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The Honorable William Proxmire
 United States Senate

Dear Senator Proxmire:

Your letter of February 16, 1973, requested that we review the Olivetti Corporation's charges that the Navy is violating General Services Administration (GSA) regulations by purchasing IBM Optical Character Recognition (OCR) typewriters.

GSA's Federal Property Management Regulation 101-26-408-2 requires that justification be made for purchasing other than the lowest price equipment available. Olivetti claims that its OCR typewriters meet all OCR requirements and is lower in price than the IBM-OCR typewriters. You expressed concern as to whether the Government was procuring equipment that meets regulations at the lowest possible cost, regardless of supplier.

In response to your request, we have obtained the following information.

OCR TYPEWRITERS

OCR typewriters eliminate the need to convert information into punchcards or tapes before computer processing, because their print does not have to be translated for electronic scanning equipment.

Most IBM typewriters have interchangeable type elements and can be used for OCR, general office, speech, viewgraph, and various technical typing. Because Olivetti typewriters are conventional typewriters and do not have interchangeable type elements, they are limited to OCR typing.

FEDERAL SUPPLY SCHEDULE CONTRACTS

GSA awards contracts for typewriters to various manufacturers and lists on Federal Supply Schedules their contracts, products, and services. The Department of Defense must purchase only those typewriters on the Schedules.

Under this system, GSA generally negotiates discounts from the basic catalog prices of numerous manufacturers and

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vendors. Consequently, prices for similar items and different brands can vary substantially. Agencies can order from and make payments directly to contractors on the Schedules. However, GSA's regulation requires agencies to select the brand offered at the lowest delivered price unless the purchase of a higher priced item is fully justified. The regulation further states that justifications should be based on specific or definitive needs which are clearly associated with achieving program objectives.

The fiscal year 1973 Schedule prices for OCR typewriters vary according to the typewriters' physical and functional characteristics and the quantity purchased. Both Olivetti and IBM have Schedule contracts for OCR typewriters that can be used for different sizes of paper, but we compared the prices and functional characteristics of only one model which uses paper up to about 13 inches. Prices for various models of this size Olivetti OCR typewriter range from \$311.02 to \$400.04 each. If large quantities are purchased at one time, the Schedule provides for reduced prices ranging from \$279.77 to \$342, depending on the quantity purchased. The Schedule prices for the IBM-OCR typewriters range from \$477 to \$603, regardless of the quantity purchased.

JUSTIFICATION FOR PURCHASING IBM TYPEWRITERS

After discussing the Navy's procurement of OCR typewriters with the local Olivetti representative, we visited five Navy Purchasing Offices in the Washington, D.C., area to determine if they had adequate justifications for purchasing the higher priced IBM typewriters.

Four of the offices had purchased IBM typewriters. Navy officials justified their purchase by citing the need for a multipurpose typewriter which could meet their OCR and general-purpose typing requirements. They also cited the additional need for speech and viewgraph typing. Officials advised us that the principal need for the OCR type was to transmit messages through the telecommunication system without further processing to convert or translate the print. They said, if a requirement existed for full-time use of an OCR typewriter, they would not purchase the more expensive IBM typewriter to meet this need.

The fifth office had procured mostly Olivetti OCR typewriters and used them for the substantial workload of OCR typing in the automated personnel and pay system. It had 116 Olivetti typewriters and 34 IBM typewriters. The IBM typewriters were capable of typing OCR and general office typing. Procurement officials at this office advised us that they

B-164630

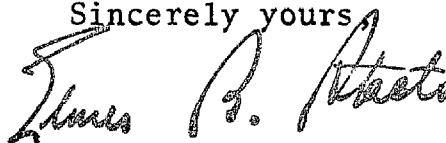
plan to continue buying Olivetti typewriters to meet their OCR typing requirements.

CONCLUSIONS

The Navy justified its purchase of the IBM typewriters in accordance with Federal Property Management Regulations and the justifications appear valid. The Navy personnel we contacted stated they had considered the price differences when selecting typewriters to meet their requirements. They advised us that both brands were excellent typewriters, but the interchangeable type elements of the IBM typewriter best suited the typing needs of those offices requiring varied styles of type.

We hope this information has satisfactorily answered your questions. If we can be of further assistance, please let us know.

Sincerely yours

A handwritten signature in cursive script, appearing to read "James P. Stets".

Comptroller General
of the United States