Audit Report

Office of Audit
Information Systems Audit Division

Review of the Personal Computing (PC) Workstation Procurement

98-DP-166-0002
June 5, 1998

June 5, 1998

MEMORANDUM TO**:**   Willie H. Gilmore, Deputy Assistant Secretary for Resource

Management and Operations, AR

FROM: Benjamin K. Hsiao, Director, Information Systems Audit Division, GAA

SUBJECT: Review of the Personal Computing (PC) Workstation Procurement

We have completed a review of the computer workstation procurement practices at the Department. Our objective was to determine whether the current procurement method for buying computer equipment and accessories was cost effective.

We found the Department no longer relies solely on an Indefinite Delivery Indefinite Quantity (IDIQ) arrangement with its primary contractor for information technology to buy PC equipment and accessories. Since the IDIQ process did not consistently provide competitive market prices, buying through other means has resulted in savings. We commend the Department for this change and recommend that the current practice of buying PC workstations be adopted in a formal policy to ensure all future procurements will be based on the lowest possible costs.

In our review we also followed up on previously reported weaknesses in PC equipment inventory control (OIG Report 91-TS-166-0005). The weakness in accurately tracking PC equipment still exists and must be corrected as soon as possible. The lack of adequate inventory controls exposes the Department to theft of PC equipment.

We have included the comments received from both the Office of Information Technology and Management and Transportation Division in Appendix A to this report. We consider the target dates and actions taken prior to issuance of this report as sufficient basis for management decisions on all the recommendations.

We wish to express our appreciation for the cooperation of your staff in this audit. Should you have any questions, or require additional information, please call me at 708-3444, extension 149 or Bill Thomas at extension 105.

Attachment

Executive Summary

We performed this review to determine if personal computing (PC) equipment and accessories procurement practices were cost effective. We also followed up on a prior OIG audit related to inventory controls over personal computers.

During our preliminary review, we found the Department had purchased computers and peripheral items at higher than fair market prices. We concluded that buying PC equipment and accessories exclusively through the Indefinite Delivery Indefinite Quantity (IDIQ) arrangement with HUD's primary contractor for information technology was not cost effective. For example, the Department paid as much as 20% more than market prices for similar or identical workstations and the IDIQ price for 93% of the peripheral equipment tested exceeded the General Service Administration (GSA) price list. Subsequent to our preliminary review, the Office of Information Technology (IT) initiated a change in the procurement practice by buying equipment from sources providing equipment at prices set by the GSA. These prices usually were lower than those of the IDIQ arrangement. The changed approach in buying computers has saved HUD about $3.8 million.

However, the revised procurement practice remains an informal process that would still allow items be purchased at higher prices, whether by either the GSA price list or the IDIQ arrangement. The Department should adopt a policy where it is standard practice to always comparison shop and purchase equipment at the lowest possible cost to the Government.

Regarding the follow-up review on weak inventory controls for PC equipment, we found the previously reported weaknesses still exist. The Department still lacks an effective inventory system to timely and accurately track new PC equipment ordered and received. As a result of these weak controls, the Department is open to theft of computers and related equipment. The Office of Administrative Management Service (OAMS) and IT must work together to develop a system to accurately and timely account for PC equipment.

RESPONSE TO REPORT

We provided the draft report to the Deputy Assistant Secretary for Resource Management and Operations on April 1, 1998. We received written comments from both the Office of Information Technology and Management and Transportation Division that generally agreed with our recommendations. We consider the target dates and actions taken prior to issuance of this report as sufficient basis for management decisions on all the recommendations. All comments have been provided in Appendix A.

Table of Contents

Abbreviations:

COTS	Commercial Off The Shelf
CLIN	Contract Line Item Number
DO	Delivery Order
FEMIS	Furniture and Equipment Management Information System
GSA	General Service Administration
GTR	Government Technical Representative
HUD	Department of Housing and Urban Development
HIIPS	HUD Integrated Information Processing System
HINET	HUD Integrated Nationwide Teleprocessing Network
IDIQ	Indefinite Delivery Indefinite Quantity
IT	Office of Information Technology
LAN	Local Area Network
OIG	Office of Inspector General
OAMS	Office of Administrative Management Services
OPC	Office of Procurement and Contracts
PC	Personal Computing

Introduction

Background

The Department of Housing and Urban Development (HUD) has a standard computer hardware and software environment nationwide. This environment consists of a three tiered architecture: individual microcomputers serving as multi-function workstations connected to organizational Local Area Networks (LANs) that, in turn, provide access to the mainframe computers via LAN gateways and communication servers. HUD's computer environment integrates IBM and Unisys mainframe capabilities, more than 13,000 desktop multi-functional workstations, and 175 LANs, with an integrated nationwide teleprocessing network (HINET). The HUD standard workstation consists of a Windows based microcomputer and monitor. The workstation may be connected to its own dedicated printer, or share a printer with other workstations via a LAN.

"HUD's Standard IT Environment"
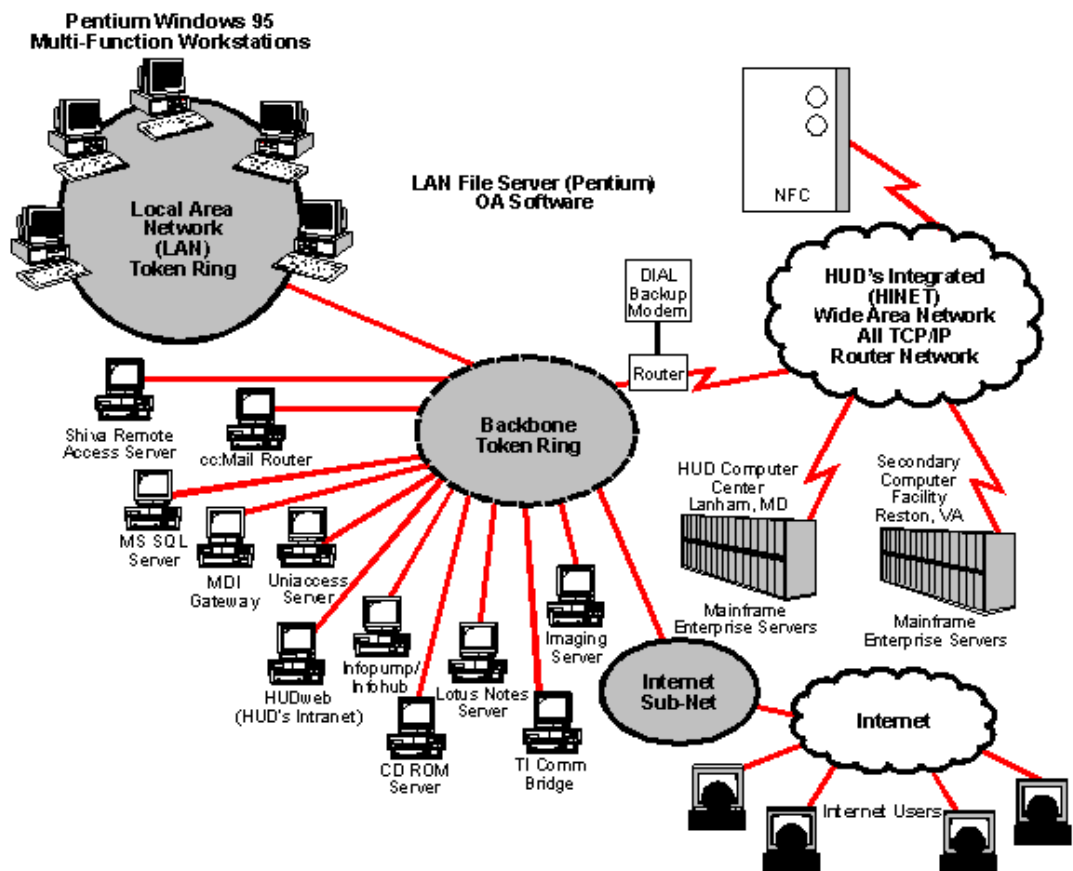
HUD's computer environment is controlled by the Integrated Information Processing Service (HIIPS) contract which was awarded to the systems integrator, Martin Marietta Technologies, Inc. (now Lockheed Martin). Lockheed Martin is responsible

for the acquisition, installation, operation, and maintenance of the HIIPS system, including the procurement of all necessary computing hardware and software. The HIIPS contract utilizes Commercial Off-The-Shelf (COTS) items, accommodates users with desktop systems, groups of multi-user systems, and users interacting with applications hosted on mainframe computers. It is a cost reimbursable contract with certain elements that are fixed priced. The effective date of the HIIPS contract is November 28, 1990, and is currently in the operational phase. The contract period, including option years, is for 12 and one-half years. HIIPS will provide HUD's data processing support services through May 2003.

The HIIPS contract was modified on April 30, 1991, to include Section H, Indefinite Delivery Indefinite Quantity (IDIQ). Section H allows Lockheed Martin to purchase computer equipment and supplies for HUD under the fixed portion of the HIIPS contract. Users, in addition to the systems integrator, may purchase equipment for utilization in HUD's computer environment. The Office of Information Technology (IT) is responsible for acquiring all information technology related hardware and software, whether standard or non-standard. IT processes all procurements of PC computers and accessories subject to approval of the Office of Procurement and Contracts (OPC). IT is also the Government Technical Representative (GTR) for the HIIPS contract.

The scope of our work covered only the IDIQ portion of the HIIPS contract. The HIIPS contract was reviewed in a separate audit on contracting practices at HUD, (Audit Report 97-PH-163-0001 dated September 30, 1997, HUD Contracting Activity).

Audit Objectives, Scope, and Methodology

Our objectives for this review were to determine if using the IDIQ procurement method was cost effective and to determine if alternatives to the IDIQ were available. We also followed up on a prior OIG audit on management of inventory over personal computers.

We evaluated the IDIQ process, reviewed applicable parts of the HIIPS contract documentation, and interviewed responsible personnel associated with IT, Office of Procurement and Contracts (OPC), Field Staff, Office of Administrative Management Services (OAMS), IT contractor, Lockheed Martin, and Lockheed Martin's subcontractor, BancTec. Further, we compared specific IDIQ items with like items available from the GSA price list.

We performed our field work from September 1995 to May 1996 and January 1997 to January 1998. We reviewed procedures and documentation from the period from November 1991 to May 1997 and December 1997 to January 1998. We conducted our audit in accordance with generally accepted governmental auditing standards.

Findings

Finding 1

Changes in Procurement of Computer Equipment Have Resulted in Savings

IT had purchased computers and peripheral items at higher than fair market values. Based upon our preliminary review and IT's initiative, IT changed its procurement practices and saved the Department over $3.8 million from 1996 through January of 1998.

In December 1996, OPC notified OIG that the new Dell Computers had been purchased through the GSA price list rather than the IDIQ arrangement. By using a vendor from GSA, the procurement costs $2.4 million less than buying through the IDIQ. Further, in January 1997, IT began to buy printers and notebooks from sources other than the IDIQ. This change allowed these items to be purchased from the lower of either GSA price list or the IDIQ.

IT also made an additional change in August 1997. Since the IDIQ prices were set for a year, IT decided to look elsewhere to purchase items with rapid improvements in technology and price reductions. IT is using HUD-10s to buy items such as computers, printers, modems, notebooks, etc., from any source offering GSA price list or lower.

Changes in Procurement Practice Should be Adopted as Policy

The current IT procurement practice for buying PC computers is cost effective. However, this practice has not been adopted as a formal policy where procurement procedures require the purchase of computer equipment be made at the lowest possible costs. A policy on cost effective procurements would reduce the risk of excessive costs in computer purchases. This is especially needed since our review disclosed several instances where past purchases have resulted in excess costs to the Department.

Past Procurement Practice Was Not Cost Effective

IT has purchased computers and peripheral items at higher than fair market prices in 1995 and 1996. We conducted three independent price surveys related to 486 computers, Pentium computers, and peripheral items such as printers, printer accessories, hard drives, Madge cards, and scanners. The computer prices were compared to prices found in *InfoWorld* magazine and prices of the peripheral items were compared to the GSA price list. We used the *InfoWorld* methodology because

the magazine's street prices were based on telephone surveys of resellers and on print advertising in computer publications and regional newspapers. Based upon the results of our surveys, we found that HUD had paid higher than market prices for the items on the IDIQ list.

486 Computers Were Overpriced on the IDIQ

The first survey relates the 486 DX 2/66 model computer. This model was added to the IDIQ list through contract modification number 48 dated March 3, 1995.

To determine a fair market price for the model 486 DX 2/66, we compared the $1,879 AMAX price to the average street prices found in the February 20, 1995, issue of *InfoWorld*. The *InfoWorld* article indicated that price information was collected between February 5 and February 11, 1995. The February 20th issue was selected because the data collected predated the March contract modification date. Our survey found the following:

CLIN NUMBER	AMAX COMPUTER	AMAX PRICE	*INFOWORLD* COMPUTER	*INFOWORLD* PRICE
50.001	CPU, 8 MB OF RAM, 210 MB HARD DRIVE	$1,592	CPU, 8 MB OF RAM, **540** MB HARD DRIVE	**$1,512.00**
40.250	14" COLOR MONITOR	$ 287	**15"** COLOR MONITOR (INCLUDED)	$0
	PRICE	<u>$1,879.</u>		<u>**$1,512.00**</u>

Our comparison disclosed that on average the AMAX IDIQ price was $367 more than the average *InfoWorld* street price. We also noted the *InfoWorld* clones provided more viewing with a 15" monitor and more storage capacity with a 540 MB HD. The Systems Integrator's database for DOs 51 through 89 disclosed that 4,196 model DX 2/66 computers were shipped to HUD during 1994 - 1995. We concluded that based upon the *InfoWorld* price difference when compared to the price of the computer and monitor only, HUD wasted in excess of $1.5 million by purchasing the AMAX 486 computers off the IDIQ list.

Pentium Computers Were Overpriced

The second survey OIG conducted related to the 90 MHz Pentium computer. The Systems Integrator's proposal 547-02 introduced the addition of Pentium workstations to the IDIQ list. Using the Systems Integrator's proposed prices, HUD ordered over 600 Pentiums on Delivery Order (DO) 950090, dated

September 29, 1995, at a proposed discounted price. We added the price of a 15" monitor and compared the total price to the average street price found in the

August 28, 1995, issue of *InfoWorld*. This issue was selected because it predated the Delivery Order September date. OIG found the following:

CLIN NUMBER	AMAX COMPUTER	PRICE AMAX	*INFOWORLD* COMPUTER	*INFOWORLD* PRICE
50.621P	90 MHz COMPUTER, 16 MB OF RAM, 520 MB HARD DRIVE	$2,095	100 MHz COMPUTER, 16 MB OF RAM, 1.2 GB HARD DRIVE	$2,413
50.634P	15" MONITOR	$ 396	15" MONITOR (INCLUDED)	$0
	PRICE	<u>$2,491</u>		<u>$2,413</u>

Our comparison disclosed that on average the proposed price was only $78 more than the average *InfoWorld* street price. We also noted the *InfoWorld* clones provided more speed at 100 MHz and more storage capacity with a 1.2 GB hard drive. We found the $78 price to be ***significant*** since the proposed AMAX price had been discounted for a purchase in excess of 600 computers. Clearly the OIG survey shows the proposed price for the AMAX computer was excessive when compared to the open market. As a result, HUD wasted in excess of $46,800 on its first purchase of Pentium computers.

Peripheral Items Were Overpriced

The third survey OIG conducted related to peripheral items such as printers, printer accessories, hard drives, Madge cards, and scanners. OIG judgmentally picked a sample of 45 of the COTS items and compared their IDIQ prices to the GSA price list. Our sample only included items from the IDIQ list where IT's model number in the IDIQ database was the same number as the manufacturer's part number found in the GSA price list. The chart below depicts our survey results:

GSA SAVINGS OVER THE IDIQ
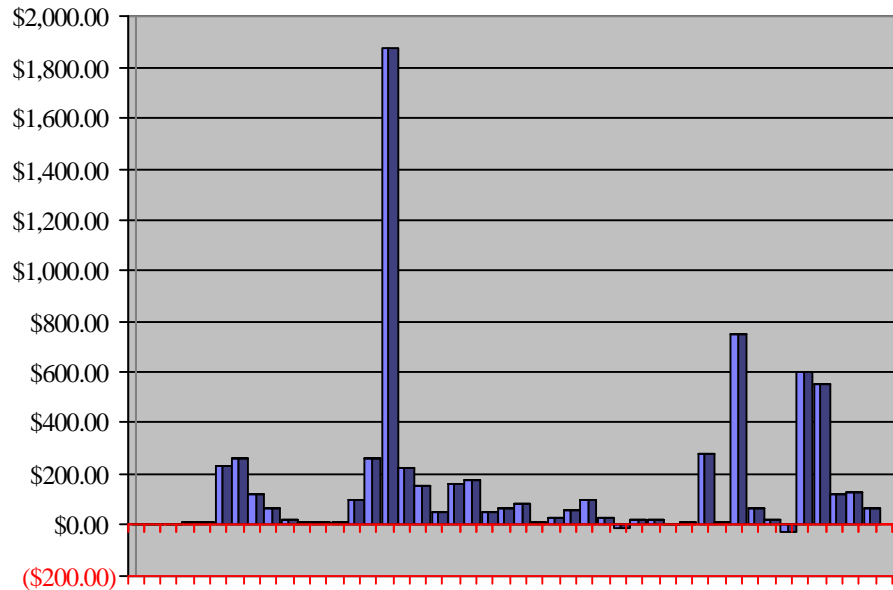
Our review disclosed 3 of the 45 items were more expensive on the GSA price list by $.84 to $29.00. However, we found 42 of the 45 IDIQ items would have been cheaper by $2 to $1,877 had they been purchased from the GSA price list.

Further, we found that 13 of the 45 IDIQ items had various discount prices based upon volume purchases. We compared the discounted price of the 13 items to the GSA price list and found that 12 of the 13 items were more expensive than the regular GSA single item price list. OIG concluded, based upon the GSA price list survey, that HUD not only paid higher than fair market prices for the COTS items, but also HUD is currently not enjoying possible savings benefits from volume discounts.

Further Opportunities for Cost Reduction

While OIG views the procurement changes to date as positive efforts, there are more opportunities for additional improvement. For example, HUD still relies on the IDIQ for certain COTS items, which have costs higher than the GSA price list. The reason the IDIQ price may be higher is because the Department must pay the cost of the item plus a fee charged by the Systems Integrator. The Department should consider all available sources for COTS items. The Department should acquire COTS items from the vendors that represent the best value to the Government.

Recommendations

We recommend that the Assistant Secretary for Administration direct IT and OPC to work together to adopt a procurement policy to require all PC workstations and related equipment, including those on the IDIQ, be purchased from the most economical source at the time of need. The Department should consider purchase vehicles available such as the IDIQ, GSA price list, a department blanket purchase agreement, the government credit card, or local vendors. This process should be documented as standard operating procedures for buying computer equipment.

Finding 2

Purchased PC Equipment Must Be Recorded in FEMIS

We found that the Furniture and Equipment Management Information System (FEMIS) was not timely updated when new PC equipment was purchased. Our analysis found that OAMS did not record PC equipment already delivered to HUD staff in FEMIS. This occurred because OAMS did not consistently follow existing procedures for labeling and recording of newly purchased equipment. This control weakness was previously reported in OIG Report 91-TS-166-0005, *Audit of Controls Over Microcomputer Hardware and Software Programs*, dated November 30, 1990. The audit also reported missing equipment.

Installed Pentiums Not in FEMIS

OIG reviewed the inventory controls over the Pentiums assigned to the OIG from Delivery Order 950090. We judgmentally selected the first 15 OIG computers assigned to the OIG audit staff for our review. We traced the serial numbers to the FEMIS inventory listing dated February 2, 1996. We found that the FEMIS inventory listing did not include all 15 OIG Pentium serial numbers even though the inventory listing was dated over one month after the computers had been installed.

The existing procedure requires IT to notify OAMS through cc:Mail upon receipt of new PC equipment. In this instance, IT indicated that appropriate cc:Mail notification for the new equipment was sent to OAMS. However, neither IT nor OAMS staff could provide a copy of the cc:Mail notification.

HUD Is Open to Theft of Computers

Although we did not search for missing equipment, the current weakness would allow employees and/or contractors to take newly purchased equipment without being detected. The periodic inventory taken by OAMS to account for all PC equipment would not detect any missing unrecorded equipment.

According to HUD's 2020 Management Plan, over 2500 additional PC workstations are being purchased during FY 1998. Accurate and timely inventory records must be maintained to minimize the risk of theft and misplacement.

Recommendations

We recommend that the Assistant Secretary for Administration direct IT and OAMS to work together to ensure that all purchased PC equipment is recorded in FEMIS prior to issuance to HUD staff.
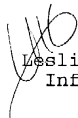
Appendices

Appendix A

OFFICE OF THE ASSISTANT SECRETARY
FOR ADMINISTRATION

APR 1 7 1998

MEMORANDUM FOR: Kathryn M. Kuhl-Inclan, Assistant Inspector
General, GA

FROM: Leslie H. Graham, Jr., Deputy Director, Office of
Information Technology, AMI

SUBJECT: DRAFT Review of Personal Computing(PC)Workstation
Procurement

We have reviewed the subject draft audit report. In
general, we agree with the report findings but take exception to
particular statements cited in the report related to the HUD
Integrated Information Processing System(HIIPS)Indefinite
Delivery Indefinite Quantity(IDIQ)contact. Please see our
specific comments below.

**Finding 1:   Changes in Procurement of Computer Equipment Have
Resulted in Savings.**

RESPONSE: It is Office of Information Technology policy to buy
from the source that represents the best advantage to
the government. This policy is applied across the
board, not only for PC workstations, but for all
equipment and software. The Office of IT concurs with
the recommendation to prepare a written standard
operations procedure to document our policy. It will
be completed by May 29, 1998.

While we agree with the overall recommendation, we
take exception to some of the statements regarding the
cost of purchasing equipment through the HIIPS
contract.   Before General Services Administration
(GSA)schedule purchase limits were eliminated, the
only convenient vehicle to meet HUD's requirements for
large quantities of equipment was the HIIPS IDIQ. It
was not uncommon for the Office of IT to receive
orders for several hundred workstations required in a
short time frame to support a Departmental priority.
These orders exceeded the $50,000 GSA schedule limit

and HUD would have been required to run a full and
open competition for the orders. This process would
have been time consuming, staff intensive, and often
delayed by vendor protests. Use of the HIIPS contract
also has several advantages over other purchase
methods. These include: better integration and
accountability, streamlined maintenance coverage,
consolidated billings, and better coordination for
shipping and delivery. While use of the IDIQ may not
have resulted in the lowest purchase price for the
equipment, the Office of IT considered it to represent
the best value to the Government before the new
procurement rules were put in place.

Based on the information above, please enter a
management decision concurrent with the publication of
the final report. The final action completion date
will be May 29, 1998.

Finding 2: Purchased PC Equipment Must Be Recorded in FEMIS.

RESPONSE: The Office of IT recognized the need for improved
inventory control of PC equipment. During Fiscal Year
1997, in response to preliminary feedback on the
subject audit, we developed a tracking system from
which the Office of IT provided a detailed list of
installed equipment and its location to the Office of
Administrative and Management Services (OAMS) to assist
them in the bar coding of all computer equipment. The
Office of IT has recently rolled out the new automated
Request Ordering System (ROS) which should further
improve inventory control through the use of expanded
database capabilities reflecting more detailed
information on each item of inventory throughout the
Department. OAMS has direct access to the new ROS
system and will, therefore, be better able to
accurately track the receipt and distribution of
government issued properties.

Based on the information above, we recommend closure
of this item concurrent with the final report.

If you have any question regarding the above, please
contact David Cristy at 708-2384.

U. S. Department of Housing and Urban Development
Washington, D.C. 20410-3000

MAY 1 9 1998

OFFICE OF THE ASSISTANT SECRETARY
FOR ADMINISTRATION

MEMORANDUM: Benjamin K. Hsiao, Director, Information Systems Audit
Division, GAA

FROM: Marianne Jentilucci, Director, Management and Transportation
Division, ARSM

SUBJECT: Review of the Personal Computing (PC) Workstation
Procurement

We have reviewed the subject draft audit report. In general we agree with the findings reported in *Finding 2. Purchased PC Equipment Must Be Recorded in FEMIS.* We have attached a copy of the computer items in our FEMIS system for delivery order 950090. The audit report did not provide the raw data to support the finding. However we believe that the items in question are in our inventory. We do not tract the date items are entered, so we cannot verify that the items were in the system in February 1996, but the inventory dates are November 3-11, 1995.

In the past, OAMS relied on ccmail messages from OIT. We agree that this is not a reliable method of notification. In addition we had little documentation to support what should be in inventory. The following improved procedures are currently in place:

- The Chief, Micro-installation Branch, calls the OAMS inventory management specialist to provide advance notice of a pending equipment delivery. This allows OAMS to schedule staff time to inventory the received equipment promptly. CCmail messages are sent to confirm receipt and request inventory action.

- Monthly meetings are held with OAMS and IT staff to review the Document Detail Report for all purchases made under Object Class 3100. This document provides contract and delivery order numbers that enable OAMS staff to ensure they are receiving all purchase documents for accountable equipment.

- IT has developed a tracking log for all of their purchases which OAMS uses to verify that we have captured everything in our inventory.

-2-

Other long term solutions are being implemented. OAMS has received funding to replace FEMIS with a state of the art facilities information management system. IT has developed an automated order tracking system which will be made available to OAMS inventory management staff, and will eventually be integrated with the facilities information management system. This system will replace the cumbersome manual tracking systems now in place. The facilities information management system will fully address all of the findings reported in OIG Report 91-TS-166-0005. We expect the system to be piloted by the end of Fiscal Year 1998, and fully implemented by the end of the second quarter of Fiscal Year 1999.

Attachment

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Page No.    1                                                          05/15/98

                                    LISTING FOR AD HOC QUERY
Criteria was  Purchase Order Number = '950090      '

EQUIP ID  MAN  EQUIPMENT DESCRIPTION     DATE ACQ

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11042406  AMX  PC SYSTEM UNIT (PENTIUM)  11/04/95
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11042441  AMX  PC SYSTEM UNIT (PENTIUM)  11/03/95
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U.S. Department of Housing and Urban Development
Washington, D.C. 20410-3000

OFFICE OF THE ASSISTANT SECRETARY
FOR ADMINISTRATION

JUN   3 1998

MEMORANDUM FOR: Kathryn M. Kuhl-Inclan, Assistant Inspector
                  General, GA

FROM: Leslie H. Graham, Jr., Deputy Director, Office of
       Information Technology, AMI

SUBJECT: DRAFT Review of the Personal Computing Workstation
           Procurement, 98-DP-166-0002

     We have completed corrective actions related to
recommendation one of the subject audit. The recommendation
requires the Office of Information Technology (IT) to adopt
a procurement policy to require all PC workstations and
related equipment, including those on the IDIQ, be purchased
from the most economical source at the time of need.
Attached is a memorandum to Headquarters IT Managers and
Field IT Directors establishing the policy of IT for the
procurement of computer hardware and software.

     Based on the information above, please close this
recommendation with a completion date of May 28, 1998. In
support of this closure, please see the attached memorandum
to IT Headquarters and Field Managers.

     If you have any questions, please contact David Cristy
on 708-2374.

Attachments

U. S. Department of Housing and Urban Development
Washington, D.C. 20410-3000

OFFICE OF THE ASSISTANT SECRETARY
FOR ADMINISTRATION

MAY 2 8 1998

MEMORANDUM FOR: Headquarters IT Managers
                          Field IT Directors

FROM: Leslie H. Graham, Jr., Deputy Director, Office of Information Technology, AMI

SUBJECT: Policy on the Purchase of Personal Computer Hardware and Software

This memorandum establishes the policy of the Office of Information Technology (IT) for the procurement of computer hardware and software.

For the first several years under the HIIPS contract, IT purchased computer equipment and peripherals under the Indefinite Delivery, Indefinite Quantity (IDIQ) provision of the contract as firm fixed-price. This offered a convenient and cost-effective way for the Department to fill large orders for workstations and peripherals - often with short time frames to support implementation of HUD systems - without requiring a lengthy and costly competition for each order.

Since FY-97, we have been able to take advantage of the changes in procurement regulations by using the GSA Schedule to order workstations, printers, and notebooks at considerable savings (in both time and dollars) to our customers. As the product list available under the GSA Schedule continues to grow, we may purchase many other computer-related equipment and commercial-off-the-shelf (COTS) items at prices comparable to the IDIQ.

Thus, it is the policy of IT to continue to compare prices for items on the HIIPS IDIQ with those on GSA Schedule to ensure that the Department utilizes the method which provides the best value to the government.

Appendix B

Distribution List

Assistant Secretary for Administration, A (Room 10110)
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Assistant Secretary for Community Planning and Development, C (Room 7100)
Assistant Secretary for Housing-Federal Housing Commissioner, H (Room 9100)
President, Government National Mortgage Association, T (Room 6100)
Acting Assistant Secretary for Public Affairs, W (Room 10132)
Assistant Secretary for Congressional & Intergovernmental Relations, J
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Deputy General Counsel, C (Room 10214)
Deputy Assistant Secretary for Operations, HO (Room 9138)
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Deputy Chief Financial Officer for Finance, FF (Room 2200) (2)
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Director, Housing and Community Development Issue Area, U.S. GAO, 441 G
  Street, NW, Room 2474, Washington, DC 20548, Attn: Judy England-Joseph
Chairman, The President's Council on Year 2000 Conversion

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GAA   Thomas      8172
GAA   Chron       8172
GFA   Files       8266    (2012.17)

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