

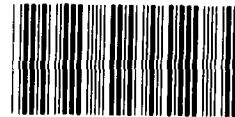
GAO

Report to the Chairman, Committee on  
Small Business  
House of Representatives

May 1986

# ADP EQUIPMENT

## Revised GSA Strategy for Microcomputer Purchases Can Improve Competition



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United States  
General Accounting Office  
Washington, D.C. 20548

Information Management and  
Technology Division

B-221163

May 15, 1986

The Honorable Parren J. Mitchell  
Chairman, Committee on Small Business  
House of Representatives

Dear Mr. Chairman:

In your January 10, 1986, letter you indicated that on the basis of the findings contained in our November 25, 1985, briefing report,<sup>1</sup> you thought it would be appropriate for the General Services Administration (GSA) to explore alternative approaches to the present Office of Technology Plus (OTP) stores. At that time you asked us to expand our review of the federal government's use of OTP computer stores to (1) investigate the desirability/feasibility of letting one or more service contracts for the purpose of providing to federal users the same types of services currently being offered by OTP and (2) determine whether government microcomputer procurement efforts should be revised relative to the present OTP procurement strategy.

Our analysis showed that:

- It is not desirable to use service contracts to provide the same types of services presently being offered by OTP because of the potential increase in administrative costs to the agencies.
- Agencies have an incentive to use OTP even though other procurement sources could potentially meet their needs at a lower cost. Regulations governing an agency's use of procurement sources competitive with OTP impose additional administrative burdens.

The existing contract for the operation of OTP expires in June 1986. GSA has prepared a solicitation document for recompetition of store operations and has announced the solicitation to the public. However, pending the results of our analysis, GSA has deferred issuing the request for proposals.

We believe the government's objective of satisfying its automatic data processing (ADP) requirements through full and open competition could be enhanced if two revisions were made to its strategy for procuring microcomputer products and services. The first involves creating a procurement method that would increase the ability of retailers to compete

<sup>1</sup>Buying Through GSA's Office of Technology Plus Stores (GAO/IMTEC-86-2BR, Nov. 25, 1985).

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with OTP. The second involves lowering OTP's Maximum Order Limitation from \$100,000 to \$50,000. The first revision should provide increased competition on about \$22 million in microcomputer procurements. The second revision should increase competition on about \$9 million in microcomputer procurements. These revisions are discussed in more detail below.

Information on our objectives, scope, and methodology is presented in appendix I.

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## History of Federal Microcomputer Procurements

In the early 1980s, GSA wanted to create an environment in which the government could more easily achieve the productivity benefits made possible through the use of microcomputers. Although this technology was available to agencies through the use of traditional procurement techniques, GSA was concerned that these approaches did not give agencies ready access to microcomputer products and that agencies lacked an understanding of the capabilities of microcomputers. GSA determined that (1) the government needed a computer resources center to provide assistance and information to agencies interested in microcomputers, and (2) microcomputer vendors had the knowledge and incentive needed to establish and operate such a center. According to GSA officials, their "concept was to bring to the Government the market forces that the private sector was capitalizing on so that Government employees could have the same tools for productivity as the private sector." To this end, GSA established OTP as an additional source for microcomputer purchases, making it one of several procurement approaches that could be used to meet the government's requirements for microcomputer products.

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## Current Microcomputer Procurement Regulations

The regulations governing the acquisition, management, and use of all ADP equipment and software are contained in the Federal Information Resources Management Regulation.<sup>2</sup> According to this regulation, the basic procurement objective in satisfying ADP requirements is to obtain full and open competition through the use of competitive procedures that permit all responsible sources that can satisfy the needs of the government to submit offers. In addition, the contract action should be made at the lowest overall cost to the government, price and other factors considered.

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<sup>2</sup>This regulation is contained in Title 41 of the Code of Federal Regulations, Part 201.

GSA has exclusive authority for all ADP procurements—with the exception of certain defense procurements—but has delegated authority for procurements of a lower value<sup>3</sup> to federal agencies. GSA has provided written guidance in Federal Information Resources Management Regulation, Bulletin 6, to assist agencies in microcomputer procurements. The bulletin requires agencies to determine which procurement approach will most likely meet their requirements at lowest overall cost by considering three existing microcomputer procurement methods. The first involves procuring on the open market, which includes using small purchase procedures or issuing a formal solicitation. The other methods involve purchasing from GSA's schedule contracts or from OTP.

**Open-Market Acquisitions:  
Small Purchase Procedures**

Small purchase procedures are described in the Federal Acquisition Regulations, Part 13. One key provision of these procedures is that purchases of supplies or services having an anticipated dollar value of \$10,000 or less shall be reserved exclusively for small business concerns. These procedures provide that oral solicitations from at least three sources may be considered to promote competition to the maximum extent practicable. If no small businesses can meet the agency's requirements, the contracting officer may obtain quotes from OTP, Schedule C vendors, and other sources. In most cases, the contracting officer would only have to maintain informal records of the oral price quotations to demonstrate the propriety of placing the order at the price paid.

**Open-Market Acquisitions:  
Formal Solicitations**

For purchases above \$10,000, agencies must consider using the formal solicitation process involving the publication of an announcement in the Commerce Business Daily. This publication process is known as "synopsizing" and is described on page 9. This formal solicitation process can be relatively lengthy and expensive. According to GSA, this method involves relatively high administrative costs; therefore, it is rarely a cost-effective method for purchasing small quantities of inexpensive computers.

**Schedule Contracts**

Schedule contracts—contracts containing terms pre-negotiated by GSA that can be used by all agencies—are non-mandatory sources of supply.

<sup>3</sup>The basic thresholds under which agencies may procure ADP equipment without seeking GSA's authority are: procurements of \$2.5 million or less for a competitive acquisition, \$250,000 for a sole-source contract, and \$300,000 for a schedule purchase.

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A non-mandatory source means that agencies are not required to purchase equipment and services under these contracts. Agencies using the schedule still must make sure they are meeting their requirements at the lowest overall cost, price and other factors considered.

Schedule contracts are awarded to vendors on the basis of several factors. One factor is the discount from their commercial prices offered by the vendor. Nationwide availability of vendor products and support services is another factor. The terms and conditions of schedule contracts vary from vendor to vendor. In addition to standard manufacturers' warranties, a variety of maintenance contracts, training options, and related services may be offered under various fee arrangements.

Under its ADP Schedule Contract Program, GSA annually awards contracts to multiple vendors who supply ADP hardware, software, and services. The program consists of three schedules (A, B, and C) that offer a range of data processing products. In 1983, GSA established Schedule C to consolidate all microcomputer-related products that had been available on the other data processing schedules.

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## OTP Stores

On June 28, 1983, as the result of a competitive solicitation action, GSA awarded a contract for the operation of the OTP computer stores. The first OTP store opened in Washington, D.C., in August 1983. Stores in Philadelphia and Atlanta opened in 1984.

These stores are non-mandatory sources of supply; therefore, agencies must determine which of the available procurement alternatives will meet their requirements at the lowest overall cost, price and other factors considered. These "other factors" may include the cost of conducting the procurement, services needed to use the product, and implementation costs. In addition, the Federal Information Resources Management Regulation, Bulletin 6, states that even if the price for an item is higher than could be obtained elsewhere, an agency may find that OTP offers the lowest overall cost if (1) the agency does not have the experience or expertise needed to identify comparable schedule offerings or (2) the agency determines that the value of the services available at the store offsets the price difference.

Some of OTP's services (installation, delivery, and some types of maintenance and training) are provided for a fee. OTP's services/conveniences that are offered without a charge include assistance in selecting a hardware and software configuration, product demonstrations, single-point

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contact for multi-vendor orders, 2-hour pre-delivery testing of new equipment (burn-in), loans of equipment if extended maintenance is required, and guaranteed delivery times. The cost of providing these services is reflected in the price of OTP's products.

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**Previous GAO Findings  
on OTP**

In response to your May 29, 1985, request, we reported on the federal government's use of the OTP stores (GAO/IMTEC-86-2BR). Our analysis showed that the government spent an estimated 12.8 percent more on items purchased from OTP than from Schedule C vendors. Although the services provided by OTP may have potentially offset the higher prices paid, it was unclear what value buyers placed on the services and to what degree these services influenced buyers' decisions to purchase from OTP.

We found indications that agencies were neither adhering to procurement regulations concerning OTP's \$100,000 Maximum Order Limitation nor documenting their justifications for why they considered OTP the source providing lowest overall cost. In the former case, we reported that instances were found where agencies had placed orders for related equipment within a very short period with the combined total of the orders exceeding OTP's Maximum Order Limitation. In the latter case, we reported that a number of agency procurement officials had not been documenting their reasons for choosing OTP over other alternatives. We also reported that we could not determine the effect of OTP on small businesses due to general instability in the microcomputer marketplace.

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**Separate Service  
Contracts Are Not  
Desirable**

We believe that awarding one or more service contracts to provide the same type of services now offered by OTP would not be desirable. Most of these services are now provided for free or on a fee basis by most microcomputer retailers as part of their routine sales support. Requirements analysis and configuration assistance services are often acquired separately for acquisitions of large hardware and software systems. However, the type of assistance needed by agencies for individual microcomputer buys is usually provided free of charge by microcomputer retailers. Establishing separate contracts for these kinds of services would increase an agency's administrative burden and add to the administrative costs of procuring microcomputer products when these services are needed.

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**OTP Services/Conveniences to Users Are Associated With Microcomputer Purchases**

We found, with the exception of requirements analysis and configuration assistance, that the services that GSA requires OTP to provide are not normally provided separate and apart from a typical retailer's product sales support. The services provided as an integral part of the sale, delivery, installation, or servicing of microcomputer products include

- side-by-side comparison of similar products from different manufacturers,
- user seminars and forums to acquaint potential customers with products offered through the stores and to facilitate the exchange of ideas and information relative to these products,
- loans of equipment if repairs take longer than a specified amount of time,
- maintenance contracts for products purchased through the store,
- pre-installation testing of hardware systems (burn-in),
- installation, and
- guaranteed delivery times.

These services are provided by other microcomputer retail stores in the geographical areas serviced by OTP as part of their normal sales support.<sup>4</sup> Appendix II summarizes the extent to which these services are commonly offered in the marketplace as part of sales-related activity.

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**Separate Service Contracts Not Warranted**

Other services required of the OTP vendor by GSA could possibly be purchased by an agency separate and apart from microcomputer acquisitions, but we believe this is not warranted. These services, which relate to the selection of specific equipment to meet agency requirements, include

- requirements analysis, which involves determining which agency functions can be helped by automation and what capabilities (for example, spreadsheet, word processing) are needed to support these functions, and
- configuration assistance, which entails providing alternative combinations of hardware and software products that meet the customers' needs.

Many agencies may contract for assistance in defining their functional requirements for large hardware and software systems because the activities, such as documenting and analyzing the current system, can be

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<sup>4</sup>Based on interviews with 43 retailers (described in appendix I, Objectives, Scope, and Methodology).



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complex, time-consuming, and costly. While contracting for assistance may be needed for large systems, it does not appear to be needed when agencies purchase microcomputers. We found that the level of effort and assistance needed by individual users in defining their requirements and identifying the microcomputer products needed to satisfy them appears to be relatively small and is typically obtained as an integral part of the acquisition of hardware and software.

Documentation provided by GSA and OTP concerning specific instances of requirements analysis assistance that OTP gave to various agencies indicates that this assistance was not complex compared to that provided for large ADP system acquisitions. Representatives from retail computer stores in areas served by OTP said that they normally would not charge for this type of requirements analysis or configuration assistance. Further, this particular service is not needed for all OTP purchases or by all customers. In our previous study of OTP, we reported that none of the 10 users we contacted used the configuration assistance offered by OTP. Several users who received computer systems did not need the configuration assistance because the same system had been procured before or they had received assistance from their agencies' ADP experts and knew what they wanted.

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**Administrative Costs Would Increase With Separate Service Contracts**

Establishing separate contracts for services would impose an additional time and paperwork burden on an agency if it needed help in procuring microcomputer products because it would be required to perform a number of tasks over and above those performed using a single contract. For example, the agency would have to prepare multiple purchase orders: a set to obtain the technical assistance and an additional set to procure the needed hardware and software. It would also have to process multiple invoices to pay for the services and microcomputer products. Further, the increased administrative activities imposed on the users and contracting officers could slow the agencies' acquisition of microcomputers and software.

## Competition for Microcomputer Purchases Could Be Increased

We found that retailers who provide one-stop shopping<sup>6</sup> and offer competitively priced products and services are at a disadvantage with OTP in competing for agency purchases of microcomputer products. This problem exists for purchases valued between \$10,000 to \$100,000 because agencies incur an extra administrative burden involved with synopsisizing (discussed below) their purchases.<sup>6</sup> The government's purchases in this price range from OTP were estimated at \$22 million during OTP's 1984-85 contract year.<sup>7</sup>

We also believe that agencies may be paying more at OTP compared to Schedule C for orders in the \$50,000 to \$100,000 price range, in those cases where services are not a significant requirement. For the 1984-85 contract year, about \$9 million worth of these orders were placed at OTP. Procurement regulations favor OTP over Schedule C since agencies incur an additional administrative burden for purchases between \$50,000 and \$100,000 from Schedule C as compared to purchases from OTP.

Although we could not determine the actual dollar amount that could be saved as a result of correcting these problems, our work on this and a previous review<sup>8</sup> has indicated that cost savings can result from increased competition on procurements.

## Retailers Offer Products and Services Similar to OTP at Competitive Prices

We found that many retailers in the geographical areas served by OTP carry the major products that agencies have been purchasing from OTP. We also found that they offer most services required under the terms of the OTP contract, including "one-stop shopping" for systems that include equipment from multiple manufacturers. These findings are shown in appendix II. In addition, we found that prices of several Washington, D.C.-area vendors for two system configurations frequently purchased from OTP by agencies were competitive with OTP's prices. One configuration was composed of IBM equipment, and the other was composed of Compaq equipment. Five out of nine retailers offered prices lower than OTP's for the IBM configuration while six out of seven retailers offered

<sup>6</sup>This is defined as the ability of a vendor to provide microcomputer hardware, software, services, supplies, and training in one location.

<sup>6</sup>For purchases under \$10,000, the procurement alternatives are on a more equal footing because agencies can issue one purchase order to fulfill their requirements for a complete system from both open-market sources and OTP with the same administrative effort.

<sup>7</sup>From data supplied by GSA for OTP sales from July 1, 1984, through June 30, 1985.

<sup>8</sup>Federal Regulations Need to Be Revised To Fully Realize the Purposes of the Competition in Contracting Act of 1984 (GAO/OGC-85-14, Aug. 21, 1985).

prices lower than OTP for the Compaq configuration. Prices from the retailers and OTP were obtained during the period February 17-28, 1986. We did not attempt to place a value on any services offered by OTP or by the retail stores that were included in the price of the equipment. These results are shown in appendixes III and IV.

### Additional Administrative Costs Incurred in Using Sources Competitive With OTP

We found that for purchases between \$10,000 and \$100,000, agencies needing the benefits of one-stop shopping generally can access retailers only through the formal solicitation process that involves synopsisizing. This process represents one of the major differences between procuring from open-market sources, Schedule C, and OTP. It is intended to give all interested vendors the opportunity to notify the agency of their ability to provide items or services that might satisfy the agency's requirement. The synopsis level (or threshold) represents the procurement dollar value at which an agency must publicly advertise in the Commerce Business Daily its intentions either to conduct an open-market procurement or to place an order against existing schedule contracts. The dollar level at which agencies must "synopsize" differs among procurement methods. Agencies are not required to synopsisize purchases up to \$10,000 from open-market sources; up to \$50,000 from Schedule C vendors; and up to \$100,000 from OTP.<sup>9</sup> The synopsis process requires that a notice of intent to purchase be published in the Commerce Business Daily at least 15 days before the issuance of a solicitation.

If the notice placed in the preceding step elicits a response from potential, competing offerors and the agency decides that a solicitation would be advantageous to the government, it must then conduct a solicitation that involves (1) preparing a solicitation document, (2) placing another notice in the Commerce Business Daily, (3) allowing at least 30 days' response time for receipt of bids or proposals from the date of issuance of the solicitation, (4) evaluating proposals, (5) conducting negotiations, and (6) awarding a contract.

### Procurement Regulations Favor OTP

We found that most of the products offered by OTP are available from Schedule C vendors and generally at a lower price. Our previous review showed that approximately 79 percent of OTP's products were available on Schedule C. In addition, we reported (on the basis of analysis of OTP

<sup>9</sup>Since agencies are not required to "synopsize" when placing orders at OTP, the Maximum Order Limitation represents the level at which agencies must use another procurement method and advertise their intentions to procure microcomputer products or services.

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sales data for the period from May to June 1985) that agencies spent an average of 12.8 percent more (not considering the value of any "no-charge" services offered by either OTP or the Schedule C vendor) for items at OTP than they would have for identical products from Schedule C vendors. Yet, agencies may use OTP instead of Schedule C to avoid "synopsizing" their intent to make purchases in the \$50,000 to \$100,000 price range. Thus, an agency that knows what it wants to procure and does not need services from OTP (for example, requirements analysis, configuration assistance, hardware or software demonstration) could end up paying more at OTP even though a potentially lower cost source exists.

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## Alternatives to Present Procurement Strategy

To address the problems identified in this report, we considered a number of alternatives for revising the current microcomputer procurement strategy. In selecting alternatives for detailed examination, we focused on those that directly addressed one or more of the problems impairing effective competition on individual agency purchases. Specifically, these alternatives were

- discontinuing the OTP operation,
- modifying the existing Maximum Order Limitations or synopsis levels, and
- creating a new procurement method to access retail stores.

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## Criteria Used in Evaluating Alternatives

In evaluating alternative ways that the microcomputer procurement strategy could be revised relative to the use of OTP stores, we examined each alternative in terms of

- how well the problems we had noted with the current procurement strategy addressed retailers' ability to compete effectively for agency purchases in the \$10,000 to \$100,000 range, and Schedule C vendors' ability to compete effectively for agency purchases in the \$50,000 to \$100,000 range;
- whether it contributed to GSA's objective of providing to agencies a convenient and effective means of making microcomputer purchases; and
- whether its implementation and administration placed a burden on GSA.

Specifically, we examined the degree to which each alternative provided a responsible retailer on the open market an effective opportunity to be considered for each of the agencies' microcomputer purchases in the \$10,000 to \$100,000 range. Similarly, we examined the degree to which

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the alternative provided a Schedule C vendor with an effective opportunity to be considered for each of the agencies' microcomputer purchases in the \$50,000 to \$100,000 range. Using the current procedures for ordering from OTP as a baseline, we defined "effective opportunity" to mean that no administrative barriers would exist to limit the ability of, or to contribute to the cost or time required for, an agency to buy from the retail store or Schedule C vendor.

We did not determine the effect each alternative might have on the prices agencies would pay for their microcomputer purchases. At best, this effect would be difficult to estimate for most alternatives without detailed and extensive effort. Rather, we relied on the principle that providing full and open competition to all responsible vendors who could effectively compete for agency procurements will ensure fair and reasonable pricing levels.

We considered whether the alternative met GSA's goal of providing agencies a convenient and effective means of making microcomputer purchases up to \$100,000. In this regard, we examined whether the alternative provided an agency access to a range of hardware and software products and support services (for example, configuration assistance, one-stop shopping) when required. The effort and time required for an agency to make such a purchase under each alternative was also considered.

Finally, we evaluated the feasibility of the alternative in terms of its ability to be implemented under existing laws and regulations. We also considered what burden implementation and administration of the alternative might impose on GSA.

Within each of these alternatives, we considered several options concerning the specific details of the alternative. The discussion that follows, however, is limited to those options that appeared to offer the most improvement within the scope of the alternative.

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## **Discontinue the OTP Operation**

The first alternative considered was to discontinue OTP's operation, forcing agencies to rely on other existing procurement vehicles for their small microcomputer purchases. In effect, this would revert to the procurement environment that existed before OTP's establishment in 1983.

This alternative would eliminate the disadvantaged position of both Schedule C vendors and microcomputer retailers relative to their ability

to compete with OTP. This alternative is within GSA's current authority. Without the availability of a procurement vehicle to replace OTP, however, the agencies would lose a significant advantage of the current OTP operation: convenient access to a reasonably wide range of hardware and software products and associated support services. This disadvantage would be most significant where an agency needs assistance in defining its requirements or the convenience of one-stop shopping.

### **Modify Maximum Order Limitation or Synopsis Levels**

We considered alternatives for modifying the conditions under which agencies make purchases from OTP. We first examined the option of modifying the procurement regulations to permit an agency to place an order against a Schedule C contract for microcomputer products valued up to \$100,000 (rather than the current \$50,000) without having to synopsise its intentions in the Commerce Business Daily.

This change would improve the opportunity for Schedule C vendors to compete by making it as convenient for an agency to make a purchase of up to \$100,000 from a Schedule C vendor as from OTP. This change would make procurements easier for those purchases where Schedule C is likely to be an effective and economical source, primarily when an agency knows what it wants and does not need the support services provided by OTP and retail stores (for example, one-stop shopping, configuration assistance).

The opportunity for retail stores to compete, however, would be adversely affected in that they would no longer be informed through the Commerce Business Daily that agencies intended to make purchases in the \$50,000 to \$100,000 range from Schedule C vendors. They would thereby lose the opportunity to submit a proposal for that purchase.

GSA currently has the administrative authority to make this change. We believe it would not impose any additional administrative burden on the agency.

We next examined the option of reducing the Maximum Order Limitation for OTP purchases from the current \$100,000 to \$10,000 and requiring agencies to synopsise Schedule C purchases at \$10,000 rather than at the current threshold of \$50,000. This change would remove the advantage presently held by OTP and Schedule C vendors over retail stores, which, under the current rules, can only be accessed for purchases over \$10,000 through the use of open-market procedures.

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Under this option, retail stores would have an equal opportunity to compete with OTP and Schedule C vendors for individual agency purchases. The requirement to synopsise in the Commerce Business Daily, however, imposes an added administrative burden on agencies for purchases above \$10,000 now made at OTP and for purchases between \$10,000 and \$50,000 now made from Schedule C vendors.

Finally, we examined the option of lowering the Maximum Order Limitation on purchases from OTP to \$50,000. This alternative would improve the opportunity of Schedule C vendors and retail stores to compete for individual purchases over \$50,000 now being made at OTP. For the 1984-85 contract year, about \$9 million worth of these orders were placed at OTP. Furthermore, we have found that the larger orders placed there often are either for additional equipment similar to that previously purchased or for initial purchases of quantities of the same equipment. Both are situations where we believe the value of using OTP support services would not often be significant. It would become somewhat less convenient for agencies to make purchases in the \$50,000 to \$100,000 range that currently go to the stores. However, according to GSA, orders placed with OTP in this range represented 1.27 percent of the orders and 29 percent of the value of all orders placed in contract year 1984-85.

This option of reducing OTP's Maximum Order Limitation to \$50,000 would also have a similar beneficial effect on the opportunity of retail stores to compete for individual agency purchases in the \$50,000 to \$100,000 range. By itself, however, it would not improve the ability of retail stores to compete for individual agency purchases valued between \$10,000 and \$50,000—a class of purchases we have identified where retail stores also are currently at a disadvantage.

Any option to lower the OTP Maximum Order Limitation could be implemented within the present laws and regulations and should have little or no appreciable impact on GSA's administrative burden.

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### Create a New Procurement Method to Access Retail Vendors

The impediments that hinder a retail store's ability to compete for individual agency procurements in the \$10,000 to \$100,000 range could be removed by establishing a schedule similar to GSA's Teleprocessing Services Program. This program, which includes a multiple-award schedule, is intended to provide agencies with convenient and effective access to vendors of commercial teleprocessing services. In response to GSA's solicitation for teleprocessing services, vendors submit proposals identifying the services they offer and the proposed discount from their commercial

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rate for each item proposed. All such vendors who meet certain criteria for proven, responsible operation and pricing of services are placed on the teleprocessing schedule. Using simplified ordering procedures, agencies can purchase required teleprocessing services from the vendor who meets its specific requirement at lowest overall cost.

In the same fashion, microcomputer retailers could be asked to submit proposals identifying the products and services they are offering and the proposed price to federal customers. All vendors who meet certain criteria for proven responsible operation and pricing of products and services would be accepted for the retail store schedule.

Many options are possible for the specific terms and conditions of a schedule for retail vendors of microcomputer products modeled after the teleprocessing services program. To simplify the process of making comparisons with the current situation, we considered only the option that had many features in common with the current OTP operation. Under this option

- the schedule would be limited to retail vendors who serve the same geographical areas now served by the OTP;
- agencies could only place orders with stores in their geographical area;
- vendors would be required to meet criteria for proven, responsible operation similar to the requirements stated in the OTP solicitation; and
- the Maximum Order Limitation for the schedule would be set at the same level as OTP.

We believe such an option would increase the retail vendor's opportunity to compete for about \$22 million<sup>10</sup> of individual agency purchases in the \$10,000 to \$100,000 range currently being made through OTP. Since an agency would be able to access, through the proposed schedule, a number of responsible vendors offering a range of products and services similar to that currently offered by OTP, a retail schedule would support GSA's goal of providing agencies with a convenient means of purchasing microcomputer equipment. Establishing such a schedule is within GSA's administrative authority.

Adopting only this alternative would not, however, address the problem experienced by Schedule C vendors in competing for orders placed with OTP in the \$50,000 to \$100,000 range. Also, in our discussions with GSA officials, they expressed concerns about the burden associated with

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<sup>10</sup>Based on data GSA supplied for OTP's 1984-85 contract year.



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establishing and operating a new schedule. Although we did not determine the exact costs of establishing and operating a new schedule, we noted that it currently requires 27 staff years to negotiate and manage all of GSA's ADP schedule contracts (A, B, and C). For fiscal year 1985, this involved evaluating 918 offers from vendors and awarding 607 contracts.

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### Combination of Alternatives Needed

Since adoption of the "retail store schedule" alternative would not preclude the adoption of other alternatives discussed above, we examined various combinations of alternatives. One such combination—the establishment of a schedule for retail stores along with setting the Maximum Order Limitation (for both OTP and the new schedule) at \$50,000—appeared to offer complementary advantages. We believe the result would be improved competitive access to individual agency microcomputer purchases for both Schedule C vendors and retail stores and that the potential for savings to the government is significant.

GSA has estimated the annual OTP sales under the planned solicitation to be \$50 million. Our previous work showed that the government spent an estimated 12.8 percent more (not considering the value of any "no-charge" services offered by either OTP or by the Schedule C vendor) on items purchased from OTP than it would have from Schedule C vendors. A review of appendixes III and IV shows that retailers offer a range of prices and that an agency could realize potential savings of about 1 to 24 percent by ordering some system configurations from retail stores. However, an agency could pay more for a particular system configuration if it failed to shop around.

The major disadvantage is the administrative burden, discussed in the analysis of the retail schedule alternative, that GSA will encounter in establishing and managing the new schedule. The costs associated with this burden would have to be weighed against potential savings. We note, however, that increased competition from Schedule C vendors and retail stores would only have to result in a 5-percent savings to yield a savings to the government of about \$2.5 million.

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### Conclusions

The current GSA procurement strategy for federal acquisition of microcomputers does not allow retail stores or Schedule C vendors an effective opportunity to compete for sales now going to OTP. Since the potential for significant savings to the government exists, we believe this situation warrants immediate correction.

The decision on how to best correct the situation is, however, a matter of management judgment balancing the potential for increased competition and savings against the increased administrative burden for agencies and for GSA. In our judgement, the previously discussed alternative of establishing a retail store schedule and lowering the OTP Maximum Order Limitation to \$50,000 has the potential for correcting the problems with the current procurement strategy at a relatively modest risk of increased administrative burden.

Without actual experience with the operation of the proposed schedule, we cannot assess what effect the increased competition would have on the economic viability of OTP or its value to the government. Retaining OTP (with the Maximum Order Limitation lowered to \$50,000), along with implementing the retail store schedule, would give GSA the opportunity to achieve the benefits of increased competition while determining whether continued operation of OTP is desirable.

If the OTP operation is continued, it is important that the new OTP solicitation make clear the possibility of the reduced Maximum Order Limitation and the increased competition for agency business from retail stores and Schedule C vendors, factors that may affect a vendor's bidding strategy.

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## Recommendations

Accordingly, we recommend that the Administrator of the General Services Administration

- establish a multiple-award schedule to provide responsible microcomputer retailers an opportunity to compete for the government's business,
- lower OTP's Maximum Order Limitation from \$100,000 to \$50,000, and
- amend the solicitation document for the recompetition of the OTP operation to notify vendors of GSA's intentions to establish a retail store schedule.

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## Agency Comments and Our Evaluation

GSA generally agreed with our findings and conclusions. It agreed with our recommendations to establish a multiple-award schedule and to amend the solicitation document but offered an alternative to reducing OTP's Maximum Order Limitation.

In response to our first recommendation, on establishing a multiple-award schedule for microcomputer retailers, GSA said it would initiate a pilot project with the intent of establishing a retail multiple-award

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schedule for the Washington, D.C., area. The new schedule would include a \$50,000 synopsis threshold and a \$300,000 Maximum Order Limitation. The planned implementation of this schedule, if found to be feasible, would be April 1, 1987. In evaluating the feasibility of this pilot project, GSA will take into account vendor interest, the potential for enhanced competition and savings, and effective use of GSA resources. If the evaluation is carried out using appropriate criteria, we believe that this approach is responsive to our recommendation.

We believe GSA's alternative to our second recommendation is responsive. Instead of forcing agencies to synopsise purchases above \$50,000 by reducing OTP's Maximum Order Limitation to that level, as we had recommended, GSA proposed directly requiring the synopsis of OTP purchases above \$50,000 while raising OTP's Maximum Order Limitation to \$300,000. Directly imposing a \$50,000 synopsis requirement accomplishes the intention of our recommendation of removing the advantage held by OTP over Schedule C vendors. With this synopsis requirement in place, raising OTP's Maximum Order Limitation would not offer OTP any undue advantage. In fact, it would make the restrictions on OTP and the Schedule the same.<sup>11</sup> Further, GSA agreed to our third recommendation to amend the OTP solicitation document to notify vendors of GSA's intentions to initiate a pilot project and to establish a synopsis level for OTP.

GSA also made some specific comments on the data in our draft report. We have addressed these concerns. GSA's points and our comments on their disposition are contained in appendix V.


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<sup>11</sup>GSA's previous position was that there was no requirement to synopsise any agency purchases placed under the OTP contract. Under GSA's proposal, an agency would have to publish its intent to purchase above \$50,000 from either OTP or Schedule C. This would provide Schedule C and OTP an equal opportunity and increase competition for these purchases.

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Unless you release its contents earlier, we plan no further distribution of this report until 30 days from its issue date. At that time we will send copies to interested parties and make copies available to others upon request.

Sincerely yours,

A handwritten signature in cursive script that reads "Warren G. Reed". The signature is written in black ink and is positioned above the printed name and title.

Warren G. Reed  
Director



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**Appendix VI**  
**Letter Dated January**  
**10, 1986, From the**  
**Chairman, House**  
**Committee on Small**  
**Business**

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**Abbreviations**

ADP	automatic data processing
GAO	General Accounting Office
GSA	General Services Administration
OTP	Office of Technology Plus

# Objectives, Scope, and Methodology

Our objectives were to assess the desirability of establishing separate service contracts to provide the services offered through OTP and to determine whether GSA should change its overall microcomputer acquisition strategy as it relates to OTP.

We performed our review between January and March 1986 at GSA in Washington, D.C. We analyzed federal procurement regulations, guidelines provided to federal agencies by GSA, documentation provided by GSA on the goals and objectives of establishing and operating OTP, and the proposed solicitation document for the recompetition of OTP's operation. In the course of our work, we discussed our evaluation with GSA officials directly responsible for OTP's operation and have incorporated their views in this report as appropriate. We contacted officials from six agencies with Information Technology Centers to obtain their perspective on their needs for services as part of their microcomputer acquisitions. We also contacted several microcomputer retailers in the geographical areas served by OTP to determine their range of services and prices. More detailed information on our methodology is presented below.

We conducted our review in accordance with generally accepted government auditing standards.

## Service Contract Evaluation

Our objective in response to the first question was to determine if the services now provided as part of the OTP computer store should be provided separately through service contracts that do not offer microcomputer products. To achieve our objective, we collected information, such as GSA's solicitation document for OTP, services provided to users by OTP stores, and offerings of retail computer stores to assess whether one or more service contracts should be used to provide services in place of OTP.

We analyzed GSA's solicitation document to determine what services the contractor operating OTP will be required to provide. We spoke with officials at six agencies that have Information Technology Centers (Veterans Administration, Office of Personnel Management, General Services Administration, Department of the Interior, Federal Deposit Insurance Corporation, and Small Business Administration) to determine which services they provide to microcomputer users in their agencies. We also contacted officials of retail microcomputer stores to determine whether their services were comparable to those offered by OTP. Information on how we selected our sample of retailers is provided below.



## Microcomputer Procurement

Our objective in response to the second question was to assess the government's microcomputer procurement strategy relative to OTP. This work involved a review of studies, legislation, and other information related to the government's microcomputer procurement policy.

We looked at each existing microcomputer procurement vehicle and analyzed its characteristics from the perspective of the government's procurement objective of obtaining the lowest overall cost through full and open competition between all responsible sources. This involved identifying a number of microcomputer sources that might be competitive with OTP. To do this, we surveyed a number of retailers in the geographical areas served by OTP (Washington, D.C.; Atlanta; and Philadelphia). We obtained information on the types of services offered and whether the service was offered for a fee, free of charge, or on another basis. The 23 retailers surveyed in the Washington, D.C., area were selected from The Washington Post's "Washington Business" section, where microcomputer retailers commonly advertise. Ten retailers each were surveyed in Atlanta and Philadelphia. They were selected randomly from yellow page directories for listings of computer retailers.

In addition to assessing whether retailers existed in these locations and whether they offered a range of services similar to OTP, we performed a price comparison between OTP and a sample of nine retailers for two system configurations frequently purchased at OTP by federal agencies. Our selection methodology was two-tiered. First, we chose retailers having nationwide distribution networks and outlets in Washington, D.C., Atlanta, and Philadelphia. Next, we selected five additional retailers from the Washington, D.C., area. One of these was mentioned by agencies' Information Technology Centers in our work addressing question one, while the remaining four were judged to be retailers who closely matched the level of service OTP provides. This sample had greater representation from the Washington area since about 91 percent of OTP's sales were from that area. We asked these retailers for price quotations for the equipment comprising the selected configurations. One of these configurations had IBM equipment; the other had Compaq equipment. In addition, we obtained OTP's current prices.

In our presentation of the price comparisons based on these data, we did not associate any of the retailers' names with their prices as we had agreed this information would be kept confidential.

# Percent of Firms Surveyed Offering Service/ Convenience in Some Form

	Washington, D.C. 23 Firms	Philadelphia 10 Firms	Atlanta 10 Firms
Requirements Analysis	87	90	100
Guaranteed Delivery within XX Days	56	60	90
Configuration Assistance	91	100	100
Training	87	100	90
Keep Users Informed of New Products	87	90	100
Price Flexibility	83	100	100
One-stop Shopping	78	100	90
Warranty Service	100	100	100
Return Policy	78	80	80
Installation	82	100	90
After-sale Technical Assistance	92	100	100
Loaners	74	80	100
Maintenance Contracts	91	90	100
Burn-in	95	100	100
Products:			
IBM	74	60	40
Compaq	52	30	20

# Comparative Prices for the IBM Configuration

Washington, D.C., Retailer	IBM XT with 256K Memory and 2 Drives	384K Quad Board	IBM Color Display	IBM Color Graph. Adapt.	Epson FX-286 Printer	Parallel Printer Cable	Hayes Smart Modem 1200	Total	Percent of Difference (Retailer- OTP)
<b>OTP</b>	\$2056.00	\$493.85	\$544.00	\$195.20	\$621.67	\$33.78	\$479.00	<b>\$4423.50</b>	
<b>A</b>	\$1977.00	\$250.00	\$523.00	\$209.00	\$537.00	\$20.00	\$419.00	<b>\$3935.00</b>	-11.04%
<b>B</b>	\$2921.25	\$296.25	\$510.00	\$183.00	\$561.75	\$33.75	\$449.25	<b>\$4955.25</b>	12.02%
<b>C</b>	\$1940.00	\$399.00	\$599.00	\$243.00	\$750.00	\$54.99	\$599.00	<b>\$4584.99</b>	3.65%
<b>D</b>	\$2156.00	\$712.00	\$544.00	\$195.20	\$599.20	\$32.00	\$479.00	<b>\$4717.40</b>	6.64%
<b>E</b>	\$1913.00	\$365.50	\$562.15	\$213.30	\$572.00	\$29.95	\$485.00	<b>\$4140.90</b>	-6.39%
<b>F</b>	\$1999.00	\$259.00	\$579.00	\$189.00	\$579.00	\$18.00	\$389.00	<b>\$4012.00</b>	-9.30%
<b>G</b>	\$1900.00	\$230.00	\$600.00	\$200.00	\$620.00	\$20.00	\$420.00	<b>\$3990.00</b>	-9.80%
<b>H</b>	\$2100.00	\$375.00	\$525.00	\$200.00	\$715.00	\$35.00	\$500.00	<b>\$4450.00</b>	0.60%
<b>I</b>	\$1945.00	\$494.00	\$575.00	\$240.00	\$569.00	\$25.00	\$409.00	<b>\$4257.00</b>	-3.76%

# Comparative Prices for the Compaq Configuration

Washington, D.C., Retailer	Compaq Portable with 2 drives	384K Quad Board	Epson FX-286 Printer	Parallel Printer Cable	Hayes Smart Modem 1200	Total	Percent of Difference (Retailer OTP)
<b>OTP</b>	\$2159.00	\$493.85	\$621.67	\$33.78	\$479.00	<b>\$3787.30</b>	
<b>A</b>	\$1663.00	\$250.00	\$537.00	\$20.00	\$419.00	<b>\$2889.00</b>	-23.72%
<b>B</b>	\$1895.00	\$399.00	\$750.00	\$54.99	\$599.00	<b>\$3697.99</b>	-2.36%
<b>C</b>	\$1916.00	\$712.00	\$599.20	\$32.00	\$479.00	<b>\$3738.20</b>	-1.30%
<b>D</b>	\$1999.00	\$259.00	\$579.00	\$18.00	\$389.00	<b>\$3244.00</b>	-14.35%
<b>E</b>	\$1990.00	\$230.00	\$620.00	\$20.00	\$420.00	<b>\$3280.00</b>	-13.39%
<b>F</b>	\$1997.00	\$494.00	\$569.00	\$25.00	\$409.00	<b>\$3494.00</b>	-7.74%
<b>G</b>	\$2495.00	\$375.00	\$715.00	\$35.00	\$500.00	<b>\$4120.00</b>	8.78%

# Advance Comments From GSA

Note: GAO comments supplementing those in the text appear at the end of this appendix.



Administrator  
General Services Administration  
Washington, DC 20405

May 7, 1986

Dear Mr. Anderson:

Thank you for the opportunity to comment on a draft of a proposed General Accounting Office (GAO) report concerning the use of Office Technology Plus (OTP) stores.

The report comments on the General Services Administration's (GSA's) actions in managing the OTP program and makes recommendations as to how GSA could improve the ability of retailers to compete for agencies' microcomputer requirements.

The microcomputer market environment has changed significantly since OTP's inception. Prices have fallen sharply, product capability and effectiveness have increased, a broader range of compatible/interchangeable products is available, a more competitive marketplace has evolved, and retailers have moved from being primarily providers of products to providing an increased level of customer support services. The Government's 1986 buying power in terms of cost-effectiveness, i.e., technology capability acquired per dollar spent, has doubled since OTP's inception in 1983.

We are pleased that your report supports the need for continuing the OTP Program and the fact that OTP offers significant advantages to agencies in fulfilling their microcomputer needs. From its inception, OTP has created a competitive environment with Schedule C contractors and commercial retailers which has resulted in the offering of better pricing and services to the Government.

GSA agrees that OTP and Schedule C should offer equal competitive opportunity. Therefore, GSA will establish a \$50,000 synopsis threshold at which agencies will be required to publish their intent to purchase from OTP in the "Commerce Business Daily" (the same as Schedule C) and the Maximum Order Limitation (MOL) will be \$300,000 for both OTP and Schedule C.

GAO has recommended that GSA establish a Retail Multiple Award Schedule (RMAS). GSA will evaluate this recommendation by initiating a pilot project to establish a RMAS for the Washington, DC area. Retailer interest will be discerned from a Sources Sought Announcement published in the "Commerce Business Daily". The responses to the announcement will be evaluated and will allow GSA to make a management judgment concerning the

-2-

feasibility of a pilot RMAS, taking into account vendor interest, the potential for enhanced competition and savings, and effective utilization of GSA resources.

RMAS contractors will be required to meet criteria for proven responsible operations similar to OTP's contract terms and conditions. The RMAS will include a \$50,000 synopsis threshold and a \$300,000 MOL. The planned implementation of this schedule is:

Sources Sought Announcement: Late May 1986

GSA Evaluation: July/August 1986

Issue Request for Proposals: October/November 1986

Contracts Effective: April 1, 1987

Contract Period: April 1, 1987, through March 31, 1988

This timeframe coincides with Schedule C timeframes.

GSA also will amend the OTP recompetition solicitation document to notify vendors of GSA's intentions. It is expected that the OTP recompetition will have been completed and the new contractor operational by January 15, 1987. In order to meet this date, GSA will issue the solicitation document for the recompetition no later than May 15, 1986 (with 15 days prior announcement in the "Commerce Business Daily").

Enclosed are comments concerning the data used in your report.

Sincerely,



Terence C. Golden

Mr. William J. Anderson  
Director  
General Government Division  
United States General  
Accounting Office  
Washington, DC 20548

Enclosure

GSA COMMENTS

Now on pp. 5, 10, and 15.

Any reference to "the Government spent 12.8 percent more on items purchased from OTP than they would have from schedule C vendors" should be changed to read the OTP catalog price is on the average 12.8 percent higher than the Schedule C catalog price. The value of the services provided by OTP was not considered in arriving at this figure. (See pages 7, 15, and 24 of the draft report.)

Now on pp. 2, 8, and 14.

Reference \$20 million for purchases valued between \$10,000 and \$100,000 during the period July 1, 1984, through June 30, 1985. This figure should be \$22.1 million. (See pages 2, 12, and 23 of the draft report.)

Now on pp. 2 and 8.

Reference \$6 million for purchases valued between \$50,000 and \$100,000 during the period July 1, 1984, through June 30, 1985. This figure should be \$9.1 million. (See pages 2 and 12 of the draft report.)

Now on p. 13.

Reference orders placed with OTP in the \$50,000 to \$100,000 range represented less than 1 percent of the number of orders - even though they are 19 percent of the value - of all orders placed for contract year 1984-1985. These figures should be 1.27 percent of the orders and 29 percent of the value. (See page 21 of the draft report.)

Now on p. 15 and in appendix III.

Reference "As shown in Table 2 (Appendix II) agencies could potentially save up to about 24 percent by placing orders for some system configurations with retail stores." This figure should be 11 percent (however, the average is 8 percent). Table 2 also indicates that the Government could have paid up to 12.02 percent more (the average is 5.7 percent), but this savings is not highlighted in the narrative. Again these prices are strictly a catalog price comparison; the value of services was not considered. (See pages 24 and Table 2 (Appendix II) of the draft report.)

Now in appendix IV.

The same can be said for Table 3 (Appendix II), i.e., the Government could have paid up to about 24 percent less (the average is 10 percent) for certain configurations at retail stores or paid up to 8 percent more for the same configuration.

The following are GAO's comments on GSA's letter dated May 2, 1986.

## GAO Comments

1. In reviewing our draft report GSA has misunderstood how the price differences between OTP and Schedule C were calculated. We did not use the OTP catalog price; we used the actual prices charged during the sample period. However, we added a statement to the report on pages 10 and 15 to clarify that the price difference does not account for the value of any services provided by OTP or by schedule contractors.

2. The data used to calculate the numbers presented in the draft report reviewed by GSA were provided to us by MBI, the prime contractor for OTP store operation. Based on comments from GSA and our discussions with MBI programmers responsible for providing both GSA and GAO with annual sales data for OTP, we concluded that the sales data provided to GAO were incomplete. Since GSA's figures appeared to include the missing data, we changed our figures in the final report in accordance with GSA's comments (see pp. 2, 8, and 14). We note that these changes do not affect our findings, conclusions, or recommendations. The \$20 million figure that we reported represented an estimate of the value of agency purchases that could benefit from our recommendation to increase competition for microcomputer purchases. The use of GSA's figure of \$22.1 million, instead of our \$20 million figure, increases the potential beneficial impact that this recommendation would have.

3. These data were different due to the reasons cited above in comment 2. We changed our figures in the final report in accordance with GSA's comments (see pp. 2, 8, and 13). The \$6 million number that we reported was an estimate of the value of agency purchases that could benefit from our recommendation to lower OTP's Maximum Order Limitation to \$50,000. The use of GSA's number of \$9 million, instead of our \$6 million figure, increases the potential beneficial impact that this recommendation would have.

4. These data were different due to the reasons cited above in comment 2. We changed our figures in the final report in accordance with GSA's comments (see p. 13). The data were used to support two points: 1) a relatively small number of orders were placed at OTP in the \$50,000 to \$100,000 price range, and 2) even though the number of orders is small there is a significant amount of sales in this price range. Using GSA's numbers supports both of these points. GSA's data showed 1.27 percent of the orders were placed in this price range whereas our data showed



that it was less than 1 percent, and GSA's data showed 29 percent of the sales were in this price range whereas our data showed 19 percent.

5. In citing the potential savings that could result by placing orders with retail stores, reference was incorrectly made in the draft provided GSA to appendix III instead of appendix IV. The 24 percent figure is correct. We did not compute an average of the price differences because in a competitive situation, an agency would normally select the lowest price from a range of prices. Therefore, we changed our figures in the final report to show a range of prices that reflect savings compared to the OTP price (see p. 15). In addition, a statement was added to the report on page 15 to clarify that the potential savings would not be achieved if the agencies failed to obtain competitive quotes from retailers. Text has been added on page 9 to state that we did not attempt to place a value on services offered either by OTP or the retail stores.

6. See comment 5.

# Letter Dated January 10, 1986, From the Chairman, House Committee on Small Business

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**Congress of the United States**  
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**COMMITTEE ON SMALL BUSINESS**  
 2361 Rayburn House Office Building  
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January 10, 1986

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Honorable Charles A. Bowsher  
 Comptroller General  
 General Accounting Office  
 441 G Street, N.W.  
 Washington, D.C. 20548

ATTN: Mr. Thomas P. Giammo

Dear Mr. Bowsher:

This is to formally acknowledge receipt of your Briefing Report entitled "ADP Equipment, Buying Through GSA's Office of Technology Plus Stores" (IMTEC-86-2BR).

I have reviewed the report and find it responsive to our request of May 29, 1985. Your office is to be commended for its professionalism in both the preparation and presentation of the materials compiled in the report.

Based upon the findings contained in the briefing document, we believe it appropriate for the GSA to explore alternative approaches to the present OTP concept. Accordingly, it is requested that the GAO expand its review to encompass its responses to the following questions:

- (1) In lieu of the present OTP stores, what is the desirability/feasibility of letting one or more service contracts for the purpose of providing to Federal users the same types of services presently being offered by OTP?
- (2) What recommendations would GAO make to revise the source selection methodology, contract terms, and/or contract administration efforts relative to present OTP procurement strategy?

Since time is of the essence, it is requested that your response be received by the close of business on February 28, 1986. If you should have any questions about this request, please have a member of your staff contact our Committee's Legislative Counsel, Tom Trimboli, at 225-4351.

**Appendix VI  
Letter Dated January 10, 1986, From the  
Chairman, House Committee on  
Small Business**

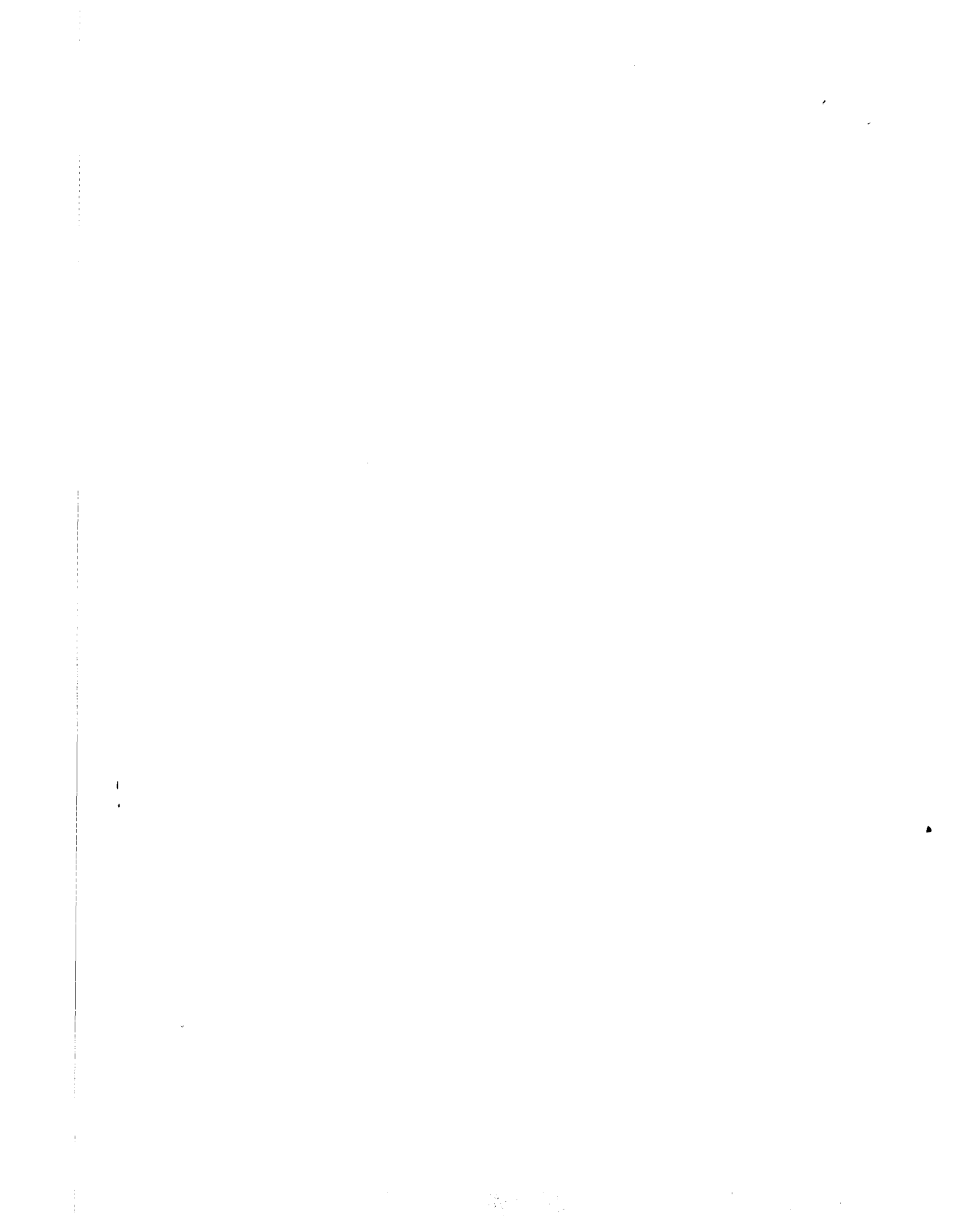
2

Finally, if you deem it appropriate, we would ask that you advise the Administrator of GSA of our latest request and ask for his cooperation to forestall further procurement action on the OTP pending the receipt and review of your analysis and recommendations.

Sincerely,

  
Parren J. Mitchell  
Chairman

PJM:tff



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