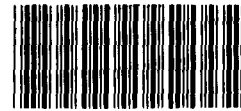


GAO

Testimony



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Competitiveness of Federal
Computer Procurements

Statement of
Milton J. Socolar, Special Assistant to
the Comptroller General

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 effectiveness of competition for automated data processing (ADP) procurements in the federal marketplace. Our work, which involved reviewing procurements at several agencies and compiling and analyzing governmentwide statistics on mainframe computer buys, provides a good starting point for assessing the issues surrounding the competitiveness of federal computer acquisitions.

Our work on individual acquisitions has shown that agencies have many difficulties in properly acquiring computer hardware and software--including three reports which show how government agencies inappropriately restricted competition. Our governmentwide statistics show that 82 percent of all mainframe procurements limit competition in some way. I should add, though, while that statistic does raise concern as to the extent of competition limited procurements, such limitations are not necessarily inappropriate or inconsistent with requirements of the Competition in Contracting Act. We have not examined the individual procurements covered by our governmentwide statistics to determine the extent to which restrictions on competition were unjustified.

CURRENT OPERATING ENVIRONMENT

Competition is a critical factor in government procurement law and policy. Generally, the government is best served when all potential contractors have an equal opportunity to compete 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 unnecessarily restricted, the government may pay too much for what it buys and may not obtain the best solution for meeting its needs.

The Brooks Act and the Competition in Contracting Act of 1984 (CICA) are the primary laws governing the federal acquisition of ADP equipment. These two laws and their implementing regulations mandate that agencies use full and open competition in conducting ADP procurements unless restrictions are appropriately justified. Brooks Act purchases must be based on full and open competition, using specifications that identify no more than an agency's minimum needs. The Act directs the Administrator of the General Services Administration (GSA) to provide for the economic and efficient purchase, lease, and maintenance of ADP equipment. To help meet this responsibility GSA delegates its procurement authority to individual agencies for certain procurements but maintains its overall oversight responsibilities. Under CICA, agencies are allowed to restrict specifications only as necessary to meet their minimum needs. CICA states that agencies may limit

the number of potential vendors only when there is but one responsible source that can satisfy the need, when the government would be seriously injured unless the number of potential vendors is limited, or in special circumstances such as those that involve a national emergency or a compromise of national security.

Many agencies are looking to technology to meet rapidly escalating demands for increased productivity. Yet, as most observers agree, agencies have had great difficulty in harnessing this technology. Procurements often take many months or even years to complete; to shortcut this process, agencies skip important steps in defining their needs. This increases the risk of buying the wrong hardware and software and of unnecessarily limiting competition.

AGENCY ACTIONS UNNECESSARILY

LIMIT COMPETITION

Our reports have documented severe problems that agencies have in conducting ADP acquisitions. In several reports we found a number of factors which contributed toward procurements that are not fully competitive: improper or inadequate review of available alternatives to meet agency needs; poor definition of requirements; lack of experience, training, or knowledge in proper procurement procedures by agency staff; taking unreasonable steps to minimize risk; and, in some cases, showing improper bias towards a particular vendor. Common to all these procurements was a lack

of agency oversight in assuring that adequate and appropriate competition was being fostered in the acquisition process. We also found a lack of adequate oversight by GSA. Some examples should help to illustrate the point.

NAVSCIPS Procurement

In August 1987, the Navy awarded a \$26.7 million contract for mainframe computers to support its Standard Civilian Pay System (NAVSCIPS). We found that the Navy, in its haste to meet a self-imposed deadline, selected a data base management system, hardware, and the 10 sites where the system would run, without conducting appropriate studies and developing adequate support.¹ Taken together, these decisions dictated specific hardware which limited competition to one vendor. Further, the Navy's disregard of good acquisition practices resulted in a system design that would not work. We recommended that the Navy halt further hardware and software orders and conduct a proper cost-benefit analysis for a full range of system alternatives. The Navy concurred and has stopped delivery of the computers. Further, it has determined that it can use existing equipment and needs only one of the 10 sites it originally designated.

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

FAA's CORN Project

This year we reported on the Federal Aviation Administration's (FAA) \$1.5 billion Computer Resources Nucleus project (CORN). This project is intended to meet the agency's general purpose data processing needs for 10 years and provide support to other Department of Transportation organizations. In May we recommended that the CORN procurement not be awarded because it had not been properly justified and planned.² In June we also reported on the restricted specification issue.³ Originally, FAA planned to have full and open competition and encourage vendors to propose innovative approaches to meeting its needs. FAA later decided to require a single architecture on the basis that it would reduce operational costs and provide a technical platform for an integrated data base. We found that a single architecture would not necessarily reduce costs or assure an integrated data base and that therefore, FAA was unjustifiably limiting competition and restricting the range of solutions that vendors could offer. FAA is considering our recommendation that it not award the procurement.

²FAA Procurement: Major Data-Processing Contract Should Not Be Awarded (GAO/IMTEC-90-38, May 25, 1990).

³FAA Procurement: Competition for Major Data-Processing Project Was Unjustifiably Limited (GAO/IMTEC-90-71, June 11, 1990).

OPM Retirement System

At this Committee's request, we reviewed the Office of Personnel Management's (OPM) planned \$54 million procurement for an automated retirement system.⁴ We found that the request for proposals (RFP) required vendors to meet highly restrictive experience requirements as a condition of bidding on the contract. While we agreed with OPM that experience should be a factor in contract award, we felt the experience factors could be considered as an element of the technical evaluation rather than being set out as an absolute condition. Using these requirements as a condition of bidding unnecessarily limited the range of vendors who might bid on the project. OPM agreed with our recommendation and is reissuing the RFP without limiting factors. Further, OPM determined a compatibility-limited solution was not required.

Department of Defense (DOD)

Inspector General Reports

The DOD Inspector General's office has issued audit reports examining whether various Navy contracts had been unnecessarily restrictive of competition. In December 1989, the Inspector General reported that the Navy's attempt to buy a communications processor for the Navy Military Personnel Command was

⁴Retirement System: Concerns About OPM's FERS Automated Processing System Procurement (GAO/IMTEC-90-45, Apr. 4, 1990).

unjustifiably biased toward IBM.⁵ In a more recent report, the Inspector General found that the Washington office of the Navy Regional Data Automation Center did not use required competitive procedures for procuring communications equipment for the center.⁶ The Center required a specific make and model of equipment and did not advertise the delivery order in the Commerce Business Daily as required to promote competition.

FULL AND OPEN COMPETITION FOR MAINFRAME COMPUTERS
IS INFREQUENT IN THE FEDERAL MARKETPLACE

At your request, Mr. Chairman, we developed statistics on agency mainframe computer purchases totaling \$1.9 billion for the 3-1/2 years ending in March 1989, including information on vendors and types of procurement action for the 35 largest federal agencies.⁷ During this past year we have issued individual reports on eight of these agencies (see attachment II for the titles of these reports). We plan to issue reports on two additional agencies and an overall capping report (see attachment I for charts depicting

⁵Naval Military Personnel Command Planned Procurement of Automated Data Processing Equipment (Inspector General Report 90-019, Dec. 15, 1989).

⁶Navy Regional Data Automation Center, Washington, D.C., Procurement of Automatic Data Processing Equipment (Inspector General Report 90-103, Aug. 24, 1990).

⁷The \$1.9 billion represents obligated dollars for the 3-1/2 year period. The total value of the mainframe computer contracts exceeds \$1.9 billion since some contracts extend beyond the 3-1/2 year period.

governmentwide statistics). These statistics show that the government is limiting competition to acquire its mainframe and mainframe peripherals. Over 80 percent of the procurements in our review (total dollar value) required compatibility with existing systems. IBM-compatible procurements comprised 64 percent of the compatibility-limited procurements and 52 percent of all procurements. IBM was the single largest vendor with a 47 percent share of the total federal market. Unisys was the next largest with a 20 percent share.

Almost 60 percent of the total value of all procurements involved only one vendor. Specifically, Modifications to Existing Contracts was the most popular procurement method used, representing 44 percent. New Contract-Sole Source and New Contract-One Offeror procurements represented 10 percent and 5 percent, respectively.

Although these statistics describe what has occurred in the federal mainframe computer marketplace, they do not explain whether or not agencies have made smart acquisition decisions or have followed required regulations and laws in conducting their procurements. When coupled, however, with our work on individual procurements, the picture that emerges reflects a marketplace

dominated by competitively limited--and sometimes poorly justified--procurements. Two important issues arise from this situation.

-- Agencies may be limiting competition for legitimate reasons. For example, some agencies have a large hardware/software base that effectively mandates compatibility. On the other hand, we know that a general lack of skills, knowledge, and understanding of ADP systems and the procurement process, coupled with ineffective agency oversight, can also result in inappropriate limitations on competition. Similarly, we found examples where competition was limited by a desire to expedite the procurement process or deliberately favor a particular vendor.

-- GSA did not adequately exercise its oversight responsibility in our examples cited above. This raises the question as to how well GSA is discharging its responsibility for oversight of federal ADP acquisitions on an overall basis.

Agencies are trying to cope with a rapidly changing world of technology. The issues raised above call for:

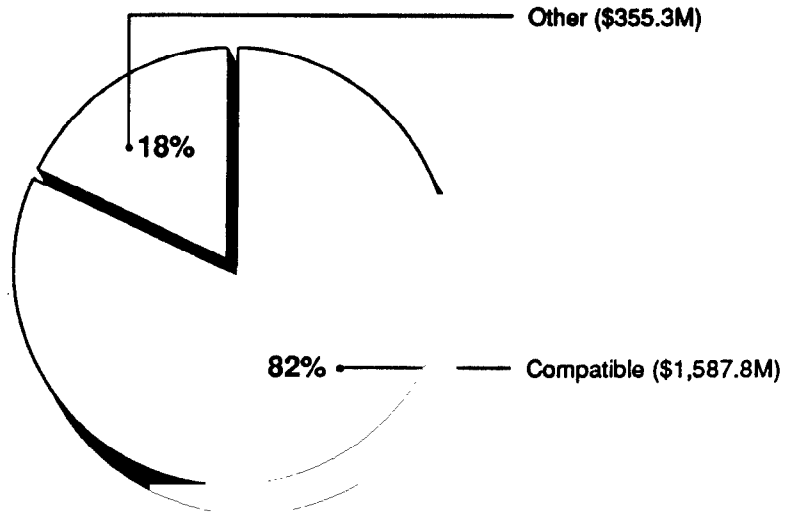
-- Agencies to strengthen their control and oversight over ADP procurements; and for

-- GSA to take more of a leadership role (1) in assessing whether the current situation (i.e., numerous competition-limited acquisitions) is justified; (2) in working more effectively with agencies to assure that procurements comply with existing regulations; and (3) in ensuring that the government's methods of acquiring ADP resources keep pace with changes in technology.

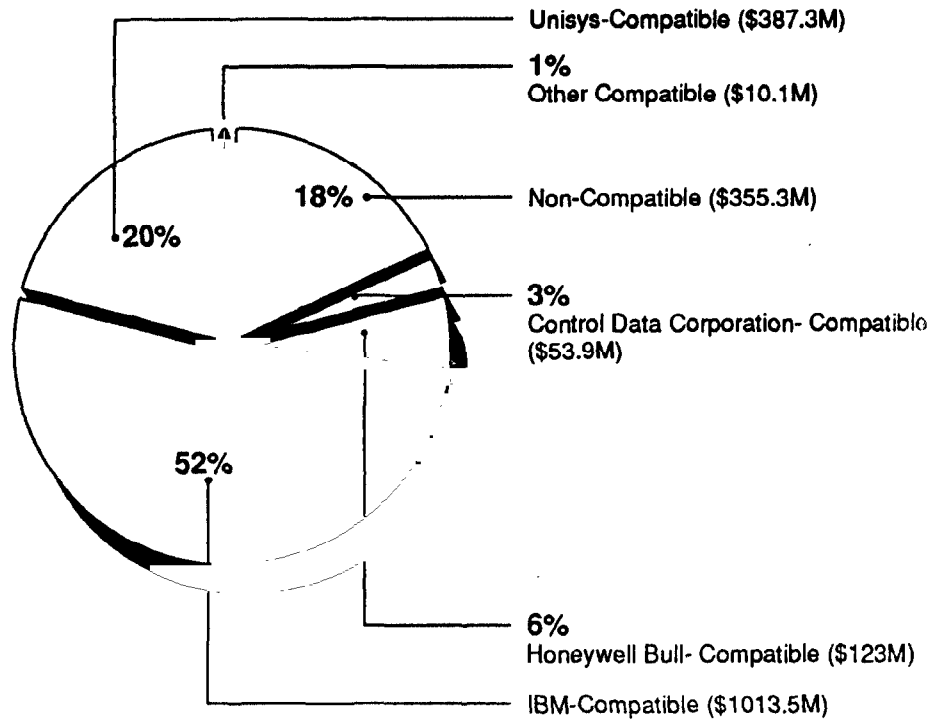
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This concludes my statement, Mr. Chairman. I will be happy to respond to any questions you or other members of the Subcommittee may have.

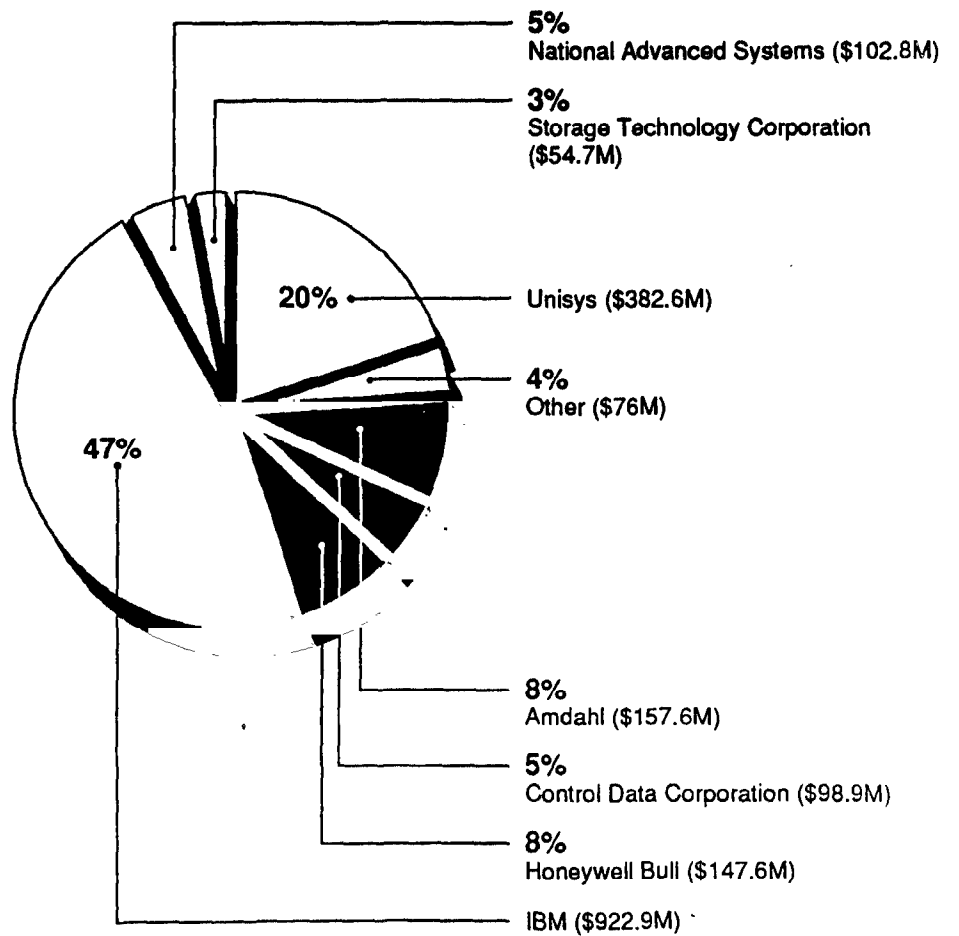
Total Procurements (\$1943.1M)



Total Procurements According to Type of Compatibility (\$1943.1M)



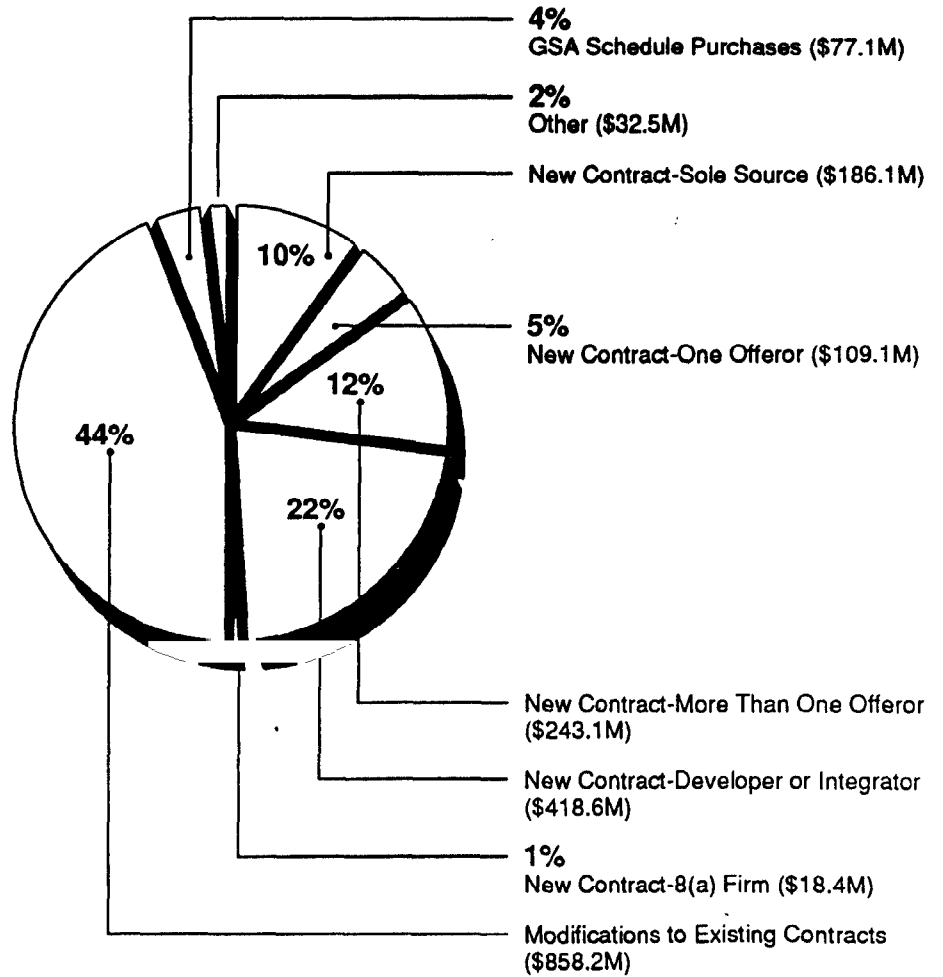
**Total Procurements According to
Manufacturer (\$1943.1M)**



Memorex (representing 1 percent or \$9.6M) and NCR Comten (representing 1 percent or \$17.6M) are included in the "other" category.

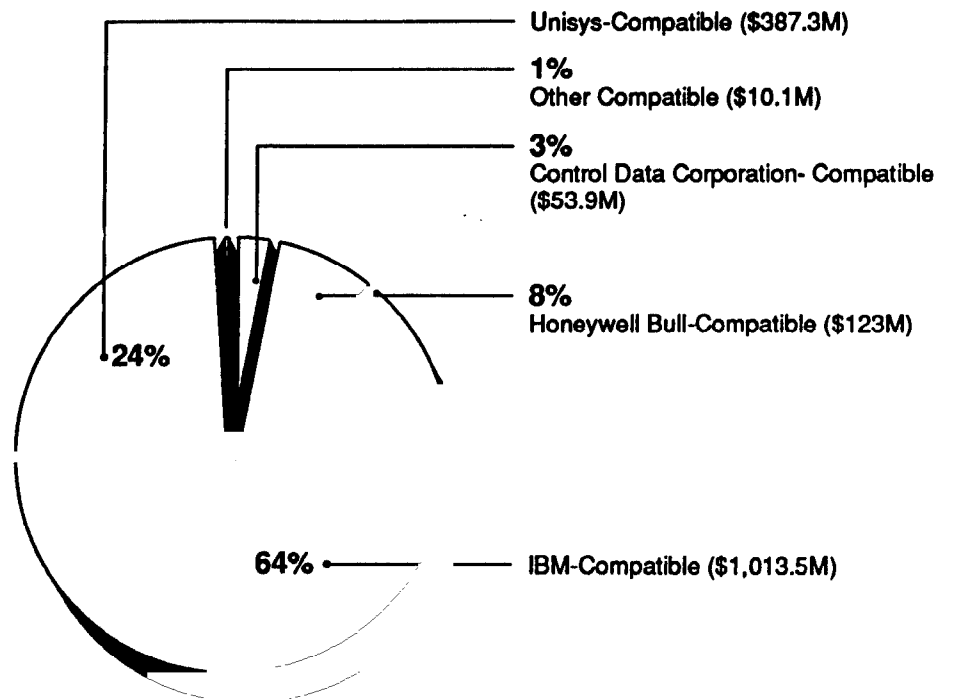
Adjustment Made Due to Rounding

Total Procurements According to Procurement Method (\$1943.1M)

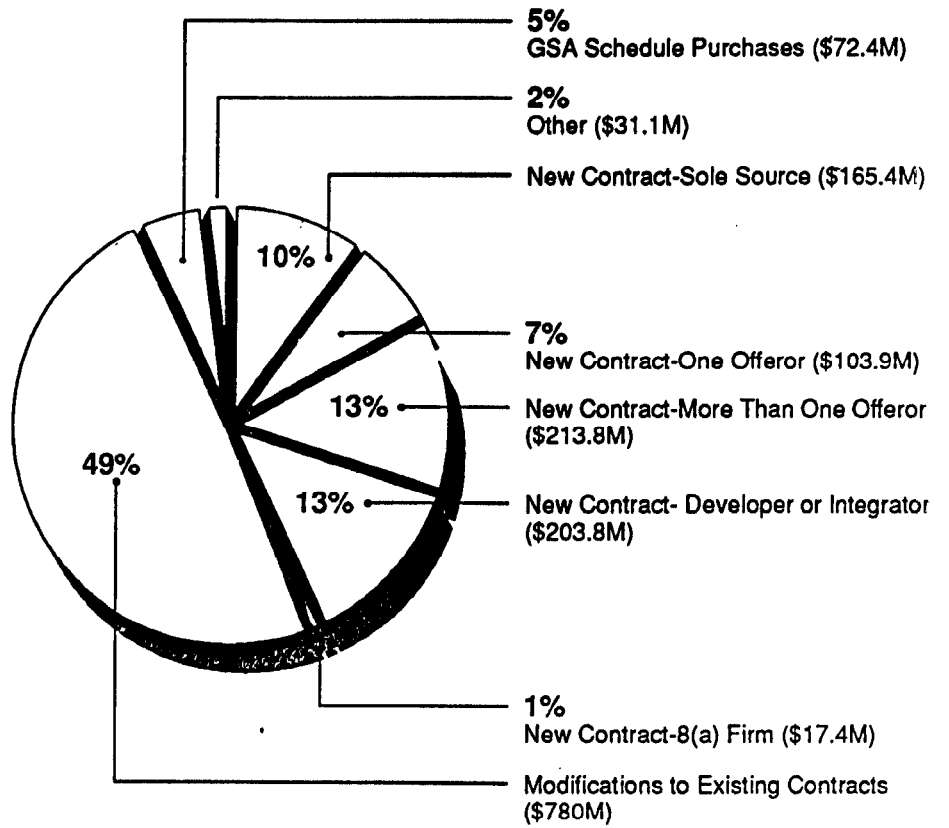


Adjustments made due to rounding.

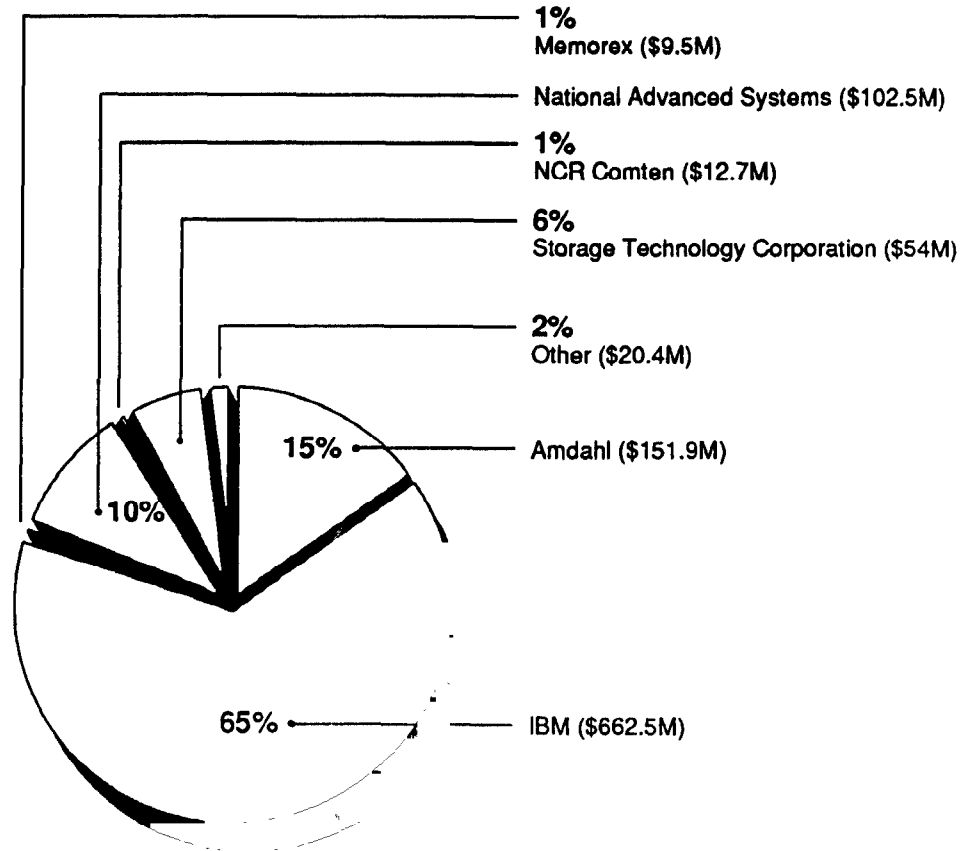
Compatible Procurements According to Type of Compatibility (\$1587.8M)



Compatible Procurements According to Procurement Method (\$1587.8M)

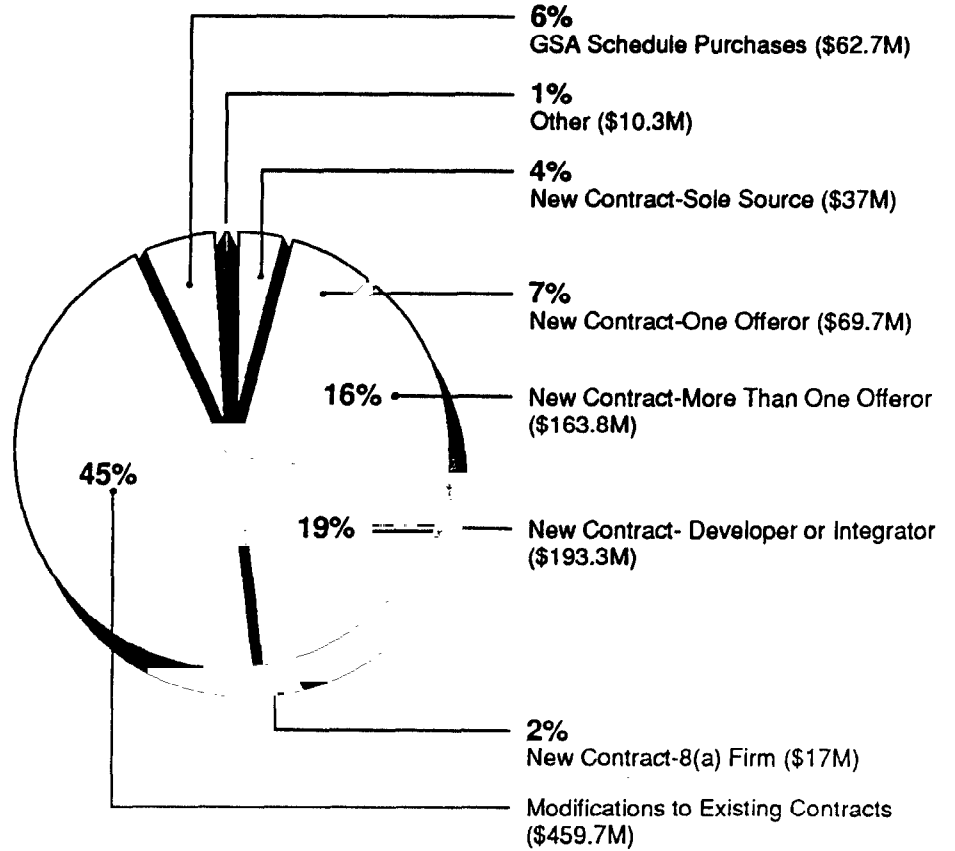


**IBM-Compatible Procurements
According to Manufacturer (\$1013.5M)**

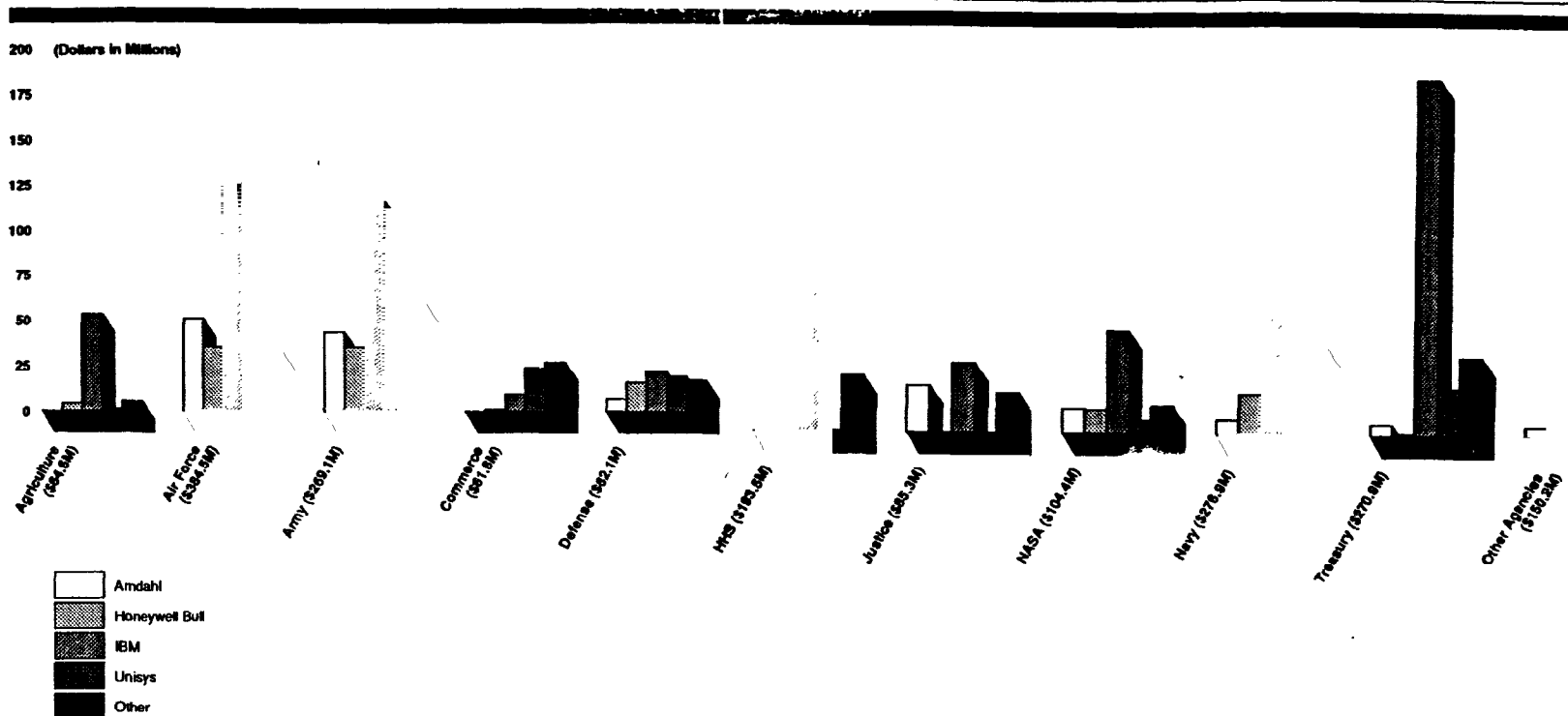


Adjustment Made Due to Rounding

**IBM-Compatible Procurements
According to Procurement Method
(\$1013.5M)**

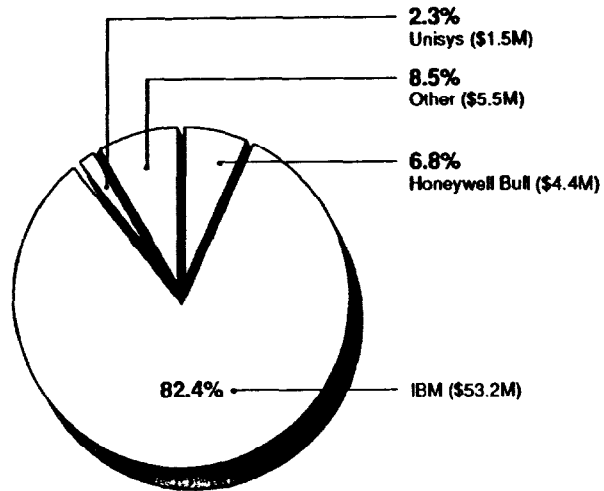


Total Procurements According to Agency and Manufacturer (\$1943.1M)

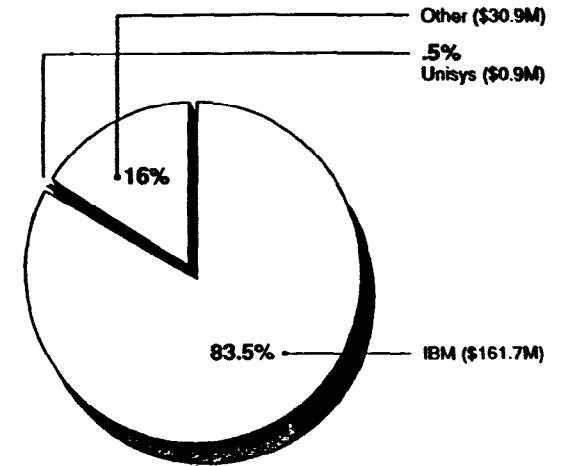


ATTACHMENT I

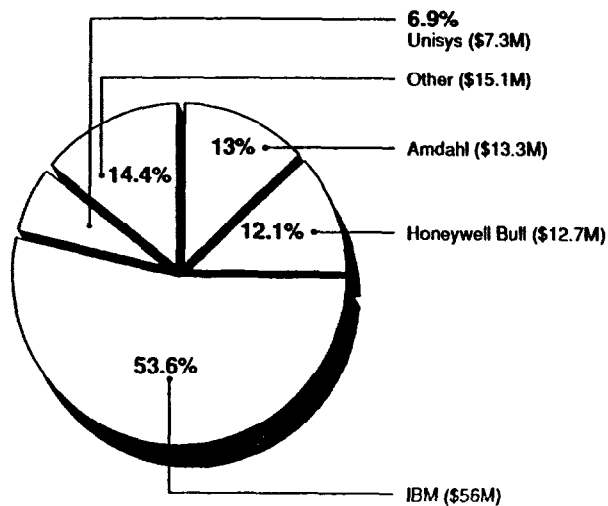
Agriculture Procurements According to Manufacturer (\$64.6M)



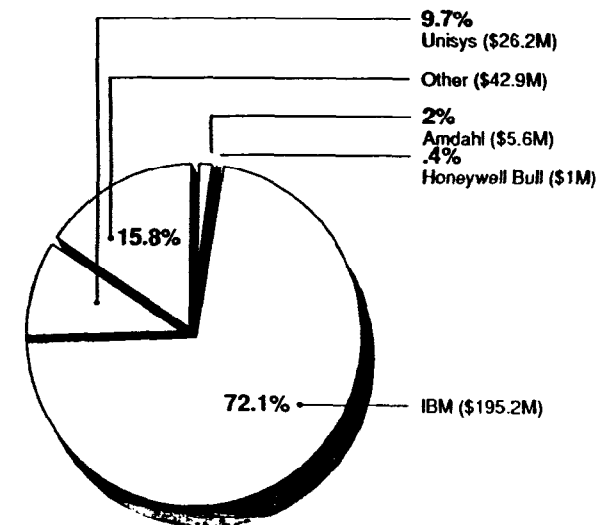
HHS Procurements According to Manufacturer (\$193.5M)



NASA Procurements According to Manufacturer (\$104.4M)



Treasury Procurements According to Manufacturer (\$270.9M)



RELATED GAO PRODUCTS

HHS ADP Procurement: Contracting and Market Share Information
(GAO/IMTEC-90-87FS, Aug. 30, 1990).

Commerce ADP Procurement: Contracting and Market Share Information
(GAO/IMTEC-90-77FS, July 31, 1990).

Agriculture ADP Procurement: Contracting and Market Share Information
(GAO/IMTEC-90-62FS, June 27, 1990).

Defense ADP Procurement: Contracting and Market Share Information
(GAO/IMTEC-90-60FS, June 8, 1990).

NASA ADP Procurement: Contracting and Market Share Information
(GAO/IMTEC-90-39FS, Apr. 20, 1990).

Air Force ADP Procurement: Contracting and Market Share Information
(GAO/IMTEC-90-35FS, Apr. 9, 1990).

Army ADP Procurement: Contracting and Market Share Information
(GAO/IMTEC-90-28FS, Mar. 1, 1990).

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