilized.
- OCO contracts were not inherently at greater risk of termination or ceiling breaches, although disaster and Recovery Act contracts did correlate with more ceiling breaches.
- By contrast, civilian crisis-funded spending remains comparatively stable, even after the drawdowns.
- Contracting for disasters dropped off during the study period, perhaps due to a shift to grants or a decline in the quality of labeling.
- Contracting officers managing crisis contracts appear to be eschew use what the literature considers to be higher risk approaches. Crisis-funded competition rates are often above the rates in comparable non-crisis categories.
  - Perhaps due to this conservatism, these higher risk mechanisms did not have worse performance for crisis-funded contracts than federal contracting overall. The exception was the higher risk of ceiling breaches for non-competitive awards using urgency exceptions.

Odd Ratios for Study Variables and Ceiling Breach Likelihood

Federal Contract Model

Variable	Odds Ratio	Lower Bound	Upper Bound
Baseline=Not Crisis			
Crisis=Recovery Act	2.18***	1.85	2.57
Crisis=Disaster	1.41*	1.05	1.89
Crisis=OCO	1.12	0.93	1.36
Baseline = Comp w/2-4 offers)			
No Comp., Urgency	1.16	0.94	1.43
No Comp., Other	1.01	0.95	1.08
Comp. w/ 1 Offer	0.94.	0.87	1.01
Comp. w/ 5+ Offers	1.12**	1.04	1.21
UCA	1.73***	1.52	1.97
Baseline= Cont. Office <1% Intl			
Cont. Office 1-50% Intl	1.04	0.9	1.2
Cont. Office 50%+ Intl.	1.18	0.87	1.58

Crisis-Funded Contract Model

Variable	Odds Ratio	Lower Bound	Upper Bound
Baseline=OCO contracting			
Crisis=Recovery Act	1.43***	1.25	1.64
Crisis=Disaster	1.26**	1.08	1.46
Baseline = Comp w/2-4 offers)			
No Comp., Urgency	1.44***	1.17	1.77
No Comp., Other	0.89*	0.81	0.98
Comp. w/ 1 Offer	0.78***	0.7	0.87
Comp. w/ 5+ Offers	0.71***	0.62	0.8
UCA	1.02	0.88	1.19
Baseline= Cont. Office <1% Intl			
Cont. Office 1-50% Intl	1.31	0.95	1.82
Cont. Office 50%+ Intl.	1.13	0.71	1.78

$^{***}p < 0.001$, $^{**}p < 0.01$, $^{*}p < 0.05$, $^{\cdot}p < 0.1$.

Source: FPDS; CSIS analysis

Odd Ratios for Study Variables and Terminations Likelihood

Federal Contract Model

Variable	Odds Ratio	Lower Bound	Upper Bound
Baseline=Not Crisis			
Crisis=Recovery Act	0.79	0.52	1.21
Crisis=Disastera	1.46	0.88	2.44
Crisis=OCO	1.08	0.84	1.39
Baseline = Comp w/2-4 offers)			
No Comp., Urgency	0.79	0.6	1.04
No Comp., Other	0.69***	0.64	0.74
Comp. w/ 1 Offer	0.7***	0.65	0.76
Comp. w/ 5+ Offers	1.28***	1.21	1.37
UCA	2.16***	1.81	2.58
Cont. Office Crisis %	1.06	0.99	1.12
Baseline= Cont. Office <1% Intl			
Cont. Office 1-50% Intl	1.12	0.97	1.28
Cont. Office 50%+ Intl.	0.6*	0.4	0.9

Crisis-Funded Contract Model

Variable	Odds Ratio	Lower Bound	Upper Bound
Baseline=OCO contracting			
Crisis=Recovery Act	0.92	0.73	1.16
Crisis=Disaster	0.94	0.72	1.21
Baseline = Comp w/2-4 offers)			
No Comp., Urgency	1.19	0.89	1.59
No Comp., Other	0.57***	0.5	0.66
Comp. w/ 1 Offer	0.65***	0.57	0.74
Comp. w/ 5+ Offers	1.05	0.95	1.15
UCA	1	0.66	1.51
Cont. Office Crisis %	**1.07**	**1.01**	**1.13**
Baseline= Cont. Office <1% Intl			
Cont. Office 1-50% Intl	1.31	0.95	1.82
Cont. Office 50%+ Intl.	1.13	0.71	1.78

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$^{***}p < 0.001$, $^{**}p < 0.01$, $^{*}p < 0.05$, $^{\cdot}p < 0.1$. *Source: FPDS; CSIS analysis*