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REPORT TO THE CONGRESS

More Competition Needed In The Federal Procurement Of Automatic Data Processing Equipment

B-115369

General Services Administration

*BY THE COMPTROLLER GENERAL
OF THE UNITED STATES*

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WASHINGTON, D.C. 20548

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To the President of the Senate and the
Speaker of the House of Representatives

This is our report on the need for more competition in the Federal procurement of automatic data processing equipment.

Our review was made pursuant to the Budget and Accounting Act, 1921 (31 U.S.C. 53), and the Accounting and Auditing Act of 1950 (31 U.S.C. 67).

We are sending copies of this report to the Director, Office of Management and Budget, and to the Administrator of General Services.

James B. Stacks

Comptroller General
of the United States

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ABBREVIATIONS

ADP automatic data processing

GAO General Accounting Office

GSA General Services Administration

HEW Department of Health, Education, and Welfare

IBM International Business Machines Corporation

OMB Office of Management and Budget

D I G E S T

WHY THE REVIEW WAS MADE

Public Law 89-306 (Brooks Bill), enacted in October 1965, authorized and directed the General Services Administration (GSA) to coordinate and provide for the economic and efficient acquisition of the Government's general-purpose automatic data processing (ADP) equipment.

Because of indications that most ADP equipment was still being acquired through Federal Supply Schedule contracts, which GSA negotiates with suppliers without competition, GAO reviewed procurement procedures and practices of GSA and of various agencies.

Over 7,100 computers were owned or leased by the Government in 1973--compared with about 2,400 in 1965. About 6,800 were general-purpose computers.

FINDINGS AND CONCLUSIONS

GSA has authorized Federal agencies to acquire ADP equipment from suppliers through Schedule contracts. Agencies may also acquire ADP equipment by other means, without prior GSA approval, provided certain conditions are met. (See pp. 11 and 12.)

Schedule contracts have consistently accounted for the major part of the total contract costs for ADP equipment, as illustrated below. (See graph, p. 11.)

<u>Fiscal year</u>	<u>Total</u>	<u>Schedule contracts</u>		<u>Non-Schedule contracts</u>
	(millions)	(millions)		
1973	\$604	\$364	60%	\$240 40%
1972	729	443	61	286 39
1971	734	549	75	185 25
1970	664	533	80	131 20

The major part of Schedule contract costs have been from lease renewals and the purchase of previously leased, installed equipment. Federal regulations require agencies to seek competition before acquiring equipment under Schedule contracts, except when a determination of the lowest overall cost to the Government, considering price and other factors, can be reached and documented without further solicitation or negotiation. (See p. 9.)

GAO identified instances when agencies followed the regulations and replaced equipment leased under Schedule contracts with equipment acquired on a competitive basis.

Such actions resulted in significant savings to the Government. (See pp. 14 and 16.)

GAO identified many instances, however, when agencies placed orders under Schedule contracts to renew leases or to purchase installed, leased equipment without seeking competition or making an adequate determination of lowest overall cost. Thus, there was no assurance that equipment ordered under the Schedule contracts was acquired at the least cost to the Government. (See pp. 14 and 16.)

Federal agencies are required to obtain authority from GSA if the initial lease or purchase of ADP equipment exceeds the maximum order limitation in the Schedule contracts. GSA established the limitations, either in terms of dollars or volume, to obtain price concessions on large orders. Authority from GSA is not required when agencies renew leases or purchase equipment previously leased under a Schedule contract. Therefore, any potential benefits in cost reductions that the use of such limitations could provide do not apply to a major part of the equipment acquired annually. (See p. 12.)

GSA reported that in fiscal years 1972 and 1973 it awarded competitive contracts for itself and other agencies for

--purchasing ADP equipment that cost \$323 million, which was about \$272 million less than the cost of similar equipment available under Schedule contracts and

--leasing ADP equipment for \$73 million, over the expected system

lives of the equipment, or about \$44 million less than the cost would have been for similar equipment leased under Schedule contracts. (See pp. 13 and 15.)

There is a need to reduce the use of Schedule contracts for ADP procurements and to increase the use of competitive contracting, including the renewal of leases and purchases of installed, leased equipment.

RECOMMENDATIONS

The Administrator of General Services should:

- Extend the use of maximum order limitations to include orders placed under Schedule contracts for the renewal of leases or purchases of installed, leased ADP equipment.
- Remind agencies of the Federal Property Management Regulation requirement to obtain full and complete competition in all ADP equipment acquisitions, including the renewal of leases and purchases of installed, leased equipment or to make the required determination of the lowest overall cost to the Government, considering price and other factors.
- Emphasize to Federal agencies the significant savings resulting from competition in the acquisition of ADP equipment, by periodically publicizing examples of such savings.

AGENCY ACTIONS AND UNRESOLVED ISSUES

The Administrator of General Services basically concurred with

GAO's recommendations, which he said would aid GSA in its continuing efforts to obtain greater economies in the procurement process. He suggested that GAO restate an earlier recommendation that the Congress authorize GSA to contract for the leasing of ADP equipment on a multi-year basis without having to initially obligate funds for the total lease payments. (See p. 21.)

Comments of the Office of Management and Budget and other agencies mentioned in this report are

discussed beginning on page 21.

MATTERS FOR CONSIDERATION
BY THE CONGRESS

In many instances the Government cannot take advantage of substantial savings available through multiyear leasing of ADP equipment. Legislation being considered by the Congress (S. 2785) would authorize GSA, through the ADP Fund, to contract on a multiyear basis without the necessity of obligating the total anticipated payments at the time of entering into the leases. (See p. 21.)

CHAPTER 1

INTRODUCTION

Public Law 89-306 (Brooks Bill), enacted in October 1965, provides for a Government-wide program for the economic and efficient acquisition, utilization, and maintenance of general-purpose automatic data processing (ADP) equipment. The law made the General Services Administration (GSA) responsible for operations, subject to the fiscal and policy controls established by the Office of Management and Budget (OMB). Executive Order 11717, issued in May 1973, transferred policy responsibilities to GSA, leaving OMB responsible for fiscal control and general oversight.

The rapid growth of ADP operations, both in size and in cost, has been of concern to the Congress. On June 30, 1965, the Government owned or was leasing about 2,400 computers; 8 years later the total had increased to over 7,100. About 95 percent, or 6,800 of the 7,100 computers, were general-purpose computers that were available commercially. About 3,400 of the computers were in a special management category, while 3,700 were in a general management category.

The special management category includes computers that are either (1) an integral part of a larger complex of equipment whose primary purpose is to control, monitor, analyze, or measure a process, (2) classified for national defense purposes, or (3) physically installed in mobile vans, ships, or planes. The general management category consists of computers used for applications such as program management, inventory control, financial management, and the maintenance of personnel data.

According to the legislative history of Public Law 89-306, GSA was to have management responsibility for the acquisition, inventory control, and potential secondary use of commercially available, general-purpose computers, including those in both the special and general management categories. OMB established an ADP management information system in April 1967 and issued guidelines for implementing it. These guidelines, Circular A-83, require agencies to report to GSA the

acquisition and operating costs of general-purpose computers and related equipment, with certain exceptions. Information published by GSA shows that acquisition and operating costs of general management computers increased from \$1.4 billion in 1967 to \$2.7 billion in 1973.

Most of the Government's ADP equipment has been acquired through GSA Federal Supply Schedule contracts.¹ While the schedule method of contracting for ADP equipment has advantages, it does not encourage price competition. The following excerpt from a House Committee on Government Operations report, issued before Public Law 89-306 was passed, identifies some of the weaknesses inherent in the Schedule contract method of procuring ADP equipment which still exist.

"Over the years agencies have acquired commercial, general purpose ADP at prices listed on GSA supply schedules. As in the case of many other supplies the Government requires, GSA enters into negotiations with various ADP manufacturers and agrees upon prices for the equipment they have to offer to be applied to Government leases and purchases during the coming fiscal year. Upon completion of these negotiations, price schedules for the different manufacturers are distributed to the various agencies and, generally, the equipment they need is acquired at the prices listed on the schedules. Manufacturers have occasionally offered an agency lower prices on particular procurements than are listed on the GSA schedules. In these instances, the manufacturer files an amendment to his GSA schedule price and the lower price is applicable to all Government acquisitions

¹Since establishment of the Automated Data and Telecommunications Service in fiscal year 1973 and the transfer of ADP functions to the new Service, the more recent contracts are referred to as ADP Schedule contracts. Both Federal Supply Schedule and ADP Schedule contracts are hereinafter referred to as Schedule contracts.

of that equipment for the remainder of the fiscal year. GSA has been able to obtain some concessions from manufacturers on lease prices and conditions, particularly second and third shift use rates. Otherwise, the GSA schedules generally reflect the manufacturers' list prices.

"Under this procedure, price determination and procurement are divorced. The various manufacturers have no guarantee that the Government will lease or purchase any particular volume of their equipment. As a result, some manufacturers' representatives characterize the GSA price schedule as simply a 'hunting license.' Agreement to a schedule of prices with GSA permits them to embark upon the more formidable task of hunting for agencies in the Government desirous of leasing or purchasing their equipment. Under these circumstances, it is somewhat understandable why manufacturers have generally responded with a remarkable degree of disinterest in price cutting in GSA contract price schedule negotiations."

The Commission on Government Procurement, as part of its study of the acquisition of commercial products, reviewed certain matters related to ADP equipment procurement. The Commission's report, issued in December 1972, contains recommendations concerning the submission and evaluation of vendors' proposals, acquisition procedures and financing, and GSA delegation of ADP equipment procurement authority. The Commission recommended that GSA establish an ADP equipment procurement delegation policy that would promote effective preplanning of requirements by agencies and optimum use of manpower. The corrective actions being recommended as a result of our review are not inconsistent with the Commission's recommendations.

The following table shows the number of computers owned and leased by Federal agencies at June 30, 1973.

	Owned		Leased		Total	
	Number	Percent	Number	Percent	Number	Percent
Atomic Energy Commission	1,304	22.4	7	.5	1,311	18.3
Department of Agriculture	47	.8	14	1.0	61	.9
Department of Commerce	146	2.5	24	1.8	170	2.4
General Services Administration	27	.5	3	.2	30	.4
Department of Health, Education, and Welfare	68	1.2	26	2.0	94	1.3
Department of the Interior	39	.7	16	1.2	55	.8
National Aeronautics and Space Administration	977	16.8	14	1.0	991	13.9
Department of Transportation	266	4.6	21	1.6	287	4.0
Department of the Treasury	89	1.5	33	2.5	122	1.7
Veterans Administration	79	1.4	9	.7	88	1.2
Other civil agencies	89	1.5	60	4.4	149	2.1
Department of Defense :	2,676	46.1	1,115	83.1	3,791	53.0
(Department of the Army)	(501)	(8.6)	(426)	(31.7)	(927)	(13.0)
(Department of the Navy)	(934)	(16.1)	(206)	(15.4)	(1,140)	(15.9)
(Department of the Air Force)	(1,108)	(19.1)	(406)	(30.3)	(1,514)	(21.2)
(Defense Supply Agency)	(66)	(1.1)	(65)	(4.8)	(131)	(1.8)
(Other Defense agencies)	(67)	(1.2)	(12)	(.9)	(79)	(1.1)
Total	<u>5,807</u>	<u>100.0</u>	<u>1,342</u>	<u>100.0</u>	<u>7,149</u>	<u>100.0</u>

CHAPTER 2

SAVINGS POSSIBLE THROUGH INCREASED

USE OF COMPETITIVE PROCUREMENTS

Although the Government's procurement of ADP equipment on a competitive basis has increased in recent years, a significant amount of ADP equipment is still being procured under Schedule contracts without competition. Consequently, there is no assurance that this equipment is being obtained in the most economical manner. In fiscal year 1973, orders placed under Schedule contracts for the acquisition of ADP equipment accounted for \$364 million, or about 60 percent of the total ADP equipment purchase and lease costs.

The major part of the costs incurred under Schedule contracts represented lease renewals and the purchase of previously leased, installed equipment. Agencies are required to seek competition before acquiring equipment under Schedule contracts, except when a determination of lowest overall cost to the Government, considering price and other factors, can be reached and documented without further solicitation or negotiation. However, we identified many instances in which agencies, without seeking competition or preparing a determination of lowest overall cost, placed orders under Schedule contracts for renewing leases or purchasing installed, leased equipment.

Agencies are also required to adhere to the maximum order limitations, which GSA has included in the Schedule contracts to obtain price concessions. (See p. 12.) However, these limitations apply only to the initial acquisition of equipment and not to the renewal of leases or purchases of installed, leased equipment. Therefore, any potential benefits in cost reductions that the use of such limitations is intended to provide do not apply to a major part of the equipment being acquired.

We identified instances in which agencies had leased or purchased equipment on a competitive basis to replace previously leased equipment at costs below Schedule contract costs for similar equipment and had realized substantial savings.

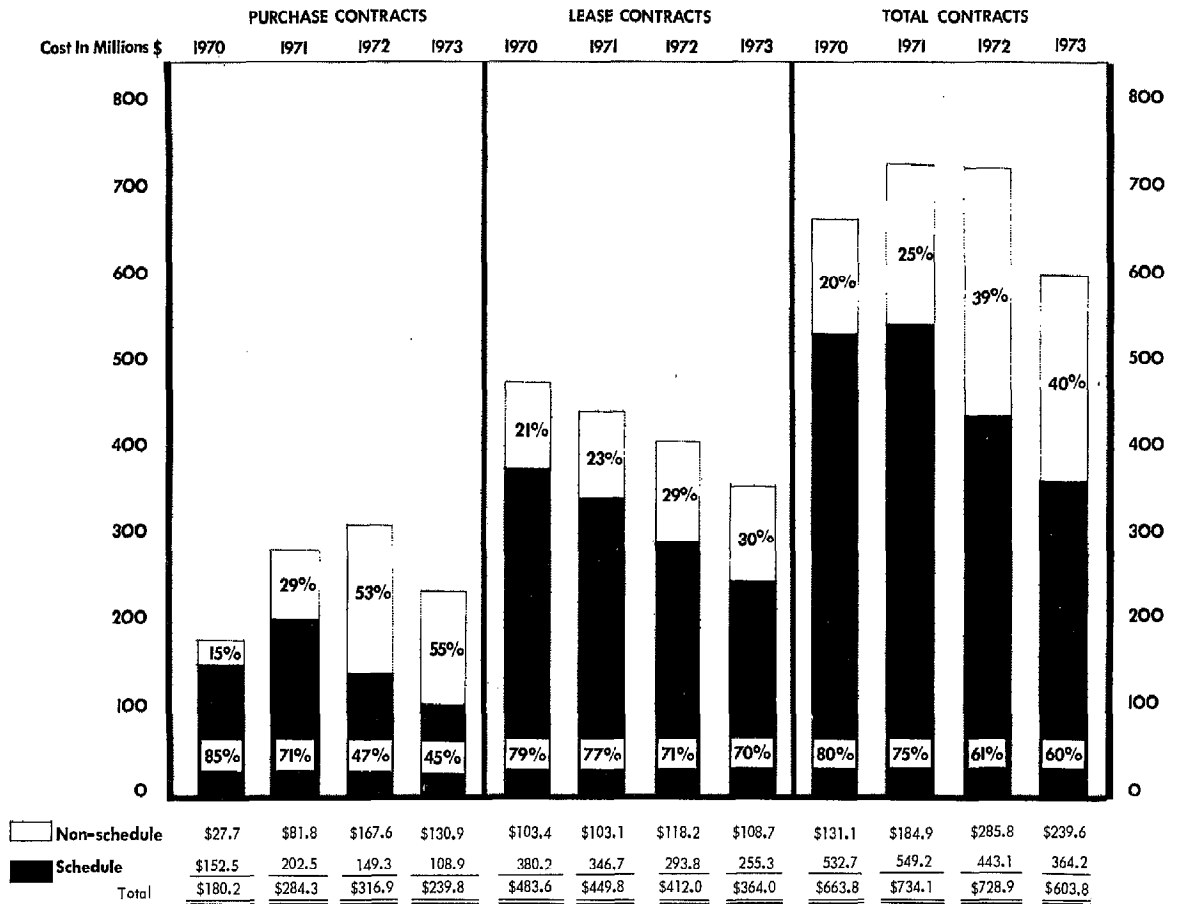
We believe that the Government could realize additional savings in the acquisition of ADP equipment if there were a reduction in the use of Schedule contracts, without competition, and an increase in procurements made on a competitive basis.

SCHEDULE CONTRACTS STILL PREDOMINANT

Schedule contractors and Federal agencies report to GSA data on the costs of ADP equipment purchased or leased during the year. Although such data may not always be complete or accurate, it provides a reasonable basis for measuring and comparing the overall magnitude and significance of the types of acquisitions. On the basis of this information, adjusted by us to keep the data on a consistent basis by fiscal year, we estimated the Schedule and non-Schedule contract costs for the purchase and lease of ADP equipment by Federal agencies during fiscal years 1970 through 1973. Our computations are summarized in the graph below.

Since fiscal year 1970 Federal agencies have increased their use of non-Schedule contracts to procure ADP equipment; nevertheless, in fiscal year 1973 Schedule contract costs accounted for 60 percent of the total cost of ADP equipment contracts.

PROCUREMENTS OF ADP EQUIPMENT BY FEDERAL AGENCIES
 UNDER SCHEDULE AND NON-SCHEDULE CONTRACTS
 FISCAL YEARS 1970-1973
 (000,000 omitted)



AGENCY PROCUREMENT AUTHORITY

Public Law 89-306 authorized and directed GSA to coordinate and provide for acquiring the Government's general-purpose ADP equipment in an efficient and economical manner. GSA negotiates Schedule contracts, without competition, each year with ADP equipment manufacturers for the purchase, lease, and maintenance of their equipment. The Schedule contracts are published in catalog form and show the manufacturers' prices, terms, and conditions for all types and models of equipment offered but not the quantities to be acquired.

Federal Property Management Regulations, issued by GSA, prescribe procedures for agencies to use in acquiring ADP equipment. According to the regulations "the existence of a Federal Supply Schedule contract does not preclude or waive the requirement for full and complete competition" in obtaining ADP equipment.

The regulations authorize Federal agencies to place orders--within certain maximum order limitations--for the lease or purchase of equipment from Schedule contracts. GSA places maximum order limitations in its contracts so that large-volume or large-dollar-value purchases can be given individual attention to obtain price concessions. If a proposed agency acquisition of ADP equipment exceeds the maximum order limitation, the agency is required to obtain a delegation of procurement authority from GSA.

The maximum order limitation for central processing units of the same type and model of ADP equipment is 1 and for peripheral units of the same type and model it is 10, unless the purchase price of 2 or more of the peripheral units exceeds \$400,000. The limitations apply only to the initial acquisition and not to the renewal of leases or purchases of installed, leased equipment.

Thus, if an agency placed an order under a Schedule contract for lease of an ADP system with one central processing unit and six peripheral units and in 2 succeeding years renewed the existing lease(s) and placed orders for the same type, model, and number of additional units each year, the original lease and the lease renewals for the second and third years would not be subject to GSA's maximum order limitations¹ and to GSA review. And if the agency decided to purchase all the equipment from the manufacturer at the beginning of the fourth year, it could purchase the 3 central processing units and 18 peripheral units without obtaining a delegation of procurement authority from GSA.

GSA authorizes agencies to enter into separate contracts with Schedule contractors if they obtain terms or conditions better than those in the Schedule contracts. Agencies are also authorized to procure equipment not available under a Schedule contract, if its cost does not exceed \$50,000. When the cost of such equipment exceeds \$50,000, a delegation of procurement authority from GSA is needed before acquisition. When GSA receives a request for a delegation of procurement authority, it can elect to (1) grant authority to the requesting agency, (2) participate

¹Assuming that the price of the six peripheral units did not exceed \$400,000.

with the agency in the procurement, or (3) procure the equipment for the agency.

COST REDUCTIONS THROUGH
COMPETITIVE PURCHASES

During fiscal year 1973 Federal agencies purchased ADP equipment at a total cost of \$240 million--\$109 million (45 percent) by orders placed under Schedule contracts.

A breakdown by category of the \$109 million in Schedule contract costs was not available. However, there were indications that a major portion of those costs for fiscal year 1973, and for previous years, represented the purchase of installed equipment that previously had been leased from the manufacturers under Schedule contracts. Some agencies purchased the installed, leased equipment under Schedule contracts, without seeking competition, because they believed that (1) application of lease credits made the purchase prices reasonable and (2) such purchases precluded any disruption to operations that might have resulted if replacement equipment had been purchased from other sources.

We identified instances in which equipment had been purchased on a competitive basis, from other than Schedule contracts, at prices substantially below the prices in the Schedule contracts and apparently without significant disruption to operations. For example, GSA reported that in fiscal years 1972 and 1973, in awarding 60 non-Schedule purchase contracts for equipment for itself and other agencies, the prices paid for the equipment-- \$323 million--were about \$272 million less than the prices in the Schedule contracts for similar equipment. A significant part of these savings came from 1 procurement for the Department of Defense for 35 ADP systems at a cost of \$51.3 million, which was about \$103 million less than the prices in the Schedule contracts.

Agencies other than GSA have also realized savings by purchasing equipment from other than the Schedule contractors.

--In July 1971 the Department of Labor obtained an International Business Machines Corporation (IBM) 360/65 computer system from a private business to replace similar equipment previously leased from the manufacturer. GSA had given a delegation of procurement authority to Labor and had suggested that proposals be solicited. Proposals were received from eight firms, including the manufacturer of the equipment. As a result of the competition, Labor was able to acquire the computer from the private business for \$1.6 million, or about \$625,000 less than it would have cost if it had been purchased under the purchase option clause of the Schedule contract.

--The Department of the Treasury acquired an IBM 360/65 computer system in June 1972 from two third-party leasing companies, at a cost of \$840,000, for use at the Internal Revenue Service's National Computer Center. The system's cost was about \$1.4 million less than the cost of similar equipment in the Schedule contracts.

We found other instances where agencies did not seek competition or make the required determination of the lowest overall cost to the Government before purchasing equipment, and, as a result, there was no assurance that their needs were filled in the most economical manner. The following examples illustrate the noncompetitive equipment purchases that we found.

--From April 1971 through January 1972, the Air Force purchased, at a cost of about \$6.5 million, computers and peripheral equipment, located at various installations, that it had been leasing under Schedule contracts. An IBM 360/65, at Patrick Air Force Base, was purchased at a cost of \$1.2 million, after allowances for previous lease payments and a special purchase credit were made. Configuration, peripheral equipment, lease payment credits, age, market conditions, and other factors can affect the purchase prices of similar ADP systems, and although the Air Force may not have been able to obtain an IBM 360/65 at a price as low as that paid by the Department of

the Treasury (see above example), without competition there is no assurance that the Air Force acquired it and the other equipment at the lowest possible cost.

--In September 1971 the Navy authorized the \$3.8 million purchase of various ADP systems that were being leased under Schedule contracts. The decision to purchase the systems was based on the expected remaining life of the systems (average of 3.4 years) and estimated savings of \$5.5 million in future lease payments. The Navy did not solicit proposals from alternative sources.

COST REDUCTIONS THROUGH COMPETITIVE LEASES

During fiscal year 1973 Federal agencies leased ADP equipment at costs totaling \$364 million--\$255 million (70 percent) by orders placed under Schedule contracts. Statistics showing the portion that represented lease renewals or newly installed equipment for fiscal year 1973 or previous years were not available; however, during our review, we found indications that a major part of the lease costs were for the renewal of leases for equipment already installed.

In many cases leases of equipment ordered under Schedule contracts were renewed annually without determining whether the equipment could be obtained more economically through alternative means. Since the regulations do not require agencies to obtain a delegation of procurement authority from GSA before renewing a lease--even if it exceeds the maximum order limitations--and since many agencies do not seek competition before renewing leases under Schedule contracts, there is no assurance that the Government is leasing a major part of its ADP equipment at the lowest possible cost.

GSA reported that during fiscal years 1972 and 1973 it awarded 15 non-Schedule contracts for the lease of equipment for itself and other Government agencies. It estimated that the cost of the leases over the expected system lives of the equipment (average of 5 years) would be about \$73 million,

which was about \$44 million less than the cost would have been for similar equipment leased under Schedule contracts.

Agencies, other than GSA, that leased equipment from third-party leasing firms also realized savings.

--The Army, after soliciting proposals from 67 firms to replace an IBM 360/30 computer at the Armed Forces Institute of Pathology that had been under lease from the manufacturer, leased another 360/30 from a third-party leasing firm in April 1972. Under the new arrangement annual lease costs were \$82,000-- compared to \$183,000 under the Schedule contract--a savings of \$101,000. The computer system was replaced over a weekend and operations were resumed Monday morning.

--After issuing invitations for bids and receiving five bids, the Department of Transportation awarded a contract in September 1972 to a third-party leasing firm for two IBM 360/65 computers, to replace an IBM 360/50 and an IBM 360/65 that it had been leasing under a Schedule contract with the manufacturer. We estimated that the annual lease costs under the new contract would be about \$550,000, or about \$830,000 less than the lease costs of two IBM 360/65 computers under the Schedule contract.

In other cases agencies renewed their leases for equipment ordered under Schedule contracts without seeking the competition necessary to determine the reasonableness of the lease prices.

--In July 1971 the National Institutes of Health, under a Schedule contract, renewed a lease of IBM 360/20, 360/50, 360/65, and 370/165 computers and related equipment at an estimated cost of about \$4.8 million for fiscal year 1972. Except for the time before the initial installation of the IBM equipment in 1965, when competitive proposals were solicited, there was no attempt to solicit competitive proposals for the lease renewals or upgrading of equipment. Although most of the original equipment (which consisted of one computer and peripheral equipment

leased at an annual cost of about \$454,000) had been replaced or upgraded, we identified many items of equipment that had been installed between 1966 and 1969. Without competition each year when the lease was renewed or a documented determination of lowest cost, there was no assurance that the equipment was being obtained at the lowest possible cost.

--In August 1971 the Department of Commerce renewed the lease for two Control Data Corporation 6600 computer systems and leased an additional system under a Schedule contract. Neither the renewal of the lease for the two systems nor the acquisition of the third system was made on a competitive basis. The cost of leasing the three systems in fiscal year 1972, (excluding one of the central processing units which was Government-owned) was about \$3.9 million.

VIEWS OF AGENCY AND CONTRACTOR OFFICIALS

GSA officials told us that, although they were not completely satisfied with the Schedule contract method of procurement, they viewed Schedule contracts as a practical way for GSA to provide for ADP acquisitions within its limited staff resources and as a means of obtaining certain terms and conditions more favorable than those available to commercial users. They said that they were developing two standard-form contracts to simplify the competitive procurement of ADP equipment--one for third-party sources and one for equipment manufacturers.

Also, they said that GSA was increasing the use of competitively awarded requirements-type contracts as a means of replacing some types of equipment being leased or purchased under Schedule contracts. The basic difference between requirements-type contracts and Schedule contracts, aside from the competitive aspects, is that in requirements-type contracts estimates of the Government's needs for specific quantities of particular items are identified, enabling contractors to propose prices based on volume.

In a reorganization effective July 15, 1972, GSA combined the responsibilities for ADP management and

communications services and established the Automated Data and Telecommunications Service. This was intended to provide a basis for strengthening and expanding GSA's role in Government-wide management of ADP and communications services when adequate staff becomes available. Before this change ADP management had been a component within the Federal Supply Service.

Officials from some other Federal agencies believed that the terms and conditions in Schedule contracts were useful for reference purposes when they were competitively contracting for ADP equipment.

Representatives of Schedule contractors believed that Schedule contracts helped ease the task of negotiating contract terms and conditions on individual procurements and helped in the rental and maintenance of installed equipment.

Commercial leasing company representatives stated that the Government had acquired very little of their equipment--only 20 computers were on lease from commercial leasing firms in fiscal year 1972--and, therefore, was not realizing the substantial savings that their industry could provide. They pointed out substantial price reductions for their equipment and terms and conditions that they thought were equal to, or better than, those of Schedule contractors.

CHAPTER 3

CONCLUSIONS AND RECOMMENDATIONS

CONCLUSIONS

The Government's procurement of ADP equipment on a competitive basis has increased in the past few years. However, in fiscal year 1973, \$364 million of the \$604 million spent for equipment acquisitions represented equipment purchased or leased under Schedule contracts for which there was no price competition. In many instances agencies placed orders under Schedule contracts for the renewal of leases or purchase of installed, leased equipment without seeking the required competition or making a determination of lowest overall cost to the Government, considering price and other factors. Therefore, there was no assurance that the major part of the Government's ADP equipment was being obtained at the lowest possible cost.

GSA has instituted several actions to reduce the acquisition of ADP equipment under Schedule contracts.

The July 1972 GSA reorganization is intended to enhance the significance of ADP in Government operations and to direct attention to it.

GSA's development of two standard-form contracts is intended to increase the use of competition, especially by agencies lacking large staffs with expertise in ADP equipment procurement. Also, using more competitive requirements-type contracts to replace some types of equipment now obtained under Schedule contracts is being proposed to reduce noncompetitive procurements of ADP equipment.

We believe that GSA's efforts to reduce noncompetitive acquisitions of ADP equipment are needed and that the proposed measures described above have merit.

While this type of corrective action may reduce future procurements of new ADP equipment under Schedule contracts, it does not directly cover the matters of renewal or purchase of equipment already being leased under Schedule

contracts. Since a substantial part of the \$364 million in Schedule contract procurements in fiscal year 1973 was for the renewal of leases or the purchase of installed, leased equipment, GSA's actions probably will have little effect on reducing the large amount of funds being spent on equipment acquired in this manner.

RECOMMENDATIONS

To increase the extent of competition and assure that the Government is acquiring its ADP equipment at the lowest possible cost, we recommend that the Administrator of General Services:

- Extend the use of maximum order limitations to include orders placed under Schedule contracts for the renewal of leases or purchases of installed, leased ADP equipment.
- Remind agencies of the Federal Property Management Regulation requirement to obtain full and complete competition in all ADP equipment acquisitions, including the renewal of leases and purchases of installed, leased equipment, or to make the required determination of lowest overall cost to the Government, considering price and other factors
- Emphasize to Federal agencies the significant savings resulting from competition in the acquisition of ADP equipment, by periodically publicizing examples of such savings.

GSA COMMENTS AND OUR EVALUATION

The Administrator of General Services basically concurred with our recommendations, which he termed, "constructive." (See app. I.) He stated that the recommendations would aid GSA in its continuing efforts to obtain greater economies in the procurement process.

Concerning our recommendation that GSA extend the use of maximum order limitations, the Administrator said that orderly implementing actions would be undertaken, within the limits

of the marketplace and in a manner that would avoid disruption to the agencies.

The Administrator also said that another means of obtaining more competition would be more effective use of the ADP Fund in connection with multiyear leases, and he suggested that we consider restating a recommendation from an earlier report.

In that report, "Multiyear Leasing and Government-wide Purchasing of Automatic Data Processing Equipment Should Result in Significant Savings" (B-115369, Apr. 30, 1971), we recommended that the Congress consider legislation authorizing GSA, through the ADP Fund, to contract on a multiyear basis without the necessity of obligating the total anticipated payments at the time of entering into the leases.

Senate bill 2785, which would provide such authority to GSA, was introduced on December 6, 1973. GAO still believes that such legislation would, in many instances, enable the Government to take advantage of substantial savings available through the long-term leasing of ADP equipment.

OTHER AGENCIES' COMMENTS AND OUR EVALUATION

We also solicited comments on our recommendations and the examples presented in this report from OMB and the Departments of Commerce; Defense; Health, Education, and Welfare (HEW); Labor; Transportation; and the Treasury. OMB and the Departments of Labor, Transportation, and the Treasury either concurred with our recommendations or had no comments on them. Comments from the Departments of Commerce, HEW, and Defense are discussed below.

Department of Commerce

Commerce generally agreed with our recommendations concerning the use of maximum order limitations and the need for more competition and suggested some modification to the recommendations. Our recommendations have been modified accordingly.

Commerce also suggested two alternatives. One alternative concerned abolishing Schedule contracts for ADP products and services and establishing "master agreements" that would contain only general terms and conditions. The other alternative would be to authorize agencies to enter into multiyear leases which might be an incentive for contractors to offer lower prices for leased equipment.

GSA may wish to consider the alternative concerning abolishing Schedule contracts. The alternative concerning agency use of multiyear leases is discussed in the preceding section of this report. If authority is granted to GSA to use the ADP Fund in the manner requested, Commerce and other agencies could realize savings by leasing ADP equipment through the ADP Fund.

HEW

HEW stated that formal competitive action was not necessary before renewing the lease of the computers at the National Institutes of Health because that installation had "determined the reasonableness of the cost involved without going into what was considered to be an unneeded competitive action." The determination referred to is contained in a report dated June 29, 1970. HEW further stated:

"Thus, the formal justification for this upgrading, that was less than a year old, included an exploration of a competitive versus a noncompetitive procurement and a determination of the reasonableness of cost. As an asidem, this particular justification incorporated the results of a detailed study on the possibility of changing vendors. While perhaps overstated, the study conclusion was that this change would probably cost \$8.5 million, an indication of the complexities and costs involved."

We examined the justification and found that it was not a valid determination of lowest overall cost. The \$8.5 million consisted only of estimated conversion costs for manpower and computer time. There was no comparison of equipment costs between the leased system and those of other manufacturers. Without such

information and an allocation of the conversion costs over the system life of the equipment, the documentation cited by HEW did not provide a sound basis for the decision not to solicit competition.

The June 1970 report also stated that third-party leasing had been evaluated as a possible method of financing new equipment and had been found to be financially unsound because most leasing companies contacted operated on a discount rate of about 10 percent on a 5-year contract. Since IBM provided an educational allowance substantially higher than the 10-percent discount offered by third parties, a change to third-party leasing was not considered financially beneficial.

Third-party leasing was considered in June 1970 only in connection with certain new items of upgraded equipment. There was no indication that such arrangements were considered for other components of the systems being leased under the Schedule contract in June 1970 or for any of the equipment or components leased in June 1971.

Department of Defense

Although Defense agreed with our correlation of competition and economy, it did not believe "that annual recompetition would achieve still greater savings" for the following reasons.

1. A large share of the funds spent are for renewed leases under contracts initially awarded following extensive competition--for lease of the computers over the system lives--and the contracts usually provide for an increase in price if less than 80 percent of the contractor's equipment is retained for the system life.
2. A substantial portion of noncompetitive payments goes to suppliers of economical replacements for original equipment. If new awards were made each year, Defense would soon run out of suppliers because lower prices are the result of contracts with the option to renew.

3. Some computer manufacturers are reluctant or refuse to permit the attachment of peripheral equipment--not their own--to their equipment.
4. Fully competitive replacements, annually, would increase costs--administrative staffing, site modification, transportation of equipment, personnel retraining, and conversion--and negate potential savings and seriously disrupt service.

Inasmuch as Defense was leasing about 83 percent of the computers being leased by the Government at June 30, 1973, and lease costs incurred under Schedule contracts accounted for about 70 percent of the total lease costs during fiscal year 1973, it is reasonable to assume that a significant number of orders placed under Schedule contracts, and the related costs, were attributable to Defense. It is primarily to this area of ADP equipment procurement--leases and purchases under Schedule contracts--that our proposed corrective actions are directed.

We share Defense's concern with the problems associated with seeking competitive proposals before renewing contracts for the lease of ADP equipment or purchasing installed, leased equipment and agree that in some cases such competition may not be practicable or result in savings.

However, we believe that the examples previously presented demonstrate that savings are possible in Defense and in other agencies. In those examples savings were generally realized when equipment leased from the manufacturer was replaced by similar equipment from a third-party leasing company or by purchase from a private business. It would appear that in such cases site modification, personnel retraining, and conversion costs would not apply or would be minimal.

We have recommended, therefore, that GSA extend the use of maximum order limitations to Schedule contract orders for the renewal of leases or purchase of installed, leased equipment, so as to place major procurements of installed, leased equipment and the renewal of leases under GSA's surveillance. By this means GSA could determine whether competitive solicitations should be pursued, procurement authority should be delegated, or the equipment

should be acquired through the ADP Fund. Acquisition through the ADP Fund would include the options of purchase or multiyear leasing rather than short-term leasing. GSA's improved surveillance could provide added assurance that the agencies are getting full advantage of certain special purchase credits which occasionally are made available by Schedule contractors.

CHAPTER 4

SCOPE OF REVIEW

We reviewed the legislative history of Public Law 89-306, OMB circulars and guidelines, GSA regulations and procedures, various Federal agency procedures and administrative guidelines pertaining to the acquisition of equipment, and the provisions of the Schedule contracts.

We contacted or visited 37 offices of the following agencies, located primarily in the Washington, D.C., area, to interview procurement officials and examine procurement records and related documents.

- General Services Administration
- Atomic Energy Commission
- Department of Commerce
- Department of Defense
- Department of the Army
- Department of the Air Force
- Department of the Navy
- U.S. Marine Corps
- Defense Supply Agency
- Defense Communications Agency
- Department of Health, Education, and Welfare
- Department of Labor
- Department of Transportation
- Department of the Treasury
- National Aeronautics and Space Administration
- Veterans Administration
- District of Columbia Government

We did not examine agency justifications for the acquisition of the equipment or the uses being made of the equipment.

UNITED STATES OF AMERICA
 GENERAL SERVICES ADMINISTRATION
 WASHINGTON, DC 20405



001
 The Honorable Elmer B. Staats
 Comptroller General of the United States
 General Accounting Office
 Washington, D.C. 20548

Dear Mr. Staats:

We have reviewed carefully the draft of your Report No. B-115369 entitled, "Need for More Competition in the Federal Procurement of Automatic Data Processing Equipment." The draft was also discussed by members of my staff, with Messrs. I. Boker and E. Cooper of the General Accounting Office, on September 20, 1973, to ensure that the intent of the report was clearly understood.

As a result of our review and discussion, we concur, substantively, with all recommendations that are made in respect to actions to be taken by the General Services Administration in the report. We believe that they are constructive, and that they will serve to aid us in our continuing efforts to obtain greater economies in the procurement process.

With regard to the first recommendation, orderly implementation actions to achieve the desired results will be undertaken, within the limitations of the marketplace and in a manner to avoid disruption to the agencies. Use of the maximum order limitation as a technique, as well as other methods and tools, will be considered to achieve the desired objectives. In this vein, we note the heading, "Agency Actions and Unresolved Issues," on page four (4) of our copy of the report, is blank and states, "(To be completed later)." As this part of the report could have a bearing on our implementation actions, we would appreciate the opportunity to review it and comment before it is issued in final form. Another tool to achieve the desired objective is more effective use of the ADP Fund for competitive, multiyear leases of equipment. Your Report No. B-115369 on this subject, dated April 30, 1971, contained a recommendation to the Congress to consider legislation that would authorize use of the ADP Fund to enter such leases, without the necessity of obligating total anticipated payments at the time leases are entered into. We are once again making efforts to obtain the recommended legislative authority this year. You may wish to consider, for inclusion in the final version of this report, a restatement of that earlier recommendation. We believe that the expanded authority for use of the ADP Fund would provide new areas of consideration and be significant in helping us to achieve more competition.

We shall also expand our continuing efforts in those areas addressed in the remaining report recommendations.

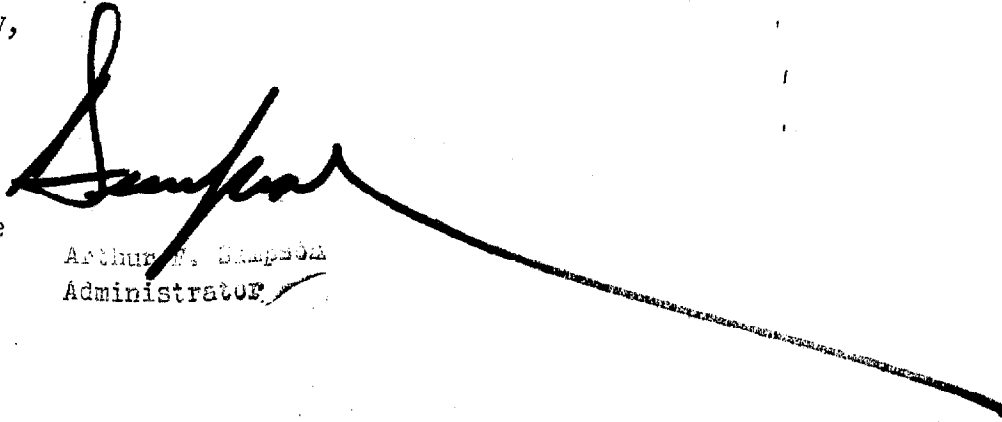
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APPENDIX I

In accordance with the September 20, 1973 discussion of this draft, there is enclosed a chart which bears out the continuing downward trend in procurements accounted for by ADP Schedule contracts. We are projecting a further reduction, to below \$400 million, under the FY 74 ADP Schedule. You may wish to comment on these additional, more current statistics in your final report.

We appreciate your courtesy in providing us with the opportunity to review and discuss the draft.

Sincerely,

A large, stylized handwritten signature in black ink, which appears to read "Sampson". The signature is written over the typed name and title below it.

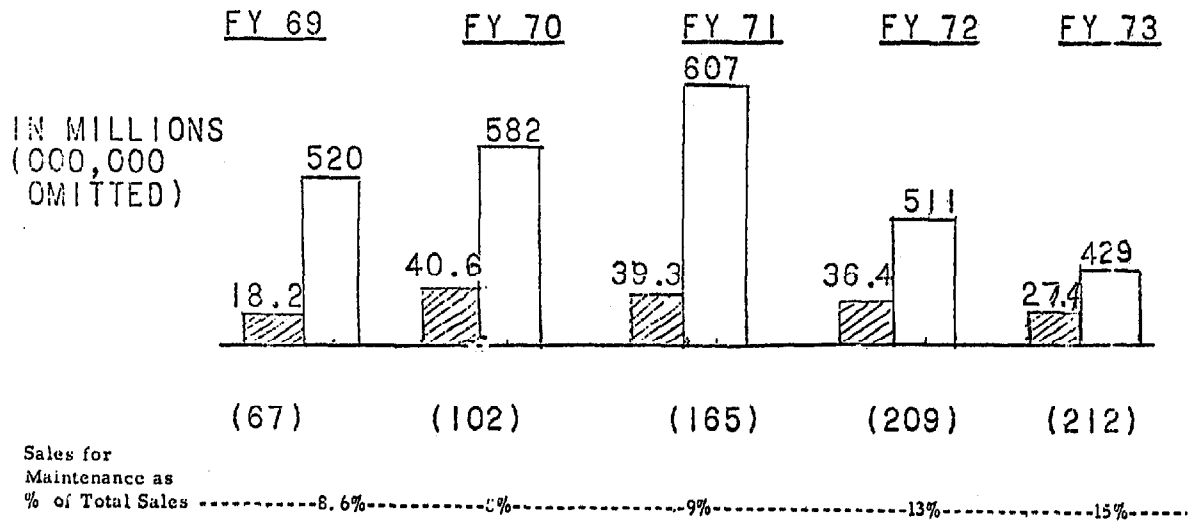
Enclosure

Arthur W. Sampson
Administrator

GAO note: Number in bracket refers to page number
in this final report.

ADP SCHEDULE PROGRAM

- SALES VOLUME REPORTED BY CONTRACTORS ON GSA FORMS 72.
- CLAIMED COST AVOIDANCE - FROM COMMERCIAL PRICES/TERMS
- () NUMBER OF CONTRACTS AWARDED



GDPS - 8-14-73

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

OCT 16 1973

Mr. Donald L. Eirich
Assistant Director-in-Charge
Communications and Data
Management Group
U.S. General Accounting Office
Washington, D.C. 20548

Dear Mr. Eirich:

We appreciate the opportunity to comment on your draft report to the Congress on the "Need for More Competition in the Federal Procurement of Automatic Data Processing Equipment."

As you know, the responsibilities of the Office of Management and Budget with respect to the issuance of policy on selection, acquisition and utilization of automatic data processing equipment (except those relating to Government-wide automatic data processing standards) were transferred to the Administrator of General Services by Executive Order 11717 dated May 9, 1973.

We share your concern that the Government continue to exploit all possible opportunities to introduce further economies into the ADP procurement process. As your report notes, GSA has already taken some actions to make ADP procurement more competitive and to assure that the Government is procuring a greater portion of its ADP equipment at the lowest possible price.

We would expect that, in his response to you, the Administrator of General Services will elaborate on GSA's continuing efforts to achieve this goal.

Sincerely,



Frederic V. Malek
Deputy Director

PRINCIPAL OFFICIALS OF
THE OFFICE OF MANAGEMENT AND BUDGET
AND THE GENERAL SERVICES ADMINISTRATION
RESPONSIBLE FOR THE ACTIVITIES
DISCUSSED IN THIS REPORT

	Tenure of office	
	From	To
<u>OFFICE OF MANAGEMENT AND BUDGET</u>		
DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET:		
Roy L. Ash	Feb. 1973	Present
Caspar W. Weinberger	June 1972	Feb. 1973
George P. Shultz	July 1970	June 1972
Robert P. Mayo	Jan. 1969	June 1970
Charles J. Zwick	Jan. 1968	Jan. 1969
Charles L. Schultze	June 1965	Jan. 1968
<u>GENERAL SERVICES ADMINISTRATION</u>		
ADMINISTRATOR OF GENERAL SERVICES:		
Arthur F. Sampson	June 1973	Present
Arthur F. Sampson (acting)	June 1972	June 1973
Rod Kreger (acting)	Jan. 1972	June 1972
Robert L. Kunzig	Mar. 1969	Jan. 1972
Lawson B. Knott, Jr.	Nov. 1964	Feb. 1969
COMMISSIONER, FEDERAL SUPPLY SERVICE:		
Michael J. Timbers	June 1973	Present
Milton S. Meeker	Jan. 1972	June 1973

APPENDIX III

	<u>Tenure of office</u>	
	<u>From</u>	<u>To</u>
<u>GENERAL SERVICES ADMINISTRATION (continued)</u>		
Lewis E. Spangler (acting)	Apr. 1971	Jan. 1972
H. A. Abersfeller	Mar. 1970	Apr. 1971
Lewis E. Spangler (acting)	Dec. 1969	Mar. 1970
Arthur F. Sampson	June 1969	Dec. 1969
Lewis E. Spangler (acting)	May 1969	June 1969
H. A. Abersfeller	May 1964	May 1969
COMMISSIONER, AUTOMATED DATA AND TELECOMMUNICATIONS SERVICE:		
(note a)		
Milton S. Meeker	June 1973	Present
Harold S. Trimmer, Jr. (acting)	July 1972	June 1973

^aEffective July 15, 1972, the Government-wide ADP responsibilities of the Federal Supply Service and the telecommunications responsibilities of the Transportation and Communication Service were assigned to the Automated Data and Telecommunications Service.

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