

**Review of Contracting for Executive Search Services**  
**Report No. 98-10, March 27, 1998**

**Background**

In October 1995, the Railroad Retirement Board (RRB) hired a Chief Information Officer (CIO) to direct critical information systems operations and to ensure the agency's systems are "Year 2000" compliant. Twelve months later, the CIO resigned and the agency sought to fill the position.

In March 1997, the Board Members approved \$40,000 for a contract with an executive search firm to assist in filling the vacant CIO position. The OIG questioned the benefit of such a contract and recommended that the agency not enter into such a contract because the funds could be put to better use. The agency did not respond to the OIG's recommendation and continued with the procurement.

The OIG reviewed the contract before its implementation to determine compliance with the Code of Federal Regulations (CFR) which limits the use of commercial recruiting firms. The CFR requires commercial recruiting firms to serve only as an additional source of applicants and requires the agency to evaluate and appoint applicants through regular civil service procedures. Because the contract delegated functions required to be performed by the agency, the OIG recommended that corrective action be taken. The agency modified the contract by adding a single statement that all services provided by the contractor will comply with Title 5 CFR 300.405. The original contract called for the contractor to assess potential candidates. This activity would have violated the regulations. Based on the modification, the contractor only assisted in the assessment and ranking of candidates. No reduction of contract fees accompanied this change.

In an effort to ensure compliance with the regulations, RRB officials asked the RRB's General Counsel to review the contract. The General Counsel stated that the contract is adequately restricted and controlled to ensure compliance with Part 300 Subpart D of Title 5 CFR. The General Counsel's review disclosed no inconsistency with Federal procurement requirements.

**Objective, Scope and Methodology**

The OIG's primary objectives were to determine if:

- C The contractor fully complied with the contract;
- C The RRB adequately monitored the performance of the contract; and,
- C The RRB and the contractor complied with applicable laws and regulations.

To meet the objectives, we reviewed the contract file, applicable laws and regulations and

interviewed RRB officials, contractor personnel, and the new Chief Information Officer.

We performed the review using generally accepted government auditing standards appropriate to our objectives. We conducted the review at RRB headquarters from December 1997 through March 1998.

## **Results of Review**

The contractor fully complied with the contract, as modified, and the RRB adequately monitored the performance of the contract. However, the RRB did not fully comply with all applicable laws and regulations. Specifically, the RRB does not have records to determine that using a commercial recruiting firm was cost effective. There is no evidence that the RRB determined that using a commercial recruiting firm would likely have produced well qualified candidates who would otherwise not have been available or that well qualified candidates were in short supply. In addition, the contract did not contain all the qualification requirements for the position to be filled.

## **Cost Effectiveness of the Contract**

Title 5 CFR Section 300.407 states, in part, that "Agencies are required to maintain records necessary to determine that using commercial recruiting firms or nonprofit employment services is cost effective...." The Managerial Cost Accounting Implementation Guide, issued jointly by the Chief Financial Officers Council and the Joint Financial Management Improvement Program, defines cost effectiveness as follows: "Among decision alternatives, the one whose cost is lower than its benefit. The most cost-effective program would be the one with the lowest cost-benefit-ratio among various programs competing for a given amount of funds."

RRB officials stated that the RRB did not have the technical expertise to properly evaluate the CIO candidates and could not perform the contracted activities internally without obtaining this expertise. Therefore, the RRB did not perform a cost study to determine the cost of hiring the CIO without the assistance of a contractor. The officials stated that the contract was cost effective because the benefits derived from the contract were greater than the cost of the contract. They also referred us to the Office of Federal Procurement Policy Letter 93-1 which states, in part, that "full and open competition will assure cost effectiveness"(Part 7 Section e.). The RRB did review several proposals for this contract. However, the RRB did not determine the cost of recruiting and evaluating candidates using existing agency resources.

Without internal cost data, the RRB was unable to determine if entering into the executive search firm contract was the most cost effective alternative, or if some or all the \$36,145 spent on the contract could have been put to better use.

## **Required Determination**

Title 5 CFR Section 300.403 states, in part, “An agency may use a commercial recruiting firm ... in recruiting for vacancies when: (a) The agency head or designee determines that such use is likely to produce well qualified candidates who would otherwise not be available or that well qualified candidates are in short supply.” In a memo dated June 2, 1997, the OIG asked for a copy of any such determination. The RRB has not produced evidence that the determination was made. The RRB’s General Counsel stated that this requirement was met because the Board approved the use of a commercial recruitment firm, and the agency continued to conduct recruitment activities. However, the Board’s approval does not mean that the RRB made the required determination.

### **Qualification Requirements**

Title 5 CFR Section 300.405(b) states, in part, “The contract must include the qualifications requirements for the position(s) to be filled....” This contract did not meet this requirement. The RRB could not include all the qualifications in the contract because part of the contract was for assistance in developing the qualifications. However, the contract should have included the five mandatory executive qualifications that are required for all Senior Executive positions.

### **Conclusion**

The RRB’s 1995 search for a CIO generated 149 expressions of interest and led to the identification of 8 individuals deemed highly qualified. The RRB was clearly capable of identifying suitable candidates without the assistance of an executive search firm.

In addition, the CIO’s of most federal agencies are career federal employees. A recent survey of current CIO’s at 21 federal agencies showed that the vast majority (16 of 21) had long experience either within their agency or in federal service. The RRB’s selection of an individual from within the Federal community makes the need for the contract even more questionable.

In the opinion of the OIG, the RRB could have performed all the activities performed by the contractor. For example:

- C The advertisement produced by the contractor was very similar to the advertisement produced by the agency for the last CIO vacancy.
- C The RRB’s Bureau of Personnel is capable of performing reference checks and verifying university degrees.
- C The selecting officer should have been able to determine the technical competency of the candidates based on the reference checks and the interview process.

The RRB should not have entered into this contract unless it proved to be the most cost effective alternative. The agency has not made a convincing argument that contracting

was the best alternative.