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Improving The Acquisition Of Computer Systems B-164031 (4)

Social Security Administration
Department Of Health, Education, And Welfare

*UNITED STATES
GENERAL ACCOUNTING OFFICE*

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JAN 24, 1974



UNITED STATES GENERAL ACCOUNTING OFFICE

WASHINGTON, D C 20548

MANPOWER AND WELFARE
DIVISION

B-164031(4)

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The Honorable
The Secretary of Health,
Education, and Welfare

Dear Mr Secretary

This is our report on actions taken by the Social Security Administration to improve the acquisition of computer systems

We are sending copies of this report to the Senate Committee on Finance, the House Committee on Ways and Means, the Senate and House Committees on Government Operations, the Senate and House Committees on Appropriations, Congressman L H Fountain, the Director, Office of Management and Budget, and the Administrator, General Services Administration

We are also sending copies to your Commissioner of Social Security, Assistant Secretary, Comptroller, and Audit Agency Director

Sincerely yours,

A handwritten signature in cursive script that reads "Gregory J. Ahart".

Gregory J Ahart, Director
Manpower and Welfare Division

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ABBREVIATIONS

ADP	automatic data processing
BDP	Bureau of Data Processing
FPMR	Federal Property Management Regulations
FPR	Federal Procurement Regulations
GAO	General Accounting Office
GSA	General Services Administration

HEW Department of Health, Education, and Welfare
IBM International Business Machines Corporation
OA Office of Administration
OMB Office of Management and Budget
RFP request for proposal
SSA Social Security Administration
UNIVAC Division and registered trademark of the Sperry
Rand Corporation

D I G E S T

WHY THE REVIEW WAS MADE

The Social Security Administration (SSA) operates one of the largest computer complexes in the world. The operation involved 51 computer systems and 11,700 employees as of August 1973.

Of the 51 systems, 2 were acquired in 1972 at basic annual rental costs totaling about \$2.8 million. One was acquired in July 1973 at a basic annual rental cost of \$2.3 million.

GAO reviewed these acquisitions to identify any improvements SSA needed to conform to applicable Office of Management and Budget (OMB) and General Services Administration (GSA) requirements.

FINDINGS AND CONCLUSIONS

In May 1972 SSA leased an IBM 370/165 system at an annual basic rental cost of about \$1.8 million, and in August 1972 SSA leased a UNIVAC 1108 system at an annual rental cost of about \$1 million. Both systems were acquired

--without benefit of OMB-required studies and evaluations to determine if workloads could have been reduced and if computer needs could have been met by more economical means and

--without what GAO and GSA believe to be the GSA-required approvals.

The time between dates of the initial justifications for acquiring the new systems and the dates the new systems were said to be needed may not have been sufficient to permit the reviewing, approving, and contracting officials within SSA and HEW to exercise their responsibilities. (See p. 9.)

Contracting officers were not involved during the first 2 months of either procurement action. (See pp. 10 to 13.)

Need for computer systems not supported by adequate studies

SSA's justifications for the IBM 370/165 and UNIVAC 1108 systems were based principally on the need for additional capacity.

Under these circumstances, OMB required agencies to determine whether a reduction in workloads could have been made and whether their needs for additional capacity could have been met by improving performance of existing facilities rather than by acquiring additional computers. SSA did not fully comply with this OMB requirement. (See pp. 10 to 13.)

Actions being taken to improve acquisition of computer systems

On February 20, 1973, SSA initiated action to lease another IBM 370/165 computer system for installation on May 1, 1973

During SSA's internal review process, however, the proposed procurement was questioned partly because of the lack of studies and documentation to satisfy OMB requirements for evaluation of alternatives to acquiring additional computers

As a consequence of such evaluations, SSA made improvements to an existing system and deferred installation of the new system until July 25, 1973--resulting in savings in rental costs of about \$543,000

SSA worked with GSA on this procurement and obtained the required delegation of authority

SSA also has started to revise its ADP procurement procedures to insure maximum compliance with applicable requirements of law, OMB, and GSA (See pp 19 to 21)

Although SSA has taken positive actions to improve its methods of acquiring computer systems, GAO noted that, in the 1973 acquisition of the IBM 370/165 system, the SSA contracting officer--ultimately responsible for determining appropriate procurement methods--was not involved until 2 months after procurement action was initiated. In this respect, the acquisition was similar to the 1972 acquisitions

It is imperative that SSA personnel responsible for making initial decisions to acquire ADP equipment maintain a close and continuous relationship with contracting officers to insure that the latter are aware of,

and may better plan for, contemplated procurement actions (See p 23)
The HEW Office of the Assistant Secretary for Administration and Management--which is responsible for approving SSA acquisitions of ADP equipment--assumed that all OMB and GSA requirements had been met before SSA requested its approval. This report demonstrates the need for the HEW office to make more in-depth reviews of SSA's procurement actions to insure that such requirements are met

Because of the significant costs involved, the HEW Audit Agency should consider periodically monitoring future acquisitions of major SSA systems

The Audit Agency is independent of operating groups responsible for justifying, reviewing, and approving ADP equipment acquisition and, therefore, could make objective appraisals of the HEW and SSA efforts (See p 23)

RECOMMENDATIONS OR SUGGESTIONS

The Secretary of HEW, to further improve SSA methods in acquiring ADP equipment and to better insure that the various OMB and GSA requirements continue to be met, should require that

--SSA establish procedures to insure involvement of SSA contracting officers at the time a procurement action is initiated

--The Office of the Assistant Secretary for Administration and Management, HEW, make in-depth reviews of SSA's actions in acquiring ADP equipment

--The HEW Audit Agency consider periodically monitoring future acquisitions of major SSA systems (See p 24)

For these acquisitions, GAO believes that there were less costly alternatives, such as improving existing facilities, which should have been thoroughly evaluated (See pp 11 to 13)

Procurements without delegations of authority from GSA

Agencies may procure ADP equipment-- within certain maximum order limitations--under GSA schedule contracts with manufacturers without first obtaining GSA approval

In leasing the IBM 370/165 system, SSA avoided the maximum order limitation of a GSA contract by ordering only 10 of the 64 tape drives needed for the system

The system was completed by diverting 54 IBM tape units from existing systems. SSA had previously arranged to replace these tape units with less costly units, the diverted units had been scheduled for return to IBM

The 54 tape units were replaced about 6 months later in 1972 with less costly units acquired under another procurement action

SSA paid about \$125,000 more for the IBM tape drives than it would have had to pay for the less costly units had SSA obtained them when the 370/165 system was installed (See pp 13 to 15)

In leasing the UNIVAC 1108 system, SSA modified a May 1970 contract with the vendor, which was also for an 1108 system

The earlier procurement was made on the basis of a 1969 delegation of procurement authority from GSA which authorized only one system, the

delegation did not specifically authorize the procurement of any additional system

The second 1108 system was ordered in June 1972 for delivery in fiscal year 1973 at the same prices as in GSA's fiscal year 1972 schedule contract with UNIVAC, GSA had not entered into its fiscal year 1973 contract at that time

Therefore SSA had no assurance its contract modification would contain better terms and conditions than the corresponding GSA contract--a requirement for procurements without GSA approval

For this reason and because GSA's 1969 delegation authorized only one system, SSA should have obtained a new GSA delegation of procurement authority for the second system (See pp 15 and 16)

Rental rates for 14 tape drives on the second 1108 system decreased by about \$47,000 a year in GSA's fiscal year 1973 schedule contract with UNIVAC

After GAO brought this matter to SSA's attention, UNIVAC amended the SSA contract modification and charged SSA the lower GSA rates resulting in savings to SSA of about \$94,000 over the 2 years of the contract (See pp 17 and 18)

In July and November 1972, GAO questioned whether SSA's methods of acquiring the two computer systems in 1972 conformed to OMB and GSA requirements SSA advised GAO it had complied with all applicable procurement regulations and directives, but that it would review, redefine, and tighten its procedures where necessary (See p 19)

CHAPTER 1

INTRODUCTION

The Social Security Administration (SSA) is a constituent agency of the Department of Health, Education, and Welfare (HEW) and is responsible for administering the Nation's major social insurance programs authorized by titles II and XVIII of the Social Security Act, as amended (42 U S C 401 and 1395, respectively) SSA is also responsible for administering the Black Lung Benefits Program¹ authorized by the Federal Coal Mine Health and Safety Act of 1969, as amended (30 U S C 901)

The social insurance programs include the old-age (retirement), survivors, disability, and health insurance programs which are designed to (1) provide cash benefits to replace, in part, earnings that are lost to individuals and families when earnings stop or are reduced because the worker retires or dies, (2) protect individuals and families against the risk of economic loss resulting from long-term disability by providing income to severely disabled workers and their dependents, and (3) provide partial protection against the cost of health care for the aged and severely disabled The Black Lung Benefits Program provides cash benefits to coal miners who are totally disabled due to black lung arising out of coal mine employment and to certain survivors of coal miners who died from the disease

With the enactment of the Social Security Amendments of 1972 (86 Stat 1329) on October 30, 1972, the responsibility of administering title XVI of the Social Security Act was delegated to SSA, effective January 1, 1974 This title provides for a national program for paying supplemental security income to the aged, blind, and disabled

SSA operates one of the largest recordkeeping systems in the world It uses electronic data processing systems in practically all of its accounting operations, including

¹With some exceptions, the Department of Labor will administer the Black Lung Benefits Program beginning in 1974 SSA, however, will pay benefits for which it is responsible as long as the beneficiaries remain eligible

- Establishing new accounts
- Maintaining an index listing of those who have applied for social security numbers
- Processing earnings reports
- Posting individual records
- Identifying erroneously reported earnings items
- Computing benefits
- Supplying information for claims, earnings statements, and program research

To maintain these operations, SSA's Bureau of Data Processing had 51 computer systems and about 11,700 employees as of August 1973. SSA acquired two of the systems in 1972 and one in 1973.

LEGISLATION ESTABLISHING CENTRAL COORDINATION IN ACQUIRING ADP EQUIPMENT

With the enactment of Public Law 89-306 (Brooks bill) on October 30, 1965, the Congress provided for the establishment of a coordinated Government-wide program for the efficient and economical acquisition of general-purpose automatic data processing (ADP) equipment. Under the law, the Office of Management and Budget (OMB) is responsible for fiscal and policy control¹ and the General Services Administration (GSA) is responsible for the coordination of procurement activities. GSA delegates procurement authority to other Federal agencies under certain conditions.

OMB provided overall leadership and coordination of executive branch activities pertaining to the management of ADP equipment and developed programs and instructions for achieving increased cost effectiveness through improved

¹Policy control over ADP equipment selection, acquisition, and utilization was transferred to GSA effective April 15, 1973, by Executive Order 11717, issued May 9, 1973.

practices and techniques for selecting, acquiring, and using ADP equipment and resources OMB issued various circulars setting forth broad policies and guidelines to be followed by the executive agencies To implement the policies stated in the OMB circulars and to provide uniform procurement procedures for all Federal agencies, GSA has issued Federal Procurement Regulations (FPRs) and Federal Property Management Regulations (FPMRs)

GSA is responsible also for providing an efficient and economical system for procuring a wide variety of goods and services needed by agencies GSA enters into ADP Supply Schedule contracts (Federal Supply Schedule contracts before July 1972) with various computer manufacturers for renting, purchasing, and maintaining selected ADP equipment Federal agencies must obtain GSA's approval when acquiring ADP equipment unless they use schedule contracts When contracts are used, agencies are authorized to obtain ADP equipment directly from the manufacturer provided the procurement conforms to the provisions of the FPRs, the FPMRs, and the schedule contract

HEW PROCEDURES FOR APPROVING THE ACQUISITION OF ADP EQUIPMENT

SSA has established four bureaus to administer its various programs and nine other bureaus or offices to provide services for the administration of these programs The Bureau of Data Processing (BDP) is responsible for initiating requests for acquiring ADP equipment, and the Office of Administration (OA) is involved in evaluating and approving these requests

Individual bureaus and offices initiate requests for data processing services, and BDP is responsible for determining the ADP resources needed to satisfy such requests When additional resources are needed, BDP prepares a justification which generally includes workload requirements and a purchase requisition specifying the ADP equipment needed

The SSA Administrative Directives System Manual of May 19, 1969, provides that specifications, including justifications, be developed at least 6 months before the

proposed installation date. When additional equipment is required, the request and the purchase requisition are sent to OA for approval. OA's Division of Systems Coordination and Planning is responsible for developing, maintaining, and improving SSA's total data processing system and for reviewing and evaluating the proposed systems. The evaluation of the request for additional equipment is intended to make sure the documentation conforms to all applicable OMB and GSA requirements.

The request is then sent to the HEW Office of the Assistant Secretary for Administration and Management for approval. According to an official, this Office is responsible for determining that the justification supports the need for the new equipment, however, the Office has assumed that OMB and GSA requirements had been met before SSA requested its approval.

Simultaneously, the purchase requisition is usually sent to the procurement office in OA's Division of Operating Facilities. A representative of this office acts as the Government's contracting officer who is the exclusive agent of the agency authorized to enter into and administer contracts on behalf of the Government. The contracting officer is responsible for determining how to buy, conducting the buying process, and executing the contract.

According to FPRs, no contract should be entered into, modified, or terminated unless all required reviews, clearances, or approvals have been obtained and all applicable requirements of law, OMB, and GSA have been met.

SCOPE OF REVIEW

Our review was directed toward evaluating SSA's method of acquiring computer systems. We examined OMB's statements of policy and guidance issued to Federal agencies and applicable GSA regulations for acquiring ADP equipment. Also, we examined HEW and SSA policies, procedures, and records relevant to SSA's acquiring of computer systems and held discussions with officials of HEW, SSA, and GSA. Our review centered on two computer systems acquired in 1972 and one in 1973.

CHAPTER 2

METHODS USED TO ACQUIRE COMPUTER SYSTEMS IN 1972

DID NOT CONFORM TO OMB AND GSA REQUIREMENTS

During calendar year 1972, SSA acquired two computer systems. In May 1972 SSA leased an IBM 370/165 system at a basic annual rental cost of about \$1.8 million. In August 1972 SSA leased a UNIVAC 1108 computer system at a basic annual rental cost of about \$1 million. Both systems were acquired

--without benefit of OMB-required studies and evaluations to determine if workloads could have been reduced and if computer needs could have been met by more economical means and

--without what we and GSA believe to be GSA-required approval

In each case BDP initiated and justified the procurement action less than 6 months before the proposed installation date, which was contrary to SSA's policy in the Administrative Directives System Manual. In one case, however, BDP identified the possible need for the acquisition about 14 months before the proposed installation date. In our opinion, the time between the dates of the initial justifications for acquiring the new systems and the dates the new systems were said to be needed may not have been sufficient to permit the reviewing, approving, and contracting authorities within SSA and HEW to meaningfully exercise their responsibilities.

In July and November 1972, we asked SSA whether the methods followed in acquiring these computer systems were consistent with OMB and GSA requirements. Additional information on our findings and SSA's responses are presented below.

NEED FOR COMPUTER SYSTEMS NOT SUPPORTED
BY ADEQUATE STUDIES

FPMRs require each Federal agency to comply with applicable OMB circulars before initiating a procurement action. OMB Circular A-54 outlines policies on selecting and acquiring ADP equipment to replace and upgrade equipment on hand and provides that agencies

"* * * (a) revalidate the workload and data processing requirements to determine if a reduction can be effected, and (b) determine the possibility of improving the performance of existing facilities through program modifications, rescheduling, or the selective replacement of software or peripheral devices which offer greater efficiency or lower cost * * * "

SSA leased additional computer systems without revalidating its workload or determining whether performance of existing facilities could have been improved.

Acquisition of IBM 370/165 computer system

Although SSA procedures provided for a 6-month leadtime for the justification, approval, and installation of system acquisitions, BDP submitted the initial justification to the OA systems group on February 4, 1972, with a scheduled delivery date by May 15, 1972--or about 3 months later SSA's justification for acquiring the new system was submitted to HEW for approval on March 20, 1972, and the requisition was submitted to the SSA procurement office on April 4, 1972. HEW approved the acquisition on April 11, 1972, and SSA issued the order to lease the system to the vendor on April 12 for delivery in May 1972. According to SSA, this tight time frame was based, in part, on the potential demands of pending legislation which was subsequently enacted

SSA justified the acquisition on the basis that savings of about \$19 million could be realized over a 5-year period

by replacing two IBM 360/65 systems¹ with one IBM 370/165 system. According to SSA, the IBM 370/165 system has a capacity equivalent to 2.6 of one IBM 360/65 system, and in computing the estimated savings, SSA valued the added capacity (0.6 of an IBM 360/65 system) at \$2.4 million. As a result, SSA acquired additional capability by substituting the IBM 370/165 for two IBM 360/65 systems.

Because SSA in justifying the replacement indicated it was actually acquiring additional capacity--at an increase in rental costs of \$500,000 over a 5-year period--we believe that the provisions of OMB Circular A-54, which require considering alternative methods of meeting computer needs, were applicable. Although SSA considered using other than IBM equipment, it made no study to revalidate its workloads or to determine the possibility of improving the then-existing facilities--two requirements of OMB Circular A-54. We believe that there was at least one alternative concerning the improvement of the then-existing facilities that SSA should have fully explored.

In January 1972 OA's systems group suggested one method for optimizing the configuration of existing systems. This suggestion involved adding certain components to nine existing IBM 360/65 computer systems. According to OA's systems group, this would have theoretically increased the processing capacity of the nine systems by the equivalent of four additional systems. BDP did not evaluate the feasibility of this proposal before initiating a request for acquiring the new IBM 370/165 computer system.

On the basis of the manufacturers' rental rates in the GSA Federal Supply Schedule contract, GSA and SSA competitively awarded contracts for peripheral equipment, we estimate that the 5-year cost of the OA suggestion would

¹SSA subsequently retained the two systems because of the increased work created by the new Supplemental Security Income Program. The systems were supposed to have been replaced by another IBM 370/165 system in July 1973. (See ch 3.)

have been about \$2 4 million less than the cost of renting a new IBM 370/165 system

On October 31, 1972, SSA responded to our July 1972 letter SSA stated that, although it did not make the studies required by OMB Circular A-54 specifically to acquire the IBM 370/165 system, it made such studies as an ongoing activity We believe, however, that, to comply with the requirements of OMB Circular A-54, such studies should have been reasonably related to, and documented with, the justification for the corresponding major procurement action

Acquisition of UNIVAC 1108 computer system

BDP submitted the justification for acquiring this new system to OA's systems group on February 11, 1972, with a scheduled installation date of July 1, 1972, or less than 5 months later We found evidence that BDP had identified the possible need for such additional computer capacity as early as May 1971 The requisition was submitted to OA's procurement office on April 20, 1972 SSA submitted its justification for acquiring the new system to HEW for approval on April 26, 1972 HEW approved the acquisition on May 10, 1972, and a modification of an existing contract to lease the computer was issued to the vendor by SSA on June 12, 1972

According to SSA's justification, the computer was needed to expand an existing UNIVAC 1108 system because the demand on the system had exceeded original estimates However, contrary to OMB Circular A-54, the justification for the new computer did not show that SSA had revalidated its workload or determined the possibility of improving the performance of existing facilities

The justification indicated that SSA had considered using one large system rather than two smaller systems This alternative was not adopted, however, because SSA believed it would have caused substantial additional expenditures for converting data files and programs, developing a new request for proposal (RFP) which would have required 12 to 24 months, retraining users, and changing operating procedures. We believe that there was an

alternative which would not have required such expenditures and which might have resulted in substantial annual savings.

At the time the second 1108 system was ordered, UNIVAC--since November 1970--had offered an 1110 system which had more capability than two 1108 systems. Because the 1110 system uses the same files and programs as the 1108, there would have been no need to convert the files and programs, retrain users, or change operating procedures.

SSA did not specifically evaluate the feasibility of this alternative in the justification for the 1108 computer system. Although SSA advised us that the 1110 system was not sufficiently proven at the time, we believe that SSA should have thoroughly evaluated such an alternative before acquiring the new computer. On the basis of the manufacturers' rental rates in the GSA Federal Supply Schedule contract, we estimate that the cost of this alternative would have been about \$457,000 a year less than SSA's cost of renting the two smaller systems.

PROCUREMENTS WITHOUT DELEGATIONS OF AUTHORITY FROM GSA

As noted previously, the Brooks bill, as enacted, made GSA responsible for coordinating the procurement of ADP equipment purchased or leased directly by the Government. GSA delegates procurement authority to Federal agencies under certain conditions which it deems necessary and desirable.

At the time the IBM and UNIVAC computers were ordered in 1972, GSA made selected ADP equipment available to agencies through its Federal Supply Schedule contracts. According to FPMRs, when ADP equipment was available from these contracts, all agencies should have used this as the primary source to satisfy needs in accordance with the provisions of such contracts.

Agencies were authorized to procure ADP equipment without prior GSA approval (delegation of procurement authority) provided

- the equipment was procured by placing an order against the applicable GSA Federal Supply Schedule contract under the terms of the contract, or
- the procurement fell within the quantity limits (maximum order limitations) of the contract but, as a result of negotiation, a separate contract was negotiated with some better terms or conditions and with all other terms or conditions at least equal to those in the GSA contract, or
- the value of equipment not available on a Supply Schedule contract did not exceed \$50,000,¹ based on purchase or annual basic rental costs

When none of these conditions were present, agencies were required to obtain a delegation of procurement authority from GSA before proceeding on their own to acquire ADP equipment

In acquiring the IBM 370/165 and the UNIVAC 1108 systems in 1972, SSA used various procurement methods which avoided the necessity of obtaining a delegation from GSA. In one case, SSA contracted for higher prices than may have been obtainable had the procurement been cleared through GSA.

Acquisition of IBM 370/165 computer system

SSA ordered the IBM 370/165 computer system in April 1972 under the "maximum order limitation" clause in GSA's schedule contract with IBM. To overcome the quantity limits of the clause and to avoid the necessity of obtaining a delegation of authority from GSA, SSA reduced the quantity of certain peripheral equipment it initially planned to order for the system.

SSA's justification for the system showed that 64 magnetic tape units of the same type and model would be

¹FPMR Temporary Regulation E-25, effective October 11, 1972, through December 1973, requires delegation of procurement authority when procurement exceeds \$10,000

required. This exceeded the quantity limitation of 10 in the maximum order limitation clause of GSA's contract. To stay within the limits, SSA ordered only 10 tape units under the GSA contract and completed the IBM 370/165 system by diverting 54 IBM magnetic tape units from existing SSA computer systems. SSA had previously arranged to replace these IBM units with less costly ones acquired competitively with GSA's approval. The units diverted to the new IBM 370/165 system had been scheduled for return to IBM. The contract file contained no GSA or HEW approval for the diversion. We believe SSA should have obtained GSA's approval since the earlier competitive procurement was only for the replacement of specific peripheral equipment.

During November and December 1972, the 54 units on the IBM 370/165 were replaced with less costly units. SSA paid about \$125,000 more for the diverted IBM tape drives than it would have had to pay for the less costly units had SSA obtained them when the system was installed.

In a letter dated October 31, 1972, SSA replied to our inquiry of July 10, 1972, on this matter and stated that, since the tape units necessary to fully configure the IBM 370/165 were becoming available as a result of a replacement program, the temporary use of the tape units on the new system was operationally feasible and seemed to be proper. SSA stated that it was, therefore, possible to acquire the system configuration within the maximum order limitation clause and put the system into operation within a short time frame. An SSA internal memorandum concerning this acquisition indicates, however, that this method was used to acquire the IBM 370/165 computer system because SSA did not believe that conditions at GSA were conducive to authorizing a noncompetitive procurement of the complete system.

Further, in discussing this transaction and SSA's reply with GSA officials, we were advised that, in their view, SSA had not complied with the intent of the regulations.

Acquisition of UNIVAC 1108 computer system

On June 12, 1972, SSA issued a modification to an existing contract to lease the computer for the 2-year period ending June 30, 1974. In our opinion, this

procurement action required prior GSA approval which SSA did not seek or obtain

Modification of existing contract

SSA leased the 1108 computer system in August 1972 by adding the equipment to a system already leased under a May 8, 1970, contract with Sperry Rand Corporation, UNIVAC Division. The terms and conditions of the modification were substantially different than the original contract-- particularly the modification's higher prices. The earlier procurement was made pursuant to a December 1969 GSA delegation of procurement authority which authorized only one system, the delegation did not authorize the procurement of any subsequent system.

In 1969 SSA issued an RFP for a computer system to process statistical workloads for the next 5 years. After evaluating several proposals, SSA selected UNIVAC to supply the needed computer equipment. The contract was dated May 8, 1970, with the system to be operational on December 1, 1970. The contract identified the equipment for each of the 5 years through November 1975. The first 3 years of the contract called for an 1106 system. In December 1973 the 1106 was to be upgraded to an 1108 system. However, because of the unexpected growth in workload, the system was upgraded to an 1108 in September 1971.

SSA ordered the second 1108 system on June 12, 1972, at the same prices as those in GSA's fiscal year 1972 contract with UNIVAC, GSA had not entered into its fiscal year 1973 contract at that time. Therefore SSA had no assurance that its contract modification would contain better terms and conditions than the corresponding GSA contract--a requirement of FPMRs for procurements without GSA approval. (See pp 13 and 14) For this reason and because GSA's 1969 delegation of procurement authority authorized only one system, we believe SSA should have obtained a new delegation of authority for the second system.

In a letter of March 12, 1973, SSA replied to our inquiry of November 22, 1972, on this procurement and stated that the 1969 RFP provided that expansion of the statistical data processing system would be required and that, as a

result of the growth of the workload, probably more than one physical system would be necessary.

As outlined above, however, we believe--and a GSA official agreed--that neither the 1969 delegation of authority from GSA nor the resulting contract provided for more than one system and that the second system was actually a new procurement under different terms and conditions than the May 1970 contract and not an extension of the 1969 RFP. Therefore we believe that SSA should have obtained a delegation of procurement authority from GSA as required by FPMRs.

GSA 1973 contract prices
lower than SSA-negotiated prices

Aside from the issue of whether or not SSA technically conformed to FPMRs, it appears that prudent procurement practices would have dictated that SSA clear the proposed procurement with GSA before proceeding on its own.

At the time SSA contracted for the second 1108 system in June 1972, GSA--since March 1972--had been negotiating its fiscal year 1973 schedule contract with UNIVAC. SSA used the contract modification approach apparently because UNIVAC had advised an SSA procurement official that the rental rates under GSA's 1973 contract would be higher than the 1972 rates. Therefore SSA officials concluded that it would be advantageous to contract on the basis of the 1972 rental rates for the 2-year period ending June 30, 1974. SSA, however, did not confirm the validity of this conclusion with GSA--the agency primarily responsible for coordinating the acquisition of ADP equipment for the Federal Government.

GSA entered into its 1973 schedule contract with UNIVAC in October 1972, and, although some rental rates have increased from 1972, the rates for 14 tape drives in the 1108 system being leased by SSA decreased by about \$47,000 a year. SSA's modified contract did not contain a clause providing for an adjustment to the GSA 1973 contract rates if such prices proved to be lower. According to SSA officials, this omission was inadvertent.

After we brought this matter to the attention of the responsible SSA contracting officer, he contacted a UNIVAC representative who agreed to amend the SSA contract modification to charge SSA on the basis of the lower GSA schedule contract rates, effective August 20, 1972, this will save about \$94,000 for the 2 years of the SSA contract modification

According to GSA, rental rates are generally available--although not finalized--early in its negotiations. Therefore we believe that, notwithstanding the issue of technical compliance with prior approval requirements, SSA should have, at least informally, contacted GSA to inquire whether an increase in GSA contract prices was anticipated.

CHAPTER 3

IMPROVEMENTS IN THE METHODS USED

TO ACQUIRE COMPUTER SYSTEMS DURING 1973

As discussed in chapter 2, we believe SSA did not fully comply with OMB and GSA requirements in acquiring two computer systems in 1972. In July and November 1972, we questioned the methods used to acquire these systems. SSA advised us of its belief that it had complied with the intent of all applicable procurement regulations and directives but that its procurement procedures would be reviewed, redefined, and tightened where necessary.

In 1973 BDP requested that another computer system be delivered within a relatively short time. Although this situation was similar to the acquisitions made in 1972, OA's systems group did not approve this request--partially because the proposed procurement action and justification did not fully comply with applicable OMB and GSA requirements. As a consequence of OA's action, an alternative was evaluated as required by OMB Circular A-54 and resulted in savings of about \$543,000.

On February 20, 1973, OA's system group received BDP's justification. BDP requested that OA approve and provide the necessary administrative assistance to insure that a second operational IBM 370/165 computer be installed by May 1, 1973. This would have given OA about 2 months to evaluate the request and obtain necessary approvals from HEW and GSA. OA's procurement group did not become involved until April 20, 1973, or 2 months after initiation of the request. As discussed on page 7, SSA procedures provide that specifications, including justifications, be developed at least 6 months before the proposed installation date.

According to the purchase orders, the new system, when fully configured in December 1973, will cost about \$2.3 million a year for basic rental. The system was to replace the two IBM 360/65 computers which were supposed to have been released when the first IBM 370/165 system was ordered in May 1972. According to BDP, the two IBM 360/65 computers served a need during the early stages of implementing the

new Supplemental Security Income Program but were inadequate to provide the services required to carry out the new program which is to be effective on January 1, 1974. In analyzing the need for the proposed system, SSA concluded that

- It was crucial to the implementation of the new legislative program and the expansion of the regular cash benefit programs to obtain additional computer capability
- The additional machine must provide sufficient processing speed, core memory, and random access storage and provide support to, and be supported by, the existing IBM 370/165
- Existing files require compatibility with installed IBM equipment and software
- The cost of converting the existing large-scale computer operations from IBM to another manufacturer was estimated to be at least \$6.5 million

OA's systems group questioned this justification on March 1, 1973. OA agreed that some of the information presented appeared to have merit but listed a number of points that seemed incomplete or invalid and believed there were no studies or documentation--required by OMB and GSA--to support statements and conclusions in the justification. For example, OA questioned whether the work could have been deferred or implemented on the then-existing systems. In addition, OA questioned whether phased implementation was possible.

As a result of OA's discussing these problems with BDP, the justification for the new computer was returned to BDP on March 1, 1973, for modification and resubmission. BDP submitted another justification on March 9, 1973, which discussed the possible alternative of improving the then-existing facilities during the initial implementation of the new Supplemental Security Income Program. Certain components were added to the IBM 370/165 computer, and the installation of the second IBM 370/165 system was deferred for about 3 months (May 1 through July 25, 1973). The cost of

adding the components was about \$10,000 through July 25, compared with the savings in basic rental costs of about \$553,000 for this period--a net savings of about \$543,000.

SSA submitted its request for the second IBM 370/165 computer system to HEW on April 3, 1973, HEW approved it on April 18, 1973. SSA received a delegation of procurement authority from GSA for the system in May 1973

SSA requested that the new system be operational by August 1973, or about 6 months after BDP's initial request in February 1973. Approval was requested with the understanding that SSA would later provide documentation supporting the need for the new system. The documentation was to include

- a cost analysis that would identify the initial and recurring conversion costs that would be incurred if a non-IBM central processing unit were introduced into SSA's processing environment,
- a revalidation of major SSA workloads as required by OMB Circular A-54,
- an evaluation of SSA's total computer needs to determine if present facilities could be improved as required by OMB Circular A-54, and
- a more definitive description of the computer capacity required to process the new Supplemental Security Income Program

SSA officials have stated that the alternatives discussed in chapter 2 (see pp 11 to 13) will be included in these studies

In addition, SSA has started to revise its internal procedures for acquiring ADP equipment. According to SSA officials, the new procedures are intended to insure maximum compliance with applicable requirements of law, OMB, and GSA

We believe that the steps SSA has taken and plans to take represent significant improvements in its methods to acquire computer systems

CHAPTER 4

CONCLUSIONS AND RECOMMENDATIONS

CONCLUSIONS

In view of the Federal Government's large expenditures for ADP equipment, the Congress provided for a coordinated procurement program under the direction of OMB and GSA. The primary objective of this program is to insure the efficient and economical acquisition of general-purpose ADP equipment.

In providing the overall policy guidance, OMB issued various circulars which contain broad policies¹ and guidelines to be followed by agencies before obtaining additional ADP resources. Studies required by the circulars are intended to insure that additional ADP resources are obtained only after adequate evaluations of the agency's requirements are made. GSA has the primary responsibility for negotiating contracts with computer manufacturers and for establishing uniform procurement procedures for all Government agencies.

In summary, before ADP equipment is acquired, OMB and GSA require that agencies (1) revalidate their workloads and data processing requirements, (2) evaluate the possibility of improving the performance of existing ADP facilities, and (3) under certain circumstances obtain a delegation of procurement authority from GSA. When any agency seeks to ignore or avoid such requirements, the basic purpose of the coordinated procurement program may be defeated.

We believe that the usefulness of these requirements is illustrated by certain actions discussed in this report.

Although the studies and evaluations required by OMB Circular A-54 will not necessarily result in the development

¹As noted on page 6, policy control was transferred to GSA effective April 15, 1973, by Executive Order 11717.

of a more economical alternative to the eventual acquisition of additional computer systems, the mere deferral of a major systems acquisition through improving existing facilities can also result in substantial savings. This is demonstrated by SSA's action in March 1973 to defer the proposed leasing of the new IBM 370/165 system for about 3 months through the modification of an existing system which resulted in a savings of about \$543,000

Further, we recognize that using GSA's centralized procurement arrangements may not always result in an agency's obtaining the most favorable price and that obtaining GSA's prior approval may not result in improvements to an agency's procurement plans. On the other hand, GSA, as the Government's central buyer for ADP equipment, can be expected to have information and resources not necessarily available to other agencies which could be helpful regardless of whether prior GSA approval is required. This is demonstrated by SSA's contracting for the second UNIVAC 1108 system at prices higher than may have been obtainable had the procurement been cleared through GSA.

Although we believe that SSA has taken positive actions to improve its methods of acquiring computer systems, we noted that, in the 1973 acquisition of the IBM 370/165 system, the SSA contracting officer--who is ultimately responsible for determining the appropriate procurement methods--was not involved until 2 months after the procurement action was initiated. In this respect, the acquisition was similar to the 1972 acquisitions.

We believe it is imperative that SSA personnel responsible for deciding to acquire ADP equipment maintain a close and continuous relationship with contracting officers to insure that the latter are aware of, and may better plan for, contemplated procurement actions.

We noted that a January 1970 survey report of HLW-negotiated contracts by the Office of the Assistant Secretary for Administration in coordination with the Office of the Assistant Secretary, Comptroller, identified the late involvement of the appropriate contracting officers in planned procurements as a basic deficiency in HEW's contracting practices. The report pointed out that

contracting officers were the exclusive agents of the agencies authorized to enter into and administer contracts on behalf of the Government but that they were often forced into merely ratifying procurement arrangements made by others

The HEW Office of the Assistant Secretary for Administration and Management--which is responsible for approving SSA procurements of ADP equipment--assumed that all OMB and GSA requirements had been met before SSA requested its approval. We believe that this report demonstrates the need for this Office to make more in-depth reviews of SSA's procurement actions to insure that such requirements are met

We believe also that, because of the significant costs involved, the HEW Audit Agency should consider periodically monitoring future procurements of major SSA systems. The Audit Agency is independent of the various operating groups responsible for justifying, reviewing, and approving ADP acquisitions and therefore could be expected to objectively appraise HEW and SSA efforts

RECOMMENDATIONS TO THE SECRETARY OF HEALTH, EDUCATION, AND WELFARE

We recommend that, to further improve SSA methods of acquiring ADP equipment and to better insure that the various OMB and GSA requirements continue to be met, the Secretary require that

- SSA establish procedures to insure the involvement of SSA contracting officers at the time a procurement action is initiated,
- the Office of the Assistant Secretary for Administration and Management, HEW, make in-depth reviews of SSA's actions in acquiring ADP equipment, and
- the HEW Audit Agency consider periodically monitoring future acquisitions of major SSA systems

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