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Navy IBM-Compatible Computer  
Procurement Practices

Statement of  
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Before the Subcommittee on Legislation and  
National Security,  
Committee on Government Operations  
House of Representatives



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Mr. Chairman and Members of the Subcommittee:

I am pleased to participate in the Subcommittee's hearings on the Navy's computer procurement practices. I am focusing my testimony today on three topics related to IBM-compatible procurements.

First, I would like to briefly review the applicable public laws and federal regulations that govern such procurements. Second, I will discuss statistics we collected on the Navy's procurement of mainframe computer and peripheral equipment during the 3-1/2 years ending in March 1989. Finally, I will address the results of a review we performed on the Navy's practices in its efforts to procure hardware for its Standard Civilian Pay System, called NAVSCIPS.<sup>1</sup>

Our review of NAVSCIPS showed that the Navy unnecessarily restricted the procurement in favor of IBM equipment. The Department of Defense Inspector General made a similar finding in its review of a planned procurement by the Navy Military Personnel Command. These findings, in conjunction with our statistical report showing IBM domination of the Navy's IBM-compatible procurements over the 3-1/2 years ending in March 1989, provide a good starting point for these hearings.

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<sup>1</sup>ADP Procurement: Navy Improperly Restricted Competition for Its Civilian Pay System (GAO/IMTEC-89-61, June 21, 1989).

Certainly, this work calls for carefully exploring with Navy procurement officials, whether the lack of full and open competition evident in the two procurements reviewed by us and the Defense Inspector General is a widespread problem in the Navy's ADP procurement practices.

Although not specifically covered in our testimony, these concerns are further amplified by a recent decision and a settlement before GSA's Board of Contract Appeals. The Board ruled in December 1988 that the Navy's Data Processing Installation Equipment Transition Project solicitation document for IBM-compatible computers did not promote full and open competition. Additionally, in a settlement before the Board in May 1989 on a procurement solicitation for computer equipment at the Naval Post Graduate School, the Navy agreed to cancel the solicitation and to restate its requirements in a manner which best promotes maximum competition and to allow all IBM-compatible vendors to compete for the follow-on procurements.

#### LAWS AND REGULATIONS PROMOTE COMPETITION

Mr. Chairman, competition is an important factor in government procurement law and policy. Generally, the government is best served when all potential contractors have the opportunity to compete equally with others for its business. Offering all contractors the opportunity to compete helps to assure that the

government pays fair and reasonable prices. When competition is restricted, the government may lose opportunities not only to obtain lower prices but to increase the productivity and effectiveness of its programs.

The Competition in Contracting Act requires agencies to procure property or services in a manner that promotes full and open competition. To implement the Act's mandate for full and open competition, the Federal Acquisition Regulation states that, whenever practicable, an agency's procurement requirements should be developed to state only the government's actual minimum needs and in terms of functions to be performed or performance required.

As you know, the Brooks Act emphasizes the importance of economically and efficiently acquiring federal automated data processing (ADP) resources and gives the Administrator of General Services broad responsibility for such acquisitions. Brooks Act purchases must be based on full and open competition, using specifications that identify no more than an agency's minimum needs, and the Federal Information Resources Management Regulation, issued by GSA requires agencies to design ADP specifications to maximize competition. The regulation states a preference for functional specifications, although it also recognizes that some provisions that might restrict competition may be needed to satisfy the user's needs. For example, an

agency may be able to justify specifications based on equipment performance, specific brand name or equal requirements, or on specific make and model requirements.

Another example of a specification that restricts competition but may be warranted by mission needs is one based on an agency's requirement that new hardware or software perform like a specific type of hardware or software, with little or no modification. Such specifications, which require special justification, are frequently described as "plug-compatible," or "compatibility limited." The Federal Information Resources Management Regulation requires agencies to justify and support most "compatibility limited" procurements. This justification must be supported by 1) agency mission data processing needs and 2) a comprehensive software conversion study.

Today, I am specifically focusing my remarks on procurements that are IBM-compatible.

#### NAVY MAINFRAME AND PERIPHERAL EQUIPMENT PROCUREMENT STATISTICS

Mr. Chairman, today we are issuing a report that contains statistics on the Navy's procurements of mainframe computers and related hardware during the 3-1/2 years ending in March 1989.<sup>2</sup>

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<sup>2</sup>Navy ADP Procurement: Contracting and Market Share Information (GAO/IMTEC-89-66FS, Sept. 15, 1989).

The report addresses several specific questions you asked about the manufacturers involved and the methods the Navy used in procuring this equipment. Overall, IBM was the manufacturer that most frequently supplied mainframes and related equipment to the Navy. When we compared dollars--as opposed to number of procurements--we found that the Navy obligated more to procurements involving IBM equipment in 2-1/2 of the 3-1/2 years. However, because of a single \$52 million contract with Unisys in fiscal year 1987, the Navy obligated more dollars to procurements involving Unisys equipment than to other procurements.

At this time I would like to briefly highlight the Navy's compatible procurements, where the statistics indicate extensive use of IBM equipment.

During the 3-1/2 years, 91 percent of all Navy mainframe and peripheral procurements and 90 percent of all the funds obligated to those procurements were limited by a requirement for some type of compatibility. Further, of all those compatible procurements, 58 percent--representing 35 percent of funds obligated to such procurements--required IBM compatibility. If we exclude from our analysis the \$52 million Unisys contract, almost 44 percent of the Navy's funds obligated for mainframe-related compatible procurements were for IBM-compatible procurements. Of all the Navy's IBM-compatible procurements, IBM equipment was obtained 72 percent of the time. Similarly, 84 percent of the funds

obligated to these procurements were used in procurements involving IBM equipment. Thus, under IBM-compatible procurements the Navy acquired more IBM equipment than equipment manufactured by all the other IBM-compatible equipment manufacturers combined.

In addition, we obtained statistics on the procurement methods used by the Navy to obtain its equipment. The Navy used the GSA schedule 51 percent of the time for obtaining IBM-compatible equipment. When we use dollar obligations as a measure of procurement activity, the Navy obligated \$42.5 million of its \$86 million total to procurements for IBM-compatible equipment through contract modifications. Thus, contract modifications were the procurement method that accounted for 49 percent of the funds obligated to IBM-compatible procurements. Conversely, of \$162.5 million obligated for all other compatible procurements, \$32.5 million, or 20 percent of these funds were obligated through contract modifications.

#### OUR REVIEW OF THE NAVY STANDARD CIVILIAN PAY SYSTEM

Mr. Chairman, I would now like to direct my discussion to our review of the Navy's NAVSCIPS procurement, which we reported on in June 1989. As you are aware, in this procurement the Navy awarded a \$27 million contract to the Federal Computer Corporation for IBM hardware and peripheral equipment. This equipment was to be used to process a new Navy civilian payroll

system originally scheduled for implementation in December 1988. The results of our review are especially disturbing because they showed not only mismanagement but a lack of concern for full and open competition.

The Navy's conduct in this procurement was improper. The Navy staff relied partly on the expertise provided by an IBM technical representative to develop specifications for the NAVSCIPS solicitations. Although such vendor assistance, in and of itself does not establish bias, we are concerned that IBM was the only vendor who provided such advice and assistance. According to one Navy technical analyst, the IBM technical representative "coached" the staff responsible for developing specifications. In obtaining specification advice mainly from an IBM representative, the Navy may have improperly excluded other vendors from the process. From what we know, the Navy made little or no effort to obtain advice and information from other code-compatible vendors.

We also found significant problems from a management perspective. Specifically, the Navy's approach resulted in a system design that improperly restricted procurement competition, did not meet the Navy's requirements, and did not work. The Navy selected a data base management system, hardware, and 10 processing sites without conducting appropriate studies and developing adequate support. Taken together, the decisions effectively mandated the



use of a computer equal to the IBM 4381--what industry calls a low-end mainframe--to process NAVSCIPS.<sup>3</sup> From what we could determine only IBM could fulfill this requirement because it was the only vendor that marketed a mainframe of this size.

After the contract was awarded, the Navy decided to use a different data base, and 3 sites instead of 10. This change required a larger computer and eliminated the need for the low-end IBM-compatible mainframe. If the Navy had conducted appropriate studies and made these decisions initially, procurement competition would have increased, since several vendors market a larger computer and would have been able to bid on the less restrictive specifications.

We recommended that the Navy recompute the NAVSCIPS requirements, and compare the results of the recompetition with the current contract, to determine the most cost-effective course of action. The Navy has agreed to cease deliveries of mainframe computers from the contract while it assesses alternative approaches to processing NAVSCIPS. Toward that end, the Navy plans to have its Information Systems Executive Board, a senior-level panel responsible for reviewing major information systems projects, review the NAVSCIPS procurement to determine an appropriate course of action.

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<sup>3</sup>The Navy's basic computer requirement at the time was for an IBM 4381-P11 or equal processor, which can process at the rate of 1.3 million instructions per second.

Mr. Chairman, you recently asked us to review whether the requirements of the Truth in Negotiations Act (10 U.S.C. 2306a) were met in connection with a 1986 preliminary phase of the NAVSCIPS project, in which the agency bought two IBM 4381 computers, one for testing and another for prototyping, and in the NAVSCIPS competition that was the focus of our report.

The Truth in Negotiations Act requires that contractors and subcontractors submit cost or pricing data to support proposed prices in certain negotiated noncompetitive procurements. Cost or pricing data is the factual information that a prudent buyer or seller reasonably would expect to have a significant effect on negotiations.

In the 1986 procurement, the Navy invited offers from four vendors to furnish IBM 4381 or equal computers and peripheral equipment, but only IBM responded. Normally, the lack of price competition would trigger the requirement in the Truth in Negotiations Act for cost or pricing data, and Navy documentation shows that the contracting officer expected IBM to submit the data before the contract would be awarded. IBM, however, claimed it was exempt from the submission requirement based on an exception in the law for a price based on established catalog or market prices of commercial items sold in substantial quantities to the general public. IBM said that the exception applied because its offer was based on, and was even lower than, the

price in IBM's current ADP schedule contract with GSA. IBM stated that it had certified the commerciality of its product to GSA, and in negotiating the ADP schedule contract GSA had accepted the certification and found the IBM prices fair and reasonable.

The regulations permit the contracting officer to grant the exemption for a price based on an established catalogue or market price if the government has acted favorably on an exemption claim for the item within the past year. However, the contracting officer still has to analyze the price to be sure that it is reasonable.

The Navy has told us that there is nothing in the contract file to show that the agency followed through in this area. Accordingly, we fail to see how the Navy had adequate assurance that the contract price was fair and reasonable. At your request, Mr. Chairman, we have initiated further work on both NAVSCIPS contracts to assess Navy actions in assuring the reasonableness of contract prices.

Mr. Chairman, our work has been limited to accumulating statistical information on procurements of mainframe computers and related hardware and reviewing a specific Navy procurement. I cannot offer a definitive overview of Navy's procurement process, but I believe our work provides a good basis for raising

some serious questions about these practices, which should be explored at these hearings.

Are Navy procurements adequately managed to assure that good business practices are being followed within the context of federal procurement regulations?

Do Navy procurement practices foster competition? Can the Navy assure that its predominant use of IBM compatible procurements--and IBM equipment within those procurements--is in the best interest of the government?

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This concludes my statement, Mr. Chairman. I will be happy to respond to any questions you or other members of the Subcommittee may have.