

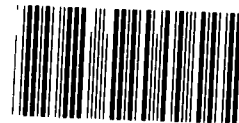
GAO

Briefing Report to the Chairman,
Committee on Government Operations,
House of Representatives

July 1986

ADP EQUIPMENT

FAA's Use of a Suspended Contractor



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UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

INFORMATION MANAGEMENT
& TECHNOLOGY DIVISION

R-222233

July 1, 1986

The Honorable Jack Brooks
Chairman, Committee on
Government Operations
House of Representatives

Dear Mr. Chairman:

In response to your January 27, 1986, request, we have reviewed actions that the Federal Aviation Administration (FAA) has taken or plans to take regarding its contracts with Paradyne Corporation. Specifically, you asked us to evaluate FAA's need to continue using Paradyne equipment and services and the legality and appropriateness of any actions that FAA has taken in response to Paradyne's suspension. In relation to the first point, you also asked us to assess the potential impact of switching vendors on FAA's schedule for implementing the National Airspace System Plan, a comprehensive plan for improving air traffic control and services, and on air traffic control safety. On April 29, 1986, we briefed members of your staff on the results of our review. This report provides a written record of those results.

In December 1985, a Federal grand jury indicted Paradyne Corporation and several of its officials on the basis of their alleged involvement in a conspiracy to defraud the government. During that same month, the Department of Health and Human Services suspended Paradyne from government work. Under federal regulations, suspended contractors are excluded from receiving new government contracts or renewals to existing contracts unless the acquiring agency determines that there is a compelling reason for such actions to continue. A suspension by one agency applies to all other executive branch agencies; thus, the suspension affected a contract that the Defense Communications Agency (DCA) had awarded to Paradyne Corporation on behalf of FAA. The contract provides telecommunications equipment, training for FAA personnel who operate and maintain the equipment, and maintenance services on certain equipment.

FAA uses the Paradyne equipment to transmit aircraft surveillance information from radar sites to one or more of its 20 Air Route Traffic Control Centers. The original contract with Paradyne became effective on April 21, 1983, for one year,

renewable at the government's option for up to 60 months. Under the contract terms, the equipment is leased with an option to purchase. As of February 1986, FAA had exercised the purchase option for about 25 percent of the equipment and was leasing the remaining equipment.

In January 1986, FAA wrote to DCA asking for an exemption from the suspension to permit renewal of the Paradyne contract in April 1986. Federal regulations allow agencies to grant exemptions to suspensions when compelling reasons exist for continuing business with suspended contractors. According to FAA, the contract renewal was necessary to continue existing lease and maintenance agreements and to obtain additional equipment needed to support various National Airspace System projects. In February 1986, DCA granted an exception to Paradyne's suspension on the basis of FAA's claim that expiration of the Paradyne contract would result in removal of equipment from radar sites and, consequently, that serious degradation in the safety of the air traffic control system would occur.

With regard to FAA's need to continue using Paradyne equipment, we found that FAA can obtain equipment and services from vendors other than Paradyne to meet those functional needs currently supported by Paradyne. FAA acknowledges that other vendors have equipment similar to Paradyne's. However, FAA considers changing equipment impractical because of the time and money required to change vendors. Obtaining equipment from a vendor other than Paradyne will result in a 1- to 2-year delay in completing the Data Multiplexing Network project--a project intended to provide the telecommunications services needed to support FAA's National Airspace System Plan. Obtaining equipment from another vendor could also result in duplicating actions such as equipment purchases, equipment installation, and operator and maintenance training. In our opinion, air traffic control safety will not be adversely affected as long as existing equipment remains in place and is maintained until it can be replaced by alternate equipment performing equivalent telecommunications functions.

With regard to the legality and appropriateness of FAA's actions in response to Paradyne's suspension, we found that the procedures followed by FAA and DCA in requesting and granting an exception from the suspension order complied with the applicable federal procurement regulations. We agree that contract renewal was justified based on the need to continue using existing equipment and maintenance agreements. However, we did not find FAA's arguments for obtaining additional equipment convincing. Furthermore, FAA has exercised purchase options since obtaining the exception but has not presented evidence demonstrating that the purchases were necessary at this time. Finally, we found

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that although FAA has discussed consequences of the Paradyne suspension internally, it has not documented analyses of potential alternatives to continuing business with Paradyne.

This report is based largely on interviews with and information obtained from FAA and Department of Defense officials, plus interviews with representatives from firms marketing equipment similar to Paradyne's. As you requested, we did not obtain formal agency comments and did not give FAA a copy of this briefing report. However, throughout our review, we have discussed our principal findings and the issues covered in this report with FAA officials.

As arranged with your office, we plan no further distribution of the report until 30 days after its issue date unless you publicly announce its contents earlier. At that time, we will send copies to interested parties and will make copies available to others upon request.

Should you desire additional information on our work, please contact Thomas Giammo, Associate Director, on 275-3195.

Sincerely yours,

A handwritten signature in black ink that reads "Warren G. Reed". The signature is written in a cursive style with a large, prominent "W" and "R".

Warren G. Reed
Director

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ABBREVIATIONS

DCA Defense Communications Agency
DECCO Defense Commercial Communications Office
FAA Federal Aviation Administration
NAS National Airspace System

ADP EQUIPMENT
FAA'S USE OF A SUSPENDED CONTRACTOR

OBJECTIVES

In a January 27, 1986, letter (appendix I), the Chairman, House Committee on Government Operations, asked us to determine what actions the Federal Aviation Administration (FAA) has taken or plans to take regarding its contracts with Paradyne Corporation, a suspended contractor. The Committee was interested primarily in whether or not contractors other than Paradyne could supply equipment and services to meet FAA's needs, and whether or not FAA acted legally and appropriately in responding to Paradyne's suspension. We were also asked to address the consequences to the government of FAA's obtaining equipment from a vendor other than Paradyne.

SCOPE AND METHODOLOGY

In performing this assignment, we interviewed FAA officials and obtained and analyzed FAA correspondence, technical manuals, and procurement and planning documents to determine the status and functions of the Paradyne equipment. In determining the costs and status of the Paradyne equipment that FAA uses, we extracted information from databases obtained from FAA. These databases are the same ones used by the FAA project office to track Paradyne equipment installation and operation.

We also interviewed officials at Defense Communications Agency (DCA) headquarters and the Defense Commercial Communications Office, a component of DCA located at Scott Air Force Base, to determine their roles in obtaining the Paradyne equipment.

We reviewed portions of the Federal Acquisition Regulation and the associated Department of Defense supplemental regulations to assess the legality of FAA's and DCA's actions.

In order to determine the uniqueness of Paradyne's equipment, we interviewed representatives from four firms--Case Communications, Codex, Racal-Milgo, and Penril DataComm. We chose these firms because their products included automated telecommunications equipment similar to Paradyne's. Through our interviews, we obtained information regarding the availability of equipment that might be used by FAA in place of the Paradyne equipment.

We performed our work in the Washington, D.C., area and at Scott Air Force Base, Illinois, between February and April 1986.

We did not obtain formal agency comments on this report; however, throughout the review, we did discuss our principal

findings and the issues covered in this report with FAA officials.

BACKGROUND

In the early 1970's, FAA and the Defense Commercial Communications Office (DECCO) established an agreement authorizing DECCO to procure FAA's long-distance communications equipment and services. Since then, DECCO has served as FAA's contracting officer in leasing and purchasing certain telecommunications equipment. FAA provides a contracting officer's technical representative to coordinate with the contractor, other parts of FAA, and DECCO.

In September 1982, DECCO issued a request for procurement that included equipment necessary for FAA to implement a project in the National Airspace System (NAS) Plan. The NAS Plan is FAA's comprehensive plan for improving air traffic control and services through the year 2000. DECCO awarded contract number DCA 200-83-C-0006 for communications equipment to Paradyne Corporation in April 1983. The contract specifies that the equipment is to be provided on a lease basis with a purchase option. The contract became effective on April 21, 1983, for one year, renewable at the government's option; however, the total contract duration, including renewals, is not to exceed 60 months.

FAA obtained a variety of equipment and services to perform communications functions

Through the Paradyne contract and subsequent amendments, FAA has obtained modulation/demodulation devices (modems); data multiplexers; a network management system; related equipment; training for FAA personnel who operate and maintain the equipment; and maintenance services on certain Paradyne equipment.

Modems serve two related functions. First, modems receive digital data signals sent by a computer, transform the signals into a format suitable for transmission over telephone lines, and transmit the signals. Second, modems receive signals from telephone lines, transform the signals into digital data format, and send the data to the computer. The modems that FAA obtained from Paradyne transmit and receive information at standard speeds ranging from 2,400 bits per second to 14,400 bits per second. They consist of one or more circuit card assemblies, containing all necessary controls, indicators, and connectors required to perform the modem functions.

Data multiplexers permit multiple channels containing data signals to simultaneously use a single modem and telephone line. Multiplexing is efficient and economical because it minimizes

transmission line charges and modem purchases. The Paradyne multiplexers perform standard multiplexer functions and allow up to six modem channels to use a single telephone line. Like modems, multiplexers consist of one or more circuit card assemblies.

A network management system consists of a computer and related peripheral equipment connected directly to a network of modems and multiplexers that are specially-equipped to communicate with the computer. A network management system electronically monitors the network's performance by systematically checking each modem's normal operating parameters. When abnormal conditions are detected, the network management system sends an appropriate message to both the operator's monitor and a hard-copy printer. Using a console, the operator can request a complete operating status of any modem in the network at any time; can determine the modem's configuration and performance; and can initiate actions to improve modem performance, as needed. The Paradyne network management system performs these standard operations. However, the format of the system messages and commands is unique to Paradyne due to the proprietary information involved in designing the system.

Examples of other equipment covered by this contract are patch panels and fallback switches, which allow signals to be manually or automatically rerouted; shelves and racks for storing modems, multiplexers, and other equipment; and cables used to connect various pieces of equipment.

In addition to equipment, Paradyne provides training to FAA personnel who are responsible for operating and maintaining the Paradyne equipment. Under the contract, FAA personnel can maintain the equipment by completely replacing a component or a circuit card assembly within a piece of equipment. However, only Paradyne has the proprietary information needed to repair defective circuit cards; consequently, the contract specifies that Paradyne will provide maintenance services on its equipment.

Paradyne equipment transmits air traffic control information

FAA is obtaining the equipment under the Paradyne contract to implement the Data Multiplexing Network project in the NAS Plan. When fully implemented, this three-phase project will provide telecommunications services for several NAS Plan projects. During Phase 1, FAA primarily plans to connect 20 Air Route Traffic Control Centers and 130 en route radars. Phase 2 will add 420 airport terminal facilities to the telecommunications network, and Phase 3 will add various other locations to accommodate needs of specific NAS Plan projects, such as weather radar system improvements.

According to the NAS Plan dated April 1983, Phase 1 implementation was scheduled to end in 1985 and Phase 2 in 1989. Phase 3 was added in the April 1984 NAS Plan with a 1991 completion date. Schedules for these phases did not change in the April 1985 NAS Plan; however, FAA officials told us that Phase 1 was completed in early 1986 and that the Phase 2 and 3 schedules may change in the NAS Plan due later this year because other projects supported by this equipment are experiencing delays.

Currently, FAA is using the Paradyne equipment for several air traffic control functions. FAA has obtained modems, multiplexers, the network management system, and related equipment for all 20 Air Route Traffic Control Centers and their associated radar sites. Installed equipment transmits surveillance data from radar sites to the air traffic control system computers in the control centers. Air traffic controllers use the data to maintain minimum separation distances between aircraft. FAA also uses the equipment to transmit aircraft flight plan and routing information between control centers. In addition, the equipment transmits flight service data, central flow control data, computer-based instructions, and electronic mail.

Government investigations led to Paradyne suspension from conducting government business

While FAA was procuring Paradyne equipment, several government investigations focused on Paradyne's contract with the Social Security Administration for that agency's data communications equipment. In March 1983, the Securities and Exchange Commission, alleging violations of the anti-fraud and reporting provisions of the Securities Acts of 1933 and 1934, filed a civil action against Paradyne for failure to disclose an alleged fraud against the Social Security Administration. In July 1984, we issued a report¹ concluding that numerous inadequacies in the Social Security Administration's management of the Paradyne contract jeopardized the integrity of major upcoming systems procurements.

In September 1984, the House Committee on Government Operations held hearings related to the alleged improprieties of Paradyne's contract with the Social Security Administration. The

¹ Social Security Administration's Data Communications Contracts With Paradyne Corporation Demonstrate the Need for Improved Management Controls : GAO/IMTEC-84-15 (July 9, 1984).

Committee subsequently issued a report² recommending that the Department of Health and Human Services begin procedures to either suspend or debar Paradyne from future government procurements. Also, towards the end of 1984, the Department of Defense considered suspending or debarring Paradyne on the basis of problems identified at the Social Security Administration. FAA and DCA both wrote the Department of Defense Office of the Inspector General describing the potential impact such actions would have on their contract with Paradyne. The Department of Defense decided not to pursue debarment or suspension at that time.

In March 1985, the Department of Health and Human Services notified Paradyne of its intention to debar the Corporation on grounds that misrepresentations made by Paradyne when responding to the Social Security Administration's contract solicitation constituted a serious and compelling breach of the integrity required of responsible contractors. Paradyne contested this proposed debarment; however, during the ensuing proceedings, in December 1985, a federal grand jury indicted several Paradyne officials on the grounds of conspiring to defraud the government. On December 16, 1985, on the basis of the grand jury indictment, the Department of Health and Human Services suspended Paradyne from receiving new government contracts or renewing existing government contracts. These and other relevant dates are shown in figure 1.

The Federal Acquisition Regulation allows an agency to suspend a contractor when in the public interest based on adequate evidence of commission of fraud related to a government contract award; violation of antitrust statutes relating to submission of offers; commission of embezzlement, theft, forgery, bribery; or commission of any other offense indicating a lack of business integrity that seriously affects a contractor's responsibility (Code of Federal Regulations, Title 48, Subpart 9.407). An indictment for any of these reasons constitutes adequate evidence for suspension. The regulations state that suspension is a serious but temporary sanction imposed pending completion of an investigation and any ensuing legal proceedings. The suspension is effective throughout the executive branch of the government, unless an acquiring agency determines that compelling reasons exist for continuing business with the suspended contractor.

² Improprieties in the Award and Management of the Social Security Administration Contract with Paradyne Corporation, H.R. Report Number 98-1125, 98th Congress, 2d Session (1984).

Figure 1: Chronology of Events

- SEP '82 DCA issues request for proposals
- MAR '83 Securities and Exchange Commission files complaint
- APR '83 DCA awards Paradyne contract
- SEP '84 Congress begins hearings on Social Security Administration's involvement with Paradyne
DCA issues equipment purchase order at FAA's request
- DEC '84 Department of Defense considers debarring or suspending Paradyne
FAA and DCA write to Department of Defense recommending no suspension/debarment action
- JAN '85 DCA issues equipment purchase order at FAA's request
- MAR '85 Department of Health and Human Services issues Notice of Proposed Debarment
- SEP '85 Securities and Exchange Commission reaches settlement agreement
- DEC '85 Grand jury indicts Paradyne
Department of Health and Human Services suspends Paradyne
- JAN '86 FAA requests suspension exception from DCA
- FEB '86 DCA grants exception to FAA
DCA issues equipment purchase order at FAA's request
- APR '86 FAA authorizes equipment purchase order
- JUL '86 FAA anticipates equipment purchase order resulting from its request to exercise purchase option on leased equipment
- SEP '86 Tentative Paradyne trial date
- APR '87 Current contract renewal expires
- APR '88 Contract with Paradyne expires

Suspension exception allowed FAA to
continue business with Paradyne

On January 30, 1986, after learning of Paradyne's suspension, FAA wrote a letter to DCA's General Counsel describing the serious impact that the Paradyne suspension would have on the air traffic control system if its existing extension of the Paradyne contract, scheduled to expire April 28, 1986, could not be renewed. In February 1986, DCA granted an exception that allowed FAA to renew the Paradyne contract and continue conducting business with Paradyne until April 29, 1987.

The Paradyne contract allows FAA to lease equipment with a purchase option. FAA's plan has been to obtain and install leased equipment and to exercise the contract's purchase option on the leased equipment as funds become available. According to FAA, the equipment will be used indefinitely and, therefore, is cost-effective to purchase. To exercise the purchase option, FAA transfers funds to DECCO and authorizes DECCO to issue a purchase order for leased equipment at specified locations. FAA exercised the purchase option on leased equipment three times, resulting in purchase orders dated September 1984, January 1985, and February 1986. As a result of these purchases, FAA owns about 25 percent of the equipment in place as of February 1986, valued at about \$3.9 million.

In April 1986, after obtaining the suspension exception, FAA authorized DECCO to renew the Paradyne contract for an additional year. FAA also authorized DECCO to issue two more orders exercising the purchase option on leased equipment. One purchase order was issued in April 1986; the other is expected to be issued around July 1986. These purchases will result in FAA's owning over half of the equipment that it intends to acquire under this contract, valued at about \$10 million. Figure 2 shows the estimated dollar value of the equipment authorized for purchase in the past and planned for purchase in the future. FAA continues to lease the equipment that was in place but not included in these purchase orders.

EQUIPMENT IS AVAILABLE FROM OTHER SOURCES

We interviewed four firms whose products include equipment similar to the equipment that FAA obtains from Paradyne. All four firms have modems, data multiplexers, a network management system, and related equipment that will perform essentially the same functions as the Paradyne equipment. They also provide training and maintenance on their equipment.

However, since no standards exist for network management systems, each firm develops its own proprietary features to perform the network management function. In addition, any modems or multiplexers connected to a network management system require

Figure 2: FAA Purchases of Paradyne Equipment*

	PURCHASES THROUGH APRIL 1986** (thousands)	PLANNED PURCHASES*** (thousands)
MULTIPLEXERS/ MODEMS	\$ 5,806	\$ 10,233
NETWORK CONTROLLER	302	425
OTHER	1,199	2,839
	-----	-----
TOTALS	\$ 7,307	\$ 13,497

* These figures are estimates based on contract limits and subsequent discussions with FAA officials. The estimates assume that FAA purchases equipment to the contract limits, that current purchase prices are applicable, and that no purchase credits have accrued from leasing.

** Includes equipment covered by purchase orders dated April 1986 or earlier.

***This column represents all planned purchases, including an authorized exercise of the purchase option valued at about \$3 million, which should become effective around July 1986

added proprietary features to assure compatibility with the network management system. Consequently, each vendor can only provide modems and related equipment that will operate with its own network management system; therefore, only Paradyne can provide modems that will operate with Paradyne's network management system. Furthermore, other vendors have only limited ability to repair Paradyne equipment due to differences in the specific engineering characteristics of each vendor's equipment.

We discussed the information obtained from these firms with FAA officials. FAA agreed with the information provided by these firms and acknowledged that other vendors have equipment similar to Paradyne's equipment. However, FAA considers changing equipment impractical because of the time and money required to change vendors.

CHANGING EQUIPMENT WILL INVOLVE TIME
AND DOLLAR COSTS TO THE GOVERNMENT

FAA could eliminate business dealings with Paradyne by replacing the Paradyne equipment with equipment from another vendor. However, replacing the equipment will require time for acquisition, installation, and testing; will require retraining equipment operators; and will result in additional costs to the government.

On the basis of discussions with FAA and private industry firms, we estimate, and FAA officials agree, that replacing equipment will take from one to two years. Consequently, the Data Multiplexing Network project milestones will be delayed approximately one to two years. However, the impact on the entire NAS Plan is uncertain because, according to FAA, milestones for some of the projects dependent on the telecommunications equipment will slip in the version of the NAS Plan due later this year.

Another potential consideration is that FAA might have to repeat some of the costs it incurred while obtaining and installing the Paradyne system. As of April 28, 1986, the contract's most recent renewal date, FAA had purchased Paradyne equipment, worth about \$7.3 million, that will not operate with another vendor's equipment. Also, FAA has spent over \$1 million installing the Paradyne equipment and an unquantified amount of money training operators and maintenance personnel to use the Paradyne equipment; some of these costs will be repeated if another vendor's equipment is obtained.

In our opinion, air traffic control safety will not be adversely affected as long as any changes are planned so that existing telecommunications functions are not disrupted. According to FAA officials we interviewed, delays caused by changing vendors will not affect current air traffic safety

levels but will postpone safety improvements associated with NAS Plan projects.

ALL REQUIRED LEGAL PROCEDURES WERE FOLLOWED
IN REQUESTING AND OBTAINING THE EXCEPTION
THAT PERMITTED THE CONTRACT RENEWAL

The Federal Acquisition Regulation (Code of Federal Regulations, Title 48, Subpart 9.4) establishes policies and procedures governing debarment and suspension of contractors from government contracting. These regulations state that debarment is an action taken to exclude a contractor from government contracting for a specified time period. Suspension is an action that temporarily disqualifies a contractor from government contracting. Although imposed by a single agency, debarment and suspension actions apply to all agencies in the executive branch of the government. However, the regulations allow agencies to renew existing contracts with debarred or suspended contractors when the acquiring agency states in writing the compelling reasons for continued business dealings between that agency and the debarred or suspended contractor.

In January 1986, FAA wrote a letter to DCA's General Counsel describing the serious impact that the Paradyne suspension would have on the air traffic control system if its most recent extension of the existing Paradyne contract, scheduled to expire April 28, 1986, could not be renewed. Although the contract provides equipment for FAA, FAA is not the acquiring agency as defined in the regulations. Consequently, FAA had to request a suspension exception from DCA's General Counsel because DCA is the acquiring agency for the Paradyne contract. Also, Department of Defense regulations designate DCA's General Counsel as the authorized representative to determine that compelling reasons exist for continuing DCA contracts with suspended contractors.

The Federal Acquisition Regulation contains neither a definition of nor criteria for determining compelling reasons. However, the Department of Defense supplemental regulations, which apply to DCA, list examples of circumstances that may constitute compelling reasons, such as situations where the property or services are available only from the suspended contractor, or the urgency of the requirement dictates that the Department of Defense deal with the contractor.

According to FAA's letter, renewal of the Paradyne contract was required to retain the leased equipment already in place. FAA's Air Route Traffic Control Centers obtain critical air traffic surveillance information via this Paradyne equipment. FAA stated that, without this information, the air traffic control system would suffer serious safety degradation and flight delays would increase.

Similarly, FAA argued that the contract renewal exception was necessary to obtain maintenance on the Paradyne equipment in place, both leased and owned. Without the exception, FAA employees could replace circuit card assemblies in the Paradyne equipment but could not repair the cards themselves. As specified in the contract, defective circuit cards could be repaired only by Paradyne. The contract does not require Paradyne to provide FAA with the proprietary data necessary to allow FAA personnel to repair the circuit cards.

Finally, FAA asserted that the Paradyne contract was needed to obtain additional equipment that would support other NAS Plan projects. According to FAA, inability to order additional equipment would adversely impact the NAS Plan schedule.

On the basis of the arguments presented in FAA's letter and similar information from the DECCO contracting officer, DCA determined that there were compelling reasons for continuing this contract with Paradyne. On February 6, 1986, DCA granted a suspension exception allowing the Paradyne contract to be renewed through April 1987.

RENEWAL OF THE CONTRACT WAS JUSTIFIED

The exception of the Paradyne contract from the suspension order for the subsequent contract renewal was justified, in our opinion, on the basis of FAA's compelling need to continue the air traffic control functions performed by the Paradyne equipment in place, much of which is leased. Without the renewal of the Paradyne contract, FAA would have to have removed from service the equipment currently being leased from Paradyne and terminate the maintenance service Paradyne provides for equipment on which the purchase option had been exercised. We agree with FAA that the air traffic control system would suffer serious safety degradation and flight delays would increase without this equipment and service.

The four months between the suspension action and the expiration date of the most recent contract extension was insufficient for FAA to procure, install, and train operators on new equipment or to seek maintenance alternatives. Consequently, at all locations using leased equipment, FAA would have lost the capability to transmit long-range radar data. This loss would have negatively affected air traffic safety until the function could be resumed. Without the contract renewal, FAA also would not have been able to assure that all maintenance could be performed when required.

OBTAINING ADDITIONAL EQUIPMENT OR
CONTINUING TO EXERCISE PURCHASE OPTIONS
MAY NOT BE APPROPRIATE

Under the renewed contract, FAA plans to issue lease orders to obtain Paradyne equipment in addition to that already in place. In its letter to DCA requesting the exception for renewal of the contract, FAA claimed that the additional communications equipment is required to support other NAS Plan projects. Without the Paradyne contract, FAA asserted that it would be unable to obtain and install this equipment before the arrival of the computer equipment required by other NAS Plan projects, resulting in NAS Plan schedule delays.

We do not find this argument convincing. FAA had not performed detailed analyses to evaluate the impact of the suspension on the NAS Plan schedule before writing the letter to DCA and, as of the end of April 1986, FAA still had not performed those analyses. Furthermore, FAA officials told us that their schedules may change in the NAS Plan due later this year because other projects supported by this equipment are experiencing delays unrelated to the Paradyne contract. In summary, the information made available to us does not contain enough details about the affected projects and schedules to determine that FAA needs to obtain additional equipment from Paradyne at this time.

Also, FAA is continuing its original 1982 plans to exercise its purchase option under the contract as funds become available. After the suspension exception was granted, FAA requested and authorized DECCO to issue two more orders exercising the purchase option on leased equipment. In its letter to DCA, FAA did not explicitly address its need for exercising the contract's purchase option. However, FAA did state that in general it had intended to purchase equipment as soon as funding became available because such purchases were cost-effective, given that FAA plans to use the equipment indefinitely. Even though cost-effectiveness may have been a reason for purchasing equipment when the contract was originally awarded, we believe that changing circumstances, such as the Paradyne suspension, the pending litigation, and changing NAS Plan schedules, warrant a new evaluation of the need to purchase Paradyne equipment at this time. FAA has not provided us with any evidence that such an evaluation has been or is being performed.

In addition, any argument to convert from lease to purchase in order to retain the equipment in place would not be well-founded. The equipment covered by the purchase options is already leased, in place, and meeting FAA's current air traffic control functional needs; purchasing the equipment will not improve FAA's ability to meet those needs. Furthermore, any purchases during the excepted time period could increase the government's conversion costs in the event that FAA has to change

vendors at some later time. Consequently, we do not believe that FAA has presented sufficient evidence to support purchasing leased equipment at this time.

Since the Federal Acquisition Regulation does not specify that each of the procurement actions taken under a contract be covered by any of the compelling reasons used in justifying the renewal of the contract, we do not question FAA's or DCA's compliance with the Regulation. However, we do believe that FAA's plans to obtain additional equipment and actions to exercise the contract's purchase option may not be appropriate under the circumstances.

FAA HAS NOT DOCUMENTED ANALYSES OF ALTERNATIVES
TO CONTINUING BUSINESS WITH PARADYNE

Unless matters have been settled in such a way to allow Paradyne to continue business with the government, FAA and DCA may again face a decision of whether or not to seek an exception to renew the Paradyne contract when the exception for this contract expires in April 1987. Between now and then, FAA has an opportunity to study possible alternatives to continuing business dealings with Paradyne and to formulate plans that will ensure that FAA is acting in the government's best interest.

We asked FAA what actions have been taken to analyze alternatives to conducting business with Paradyne. FAA officials told us that they had conducted several meetings over the past year and a half related to the consequences of a Paradyne suspension or debarment but had not documented those meetings in writing. These officials also told us that, after learning of Paradyne's suspension, they began discussing contingency plans in the event that Paradyne equipment and services are not available in the future. As of the end of April 1986, no documentation was available to us on these efforts.

In conversations with FAA since April 1986, FAA officials told us that they have prepared a formal plan for use in internal briefing sessions that discusses alternatives to conducting business with Paradyne. FAA has also decided to reconsider its original purchase and lease plans under the renewed contract. We understand that FAA tentatively plans not to authorize orders for additional equipment but to continue exercising the purchase option on leased equipment.

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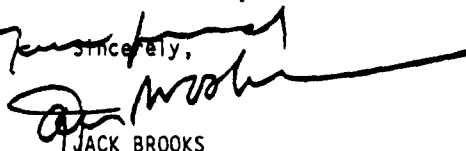
Dear General:

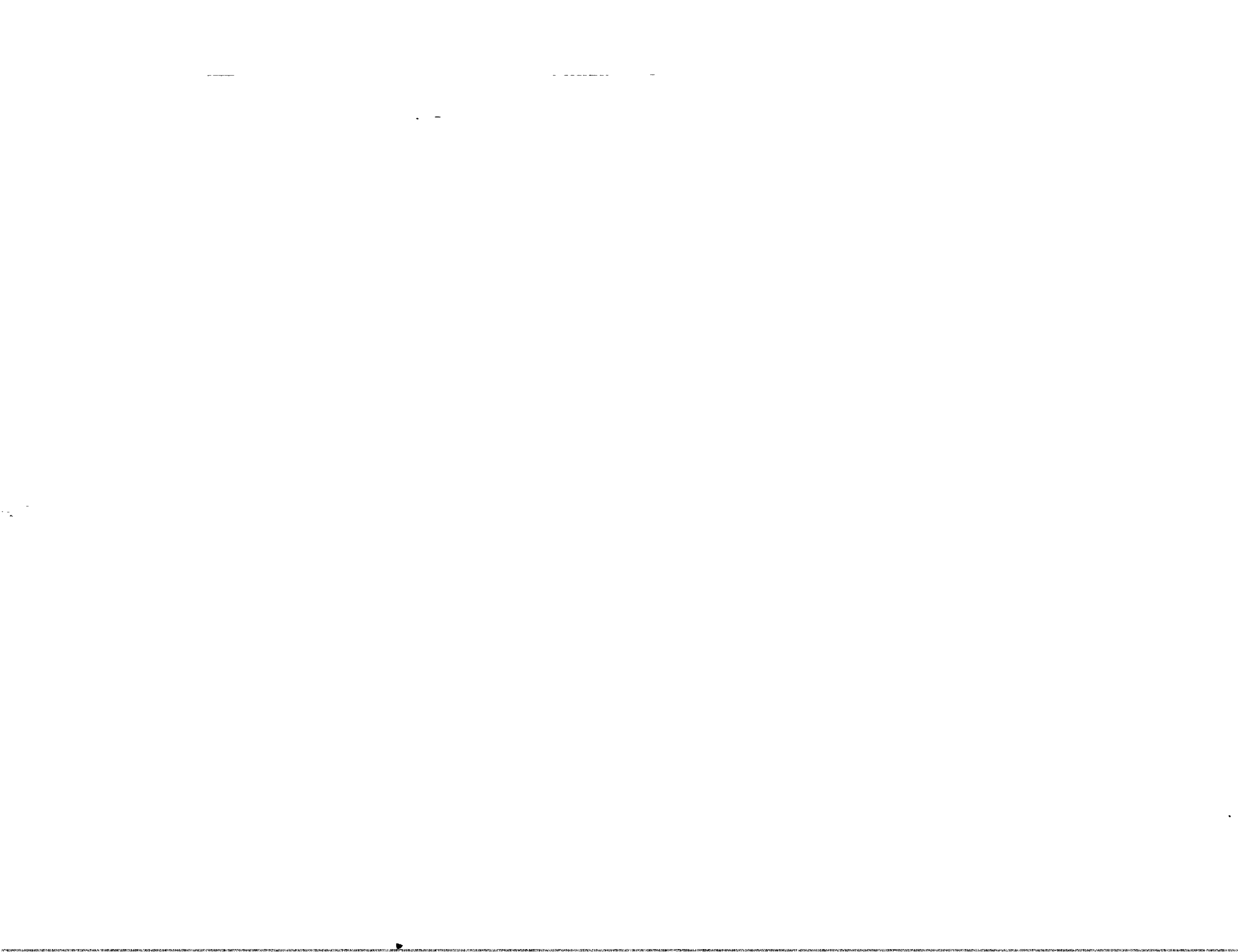
On December 12, 1985, a Federal grand jury sitting in Tampa, Florida, returned a 14 count indictment against Paradyne Corporation, eight present or former employees and officers of the corporation, and one former employee of the Social Security Administration. This indictment was based on their alleged involvement in a conspiracy to defraud the government in connection with the bid, award, and performance of the contract for computer terminals awarded by Social Security. The charges raised by this indictment had previously (March 12, 1985) motivated the Department of Health and Human Services (HHS) to propose the debarment of Paradyne and to suspend the company from government work.

It is my understanding that a Federal Aviation Administration (FAA) official, Mr. Lawrence Langwell, in a December 28, 1984, letter to the Defense Communications Agency, outlined what he considered to be the serious operational impact of any actions to debar Paradyne. Specifically, the letter asserted that the successful implementation of FAA's National Airspace System Plan was dependent on the acquisition of Paradyne communications equipment, and that to debar the company would not only jeopardize the schedule of the Plan, but the safety of the air traffic control system as well. Based on these assertions, FAA requested that no debarment actions be taken against Paradyne.

In light of the recent grand jury indictment, I request that GAO immediately initiate a review to determine what actions FAA had taken or plans to take regarding its current contracts or any future contracts with Paradyne Corporation. In conducting this review, GAO should ascertain whether these actions are legal, proper and in the government's best interest. I also request that you review the assertion made by Mr. Langwell concerning FAA's urgent requirement for Paradyne equipment. I would appreciate receiving GAO's findings, conclusions and recommendations on this review within 90 days. Your assistance in this matter is greatly appreciated.

With best wishes, I am

Sincerely,

 JACK BROOKS
 Chairman



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