Further Actions Needed To Centralize Procurement Of Automatic Data Processing Equipment To Comply With Objectives of Public Law 89-306

Office of Management and Budget
General Services Administration

Public Law 89-306 (the Brooks Bill) directed the General Services Administration to coordinate and provide for the economic and efficient procurement of the Government's general purpose automatic data processing equipment subject to fiscal and policy control of the Office of Management and Budget.

In the decade since enactment of the law savings and improvements have followed in the procurement and management of automatic data processing equipment. GAO, reviewing how the law has been administered, concludes that more could be realized if the major objectives of the law were fully accomplished and two basic concepts put into practice.

--Central procurement by a "single purchaser."

--Full use of the Automatic Data Processing Fund for all acquisitions of computer equipment.
To the President of the Senate and the Speaker of the House of Representatives

This report describes the progress made in accomplishing the objectives of Public Law 89-306 and the reasons why two basic concepts—"single purchaser" and full use of the Automatic Data Processing Fund—have not been implemented 10 years after enactment.

Our review was made pursuant to the Budget and Accounting Act, 1921 (31 U.S.C. 53), and the Accounting and Auditing Act of 1950 (31 U.S.C. 67).

We are sending copies of this report to the Director, Office of Management and Budget, and to the Administrator of General Services.

Comptroller General of the United States
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</table>
Principal officials responsible for the activities discussed in this report

ABBREVIATIONS

ADP  automatic data processing
GAO  General Accounting Office
GSA  General Services Administration
OMB  Office of Management and Budget
Ten years have passed since Public Law 89-306 (the Brooks Bill) was enacted into law. It has not been fully implemented because the Office of Management and Budget does not believe that the law requires central procurement by a "single purchaser" and full use of the Automatic Data Processing Fund. Legislative history, however, clearly shows that both concepts were considered essential. (See p. 8.)

The Brooks Bill was intended to fill three vital management needs:

--Better management information.

--Optimum utilization of equipment.

--Economic acquisition of Government automatic data processing equipment.

Much progress has been made in the first two goals. The third one, however, has not been fully implemented because the Office of Management and Budget disagrees with two required concepts:

--Single purchaser.

--Use of Automatic Data Processing Fund to finance all equipment acquisitions. (See pp. 9 and 13.)

The Office of Management and Budget's position on these two concepts was expressed in March 1965 during congressional hearings on the bill. (See p. 13.) The position was reiterated in a May 1975 letter to GAO as follows.
--The law gives the General Services Administration broad authority to delegate procurement authority to agencies and does not require it to be the single purchaser.

--The law does not require that the Automatic Data Processing Fund be the sole financing mechanism for all equipment procurements, superseding the practice of agencies budgeting for, justifying, and controlling automatic data processing-related expenditures.

--The question of centralized or decentralized purchasing should be determined on the grounds of efficiency, economy, and responsiveness to agency needs and requirements.

The following table of Government automatic data processing equipment procured in fiscal years 1970 through 1974 shows that the two essential concepts have fallen far short of their goals. (See p. 10.)

<table>
<thead>
<tr>
<th>Procured by</th>
<th>Total value of equipment (millions)</th>
<th>Percent of total Government equipment</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Services Administration through the Automatic Data Processing Fund</td>
<td>$23</td>
<td>1</td>
</tr>
<tr>
<td>General Services Administration for agencies</td>
<td>$631</td>
<td>19</td>
</tr>
<tr>
<td>Agencies directly</td>
<td>$2,576</td>
<td>80</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$3,230</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

The savings intended by the Brooks Bill 10 years ago have not been fully realized. Based upon historical experience, the above procurements made directly by agencies might have been at less cost had the General Services Administration procured the equipment. (See p. 11.)
According to the legislative history of the law, it was intended that the Automatic Data Processing Fund was to be primed with capital appropriated by the Congress and augmented by the unamortized value of Government-owned automatic data processing equipment. The Fund was to be used to purchase or lease equipment needed by the agencies who then would lease the equipment from the Fund. There was no legislative intent to alter the general policy and fiscal control by the Office of Management and Budget and the Congress as normally applied to all agency operations. Agencies would have to justify the use and cost of equipment leased from the Fund. (See p. 8.)

GAO recommends that the Congress require the Director, Office of Management and Budget, and the Administrator of General Services to (1) prepare and submit a financial plan to accomplish the major objectives of Public Law 89-306 (including alternative ways of capitalizing the Automatic Data Processing Fund) and (2) advise it periodically of progress or problems in accomplishing the plan.
CHAPTER 1

INTRODUCTION

The Congress, recognizing the need for a Government-wide, coordinated management system for the economic and efficient acquisition, utilization, and maintenance of automatic data processing (ADP) equipment, enacted Public Law 89-306 (the Brooks Bill) 40 U.S.C. 759 (1970) in October 1965. The law made the General Services Administration (GSA) responsible for operations, subject to the fiscal and policy controls established by the Office of Management and Budget (OMB). Executive Order 11717, issued in May 1973, transferred ADP policy responsibilities to GSA, leaving OMB responsible for fiscal control and general oversight.

The law authorized the establishment of an ADP Fund which was to be used by GSA in carrying out its functions. GSA was to use the fund and its broad management authority to fill three vital management needs:

1. Provide the Government with more adequate management information.

2. Acquire the Government's ADP equipment economically.

3. Achieve optimum utilization of ADP equipment.

Until an orderly program for the efficient acquisition and management of ADP equipment could be implemented, GSA was authorized to delegate to Federal agencies the authority to acquire, operate, and maintain the equipment.

GSA has authorized agencies to acquire ADP equipment by placing orders under Schedule contracts that it has negotiated with suppliers. Most of the Government's ADP equipment has been acquired under Schedule contracts. Agencies are required to obtain a delegation of procurement authority from GSA if the initial lease or purchase of ADP equipment exceeds the maximum order limitation in the Schedule contracts. GSA
established the limitations, either in dollars or volume, to provide for solicitation of price concessions on large orders.\(^1\)

GSA authorizes agencies to enter into separate contracts with Schedule contractors if they obtain terms or conditions better than those in the Schedule contracts. Agencies are also authorized to procure equipment not available under a Schedule contract if its cost does not exceed $50,000. When the cost of such equipment exceeds $50,000, a delegation of procurement authority from GSA is needed before acquisition. When GSA receives a request for a delegation of procurement authority, it can elect to (1) grant authority to the requesting agency, (2) participate with the agency in the procurement, or (3) procure the equipment for the agency.

The rapid growth of ADP operations, both in size and cost, has been an area of continuing concern to the Congress. At June 30, 1965, the Government owned or was leasing about 2,400 computers; 9 years later the number had increased to about 7,830. (See app. IV for an analysis of computers owned and leased by agencies at June 30, 1974.)

About 95 percent, or 7,450 of the 7,830 computers, were general-purpose computers that were available commercially. About 4,340 were in a special management category, while 3,490 were in a general management category.

The special management category includes computers that are either (1) an integral part of a larger complex of equipment whose primary purpose is to control, monitor, analyze, or measure a process, (2) classified for national defense purposes, or (3) physically installed in mobile vans, ships, or planes. The general management category consists of computers used for such applications as program management, inventory control, financial management, and the maintenance of personnel data.

\(^1\)The maximum order limitation for central processing units of the same type and model of ADP equipment is 1; for peripheral units of the same type and model it is 10, except that the maximum order limitation applies to 2 or more of the peripheral units where the cost exceeds $500,000.
According to the legislative history of Public Law 89-306, GSA was to have management responsibility for the acquisition, inventory control, and potential secondary use of commercially available, general-purpose computers in both categories.

The number of other Government owned or leased ADP system components, other than computers (also referred to as central processors), has likewise shown a substantial increase over the years. The graph on page 4 illustrates this growth from fiscal year 1969 (the first year GSA published complete statistics on ADP components) through fiscal year 1974. It also shows the number of components owned and leased at the close of fiscal years 1969 and 1974. The cost of Government-owned equipment at the end of fiscal year 1974 was $2.780 billion. Leased equipment, valued at purchase cost for comparative purposes, totaled about $1.259 billion.

SCOPE OF REVIEW

We reviewed the legislative history of Public Law 89-306, OMB circulars and guidelines, GSA regulations and procedures, ADP Fund financial reports and records, and GSA records.

We held discussions with OMB and GSA officials.
GROWTH IN NUMBER OF ADP SYSTEM COMPONENTS
OWNED AND LEASED BY FEDERAL AGENCIES
FISCAL YEARS 1969 - 1974

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<tr>
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<tr>
<td></td>
<td>No.</td>
<td>%</td>
<td>No.</td>
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<tr>
<td>1969</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Owned 1974</td>
<td>6,614</td>
<td>84</td>
<td>25,052</td>
<td>64</td>
</tr>
<tr>
<td>Leased 1974</td>
<td>1,216</td>
<td>16</td>
<td>14,242</td>
<td>36</td>
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<tr>
<td>Total 1974</td>
<td>7,830</td>
<td>100</td>
<td>39,294</td>
<td>100</td>
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<td>1969</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Owned 1974</td>
<td>2,790</td>
<td>60</td>
<td>10,503</td>
<td>09</td>
<td>13,297</td>
<td>09</td>
<td>3,898</td>
<td>79</td>
<td>10,854</td>
<td>51</td>
</tr>
<tr>
<td>Leased 1974</td>
<td>1,976</td>
<td>44</td>
<td>1,279</td>
<td>11</td>
<td>3,279</td>
<td>17</td>
<td>1,015</td>
<td>21</td>
<td>10,318</td>
<td>49</td>
</tr>
<tr>
<td>Total 1974</td>
<td>4,666</td>
<td>100</td>
<td>11,782</td>
<td>100</td>
<td>17,177</td>
<td>100</td>
<td>4,913</td>
<td>100</td>
<td>21,172</td>
<td>100</td>
</tr>
</tbody>
</table>

Increase 1969-1974 | 2,174 | 110 | 32,742 | 110 | 47,789 | 110 | 21,561 | 110 | 46,192 | 110 |
CHAPTER 2

STATUS OF MAJOR OBJECTIVES OF
PUBLIC LAW 89-306

Although enactment of Public Law 89-306 has resulted in savings and improvements in the procurement and management of Government ADP equipment, more could be realized if major objectives of the law--central procurement by a single purchaser and full use of the ADP Fund to finance all equipment acquisitions--were fully accomplished.

The status of the three vital management needs which the law was intended to fill--(1) better management information, (2) economic acquisition of Government ADP equipment, and (3) optimum utilization of equipment--are discussed below.

THE MANAGEMENT INFORMATION SYSTEM

As an initial step in implementing the coordinated ADP management program, a management information system of inventory and fiscal data on ADP equipment was to be established that would make needed information routinely available to all levels of Government ADP management. Such information is essential to GSA in its Government-wide coordination efforts to achieve optimum utilization of ADP resources and to insure that the Government evaluates all acquisition alternatives so that equipment is acquired in the most economical manner practicable. In April 1967 OMB assigned GSA the responsibility for operating the information system.

Agencies provide GSA with data relative to equipment acquisition (including the name of the manufacturer, system model number, cost, owned or leased, and location), operating costs, and utilization. Such data is not always complete or accurate; however, it does provide a reasonable basis for management to evaluate trends, to identify locations of systems being leased, and to obtain an overview of the ADP program. GSA publishes an annual inventory report; but, during the year, data in the system is available to agency managers involved in ADP operations.
GAO previously reported that GSA had not established an inventory of software\(^1\) for inclusion in the management information system. In the June 1971 report, "Acquisition and Use of Software Products for Automatic Data Processing Systems in the Federal Government" (B-115369), we recommended that GSA maintain such an inventory because the availability of such information to ADP managers could minimize duplication in the development or procurement of software and could effect greater reutilization of such products by Federal agencies. In that report we estimated that the annual cost of software in the Government was between $2 and $3 billion. (In comparison annual costs of acquiring ADP equipment during fiscal years 1970 through 1974 averaged about $646 million.)

In April 1974 GSA distributed to Federal agencies for comment a proposed addition to the Federal Property Management Regulations which would establish a software exchange program. Comments were received from the agencies, and GSA said in February 1975 that the agencies' few remaining objections were being resolved and that issuance of the regulation was expected in June 1975.

Under the proposed exchange program agencies will be required to report to GSA common use software developed within the past 3 years. After the data is reported, GSA plans to provide a software catalog to all agencies for selecting software programs to meet their needs. Agencies will also be required to screen existing Federal software resources before they procure software from commercial sources.

\(^1\)Computer software consists of programs, routines, codes, and other written information used with computers, as distinguished from computer hardware. A software package--also commonly referred to as a computer program or software product--is an accumulation of fixed sets of instructions expressed in a specific manner and assembled into one unit along with the related written material which instructs computer machinery to react in a specific manner when processing data.
The Commission on Government Procurement, as part of its study of the acquisition of commercial products, reviewed the procurement of ADP equipment. In its December 1972 report, the Commission recommended that GSA establish ADP equipment procurement delegation policy that would promote effective preplanning of requirements by agencies and optimum use of manpower.

GSA has established a planning system for this purpose. The Federal Property Management Regulations were amended in May 1974 to require that agencies prepare and annually submit their 5-year plans for new ADP and telecommunications systems and for additions or deletions to existing systems. The agency plans should help GSA determine procurements that it will make and advise agencies in advance of delegated procurements.

The procedures required by the amendment, however, are directed primarily to major ADP systems having multiuser potential. The regulations define a major system as one for which the expenditures in any 1 fiscal year for hardware, software, personnel, and related costs exceed $1 million or would require a GSA delegation of procurement authority. (See p. 1.)

We believe that proper implementation of the new reporting requirements could result in more efficient acquisition and utilization of ADP equipment; however, we believe even greater benefits could be realized if the planning system also included the smaller ADP systems (under $1 million) and equipment not requiring a delegation of procurement authority.


"* * * if agencies keep GSA's inventory system fully apprised of future requirements through a system of long-range planning and forecasting, this information can be used to coordinate and bring about volume acquisitions and more reasonable purchase and lease prices." (underscoring supplied.)
ECONOMIC ACQUISITION OF EQUIPMENT

Two basic concepts of the law intended to provide for the economic acquisition of equipment—the "single purchaser" and use of the ADP Fund to finance all equipment acquisitions—have only been partially implemented, primarily because of OMB's interpretation that the law does not mandate centralized acquisition.

OMB has delayed full implementation of the law by (1) neither approving nor disapproving GSA's plans for full capitalization of the ADP Fund, (2) denying GSA requests for resources to fully carry out its functions, and (3) placing limitations on capital expenditures from the Fund. On the other hand, since 1973 GSA has not responded to OMB requests for detailed justifications for increasing the funds available in the ADP Fund.

The legislative history of the law clearly shows the congressional intent with respect to both concepts. The following excerpts from page 30 of the 1965 reports of the House and Senate Committees on Government Operations (see p. 7) exemplify that intent.

"SINGLE PURCHASER CONCEPT"

"But, the most compelling need for the revolving Fund is in establishing the single purchaser concept in Government ADP acquisition.

"Under this arrangement, GSA would have all of the Government's general purpose ADP acquisition money in its pocket and would be in a position, once all aspects of the coordinating program have been fully implemented so that adequate information of prospective Government agency requirements is available, to offer ADP manufacturers firm contracts for specific amounts of ADP equipment. In turn, GSA could reasonably expect to receive some reduction in purchase and lease prices reflecting the magnitude of the Government's acquisition.

"The revolving fund established under H.R. 4945 would be primed with capital appropriated directly by Congress and augmented by the un-amortized value of the general purpose equipment
now in Government agencies which the Government has purchased. GSA would use these funds to acquire by lease or purchase the ADP needed to fulfill the requirements of the various agencies.

"Essentially, all Federal agencies would lease equipment from the GSA revolving fund. So far as the agencies are concerned, only the budgetary personnel would know the difference. GSA would acquire the ADP systems selected by the management of the agencies. The agencies would use the equipment as long as they wished, in any manner they saw fit, subject to the general policy and fiscal control of the Bureau of the Budget, the President, and the Congress as normally applied to all agency operations."

The single purchaser

It was anticipated that the single purchaser concept would prevail after an orderly step-by-step transition from individual agency management of ADP to coordinated management by GSA. For that reason the law allows GSA to delegate authority to agencies to lease or purchase equipment pending full implementation of the single purchaser concept. Nevertheless, that concept has not materialized and GSA is still delegating authority to the agencies to procure most of the Government's ADP equipment.

The table on page 10 shows that, for fiscal years 1970 through 1974, (1) the Government's total reported costs for the purchase and lease of equipment were $3.2 billion, (2) acquisitions by GSA for other agencies cost $631 million or about 19 percent of the total procurements, and (3) the ADP Fund was used to finance acquisitions of equipment costing about $23 million or about 1 percent of the total.
## Procurements of ADP Equipment by
the ADP Fund, GSA, and Other Agencies
Fiscal Years 1970 Through 1974

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<tbody>
<tr>
<td>(millions)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<td></td>
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<tr>
<td><strong>Purchases:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ADP Fund</td>
<td>$22.4</td>
<td>2</td>
<td>$1.3</td>
<td>$1.8</td>
<td>$10.9</td>
<td>$2.7</td>
<td>$5.7</td>
</tr>
<tr>
<td>GSA for agencies</td>
<td>419.9</td>
<td>35</td>
<td>20.6</td>
<td>114.6</td>
<td>196.2</td>
<td>76.7</td>
<td>12.1</td>
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<tr>
<td>Directly by agencies</td>
<td>768.1</td>
<td>63</td>
<td>167.6</td>
<td>123.4</td>
<td>109.8</td>
<td>204.9</td>
<td>162.4</td>
</tr>
<tr>
<td></td>
<td>1,210.4</td>
<td>100</td>
<td>189.5</td>
<td>239.8</td>
<td>316.9</td>
<td>284.3</td>
<td>180.2</td>
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<td><strong>Leases:</strong></td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>ADP Fund</td>
<td>.3</td>
<td>-</td>
<td>.3</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>GSA for agencies</td>
<td>211.1</td>
<td>10</td>
<td>35.7</td>
<td>3.5</td>
<td>69.6</td>
<td>44.0</td>
<td>58.3</td>
</tr>
<tr>
<td>Directly by agencies</td>
<td>1,807.9</td>
<td>90</td>
<td>273.9</td>
<td>360.5</td>
<td>342.4</td>
<td>405.8</td>
<td>425.3</td>
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<tr>
<td></td>
<td>2,019.3</td>
<td>100</td>
<td>309.9</td>
<td>364.0</td>
<td>412.0</td>
<td>449.8</td>
<td>483.6</td>
</tr>
<tr>
<td><strong>Total procurements:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ADP Fund</td>
<td>22.7</td>
<td>1</td>
<td>1.6</td>
<td>1.8</td>
<td>10.9</td>
<td>2.7</td>
<td>5.7</td>
</tr>
<tr>
<td>GSA for agencies</td>
<td>631.3</td>
<td>19</td>
<td>56.3</td>
<td>118.1</td>
<td>265.8</td>
<td>120.7</td>
<td>70.4</td>
</tr>
<tr>
<td>Directly by agencies</td>
<td>2,576.0</td>
<td>80</td>
<td>441.5</td>
<td>483.9</td>
<td>452.2</td>
<td>610.7</td>
<td>587.7</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$3,230.0</td>
<td>100</td>
<td>$499.4</td>
<td>$603.8</td>
<td>$728.9</td>
<td>$734.1</td>
<td>$663.8</td>
</tr>
</tbody>
</table>
Although GSA has acted as a single purchaser only to the limited extent shown above, it has nevertheless been instrumental in effecting substantial agency savings. For example, during fiscal years 1972 through 1974, GSA, on behalf of the procuring agencies, awarded competitive contracts totaling about $433 million for the purchase and lease of equipment that was $331 million less than the costs of similar equipment had the agencies procured the equipment under ADP Schedule contracts.

During the 5-year period reflected in the table, agencies purchased and leased equipment through the use of ADP Schedule contracts at costs totaling about $2.2 billion, which represented about 85 percent of their total direct equipment procurements of about $2.6 billion. In fiscal year 1974 the reported costs of ADP Schedule procurements were 70 percent of the agencies' total direct procurements. Because of this magnitude of use of ADP Schedule contracts, which generally did not involve price competition, the examples in the preceding paragraph demonstrate, in our opinion, that expanding the single purchaser concept could result in savings.

Our May 1974 report, "More Competition Needed in the Federal Procurement of Automatic Data Processing Equipment" (B-115369), discussed the potential benefits of competitive procurements in more detail and contained examples of savings achieved by some agencies when they acquired equipment on a competitive basis.

Page 5 of the reports of the House and Senate Committees on Government Operations, that preceded passage of Public Law 89-306 (see p. 7), predicted other benefits of the single purchaser and ADP Fund concepts in the following terms:

"In addition to volume procurement, Government-wide coordination would provide an effective means for making 'lease versus purchase' evaluations on the basis of the benefit to the Government as a whole. Lease versus purchase evaluations should be made from the standpoint of the estimated useful life of the equipment to the Government as a whole rather than the estimated period of application of the initial user agency.

* * * * *

11
"The revolving fund would have other advantages. As an example, those systems with the highest comparative purchase advantage for the Government as a whole could be purchased while systems offering less purchase advantage could be leased."

The cumulative cost of equipment purchased through the Fund from its inception to June 30, 1974, was only about $25 million; however, GSA has estimated that because of these purchases the Government will save about $26 million. The savings is the difference between GSA's purchase prices and the $51 million in rental costs that would have been paid if the individual agencies had leased the equipment under ADP Schedule contracts for periods ranging from 3 to 5 years. If the agencies continue leasing the equipment beyond the 3- to 5-year periods the purchases by GSA could result in greater savings.

Also, between fiscal years 1970 and 1975 GSA rejected a number of agencies' requests to use the ADP Fund for additional opportunity buys of $43.3 million that would avoid costs of $87.3 million to rent the equipment for the periods required. This would have resulted in savings of $44 million. There were inquiries which did not result in formal requests; for example, the National Security Agency, in fiscal year 1975, asked if GSA could provide $20 million for opportunity buys of ADP equipment being leased. Because the Fund was consistently unable to respond to agency requirements when called

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1/ The savings discounted to present value at 10 percent (the factor prescribed for use in GSA's Federal Property Management Regulations) would be $28 million. This estimate is conservative, since GAO advocates use of a discount rate equivalent to the current cost of Federal borrowing, which consistently has been lower than 10 percent during this period. A lower discount rate would increase the discounted savings.
upon it seems likely that additional opportunities for savings were not presented and were therefore also missed.

Our April 1971 report, "Multiyear Leasing and Government-wide Purchasing of Automatic Data Processing Equipment Should Result in Significant Savings" (B-115369) discussed the potential cost reductions through a coordinated Government-wide purchase program. We concluded that this is an essential step if the Government is to optimize the use of limited purchase funds.

Use of the ADP Fund

GSA has developed plans to use the ADP Fund to the full extent intended by the Congress and periodically has requested the necessary resources. As a consequence of a more limited interpretation of how the Fund was to be used, OMB has denied certain GSA appropriation requests for resources and has neither approved nor disapproved resource requirements identified in GSA's 5-year plans.

OMB guidelines for using the Fund, issued initially in May 1966 and revised in May 1968, provide that the fund be used to (1) promote financing for the joint use of equipment and services, (2) finance purchase opportunities which have time limitations inconsistent with normal funding cycles, and (3) acquire equipment and supplies declared excess by an agency. No provision was made for sufficiently capitalizing the fund to give GSA the resources and flexibility needed to consider all acquisition alternatives while making the gradual transition to its role as single purchaser as we believe the Congress intended. (See p. 8.)

The omission of OMB guidelines covering the two vital concepts—central procurement and full use of the Fund—and OMB's actions discussed below seem to be consistent with the OMB position expressed in Hearings on H.R. 4845, before a Subcommittee of the House Committee on Government Operations, 89th Cong., 1st Sess. 40 (1965). The following excerpts are from that OMB testimony.
"USES OF THE REVOLVING FUND"

"* * *This fund would facilitate the financing of arrangements for the joint utilization of equipment. * * * The nature of these arrangements will vary according to circumstances. For example, it might be advisable to establish ADP service centers which could serve a number of users in a given region. * * * The funds authorized by this section would be used to acquire equipment for such joint utilization arrangements and to finance the operation of arrangements, including the cost of personal services, equipment maintenance, supplies, and other related costs. The costs incurred under the fund would be reimbursed by the agencies participating in the arrangement."

"CENTRAL PROCUREMENT"

"As a general practice, we would not expect to use the fund to procure, centrally, the equipment requirements of agencies other than for joint utilization arrangements. The concept of central procurement has been recommended by the Comptroller General as a means for achieving economies substantially greater than those produced under the present procedures. As a result of an intensive study of this concept, the report approved by the President concludes that substantial further economies would not be achieved through central procurement and that significant losses through unwise capital investments could result. Further, the report concludes that the general concept of central procurement would not be workable, as a practical matter, unless the central office were granted authority to direct the use of equipment in the executive agencies. As stated earlier, we believe this could only lead to an undesirable interference with the management responsibilities of agency heads."

In response to the reservations of OMB and agencies with respect to possible GSA interference--in its role as single purchaser--in agency determinations of ADP requirements, section 111, part (g), of the law provides, in part, as follows:

"Authority so conferred upon the Administrator shall not be so construed as to impair or interfere with
the determination by agencies of their individual automatic data processing equipment requirements, including the development of specifications for and the selection of the types and configurations of equipment needed."

GSA's appropriation requests and 5-year ADP financial plans

In April 1966 GSA submitted a request to OMB for a supplemental appropriation of $45 million for fiscal year 1967 to provide initial capital for the ADP Fund. Of the amount requested $39 million was to purchase about 4 percent of the ADP systems then being leased. The remainder of the request--$6 million--was to be used to establish a Federal Data Processing Center and two centers for cleaning and restoring magnetic tapes. OMB did not approve the request.

In its fiscal year 1968 budget request to OMB, GSA proposed that the fund be capitalized initially at $30 million, primarily to purchase ADP systems then being leased. OMB reduced the request to $10 million, which the Congress appropriated in November 1967. OMB advised us that the reduction had been made because Government-wide fiscal limitations had existed at the time and that, since the ADP Fund represented a new budget item and plans for expending the funds were somewhat nebulous, it had been one of the first requests to be reduced.

Each year since 1967 GSA has prepared and submitted to OMB a 5-year ADP financial plan of its proposed actions and the resources needed for such actions. The first plan, submitted with the fiscal year 1969 budget request, stressed the importance of "continued improvement of procurement practices concentrating on full implementation of the single purchaser concept." This plan also provided for increased capitalization of the Fund, starting with an appropriation of $20 million in 1969 and similar appropriations in the succeeding 4 fiscal years. OMB denied the $20 million request for the same reasons that it reduced the previous year's appropriation request.

GSA did not request an appropriation for the Fund in its initial budget request to OMB for 1970; however, it later submitted a supplemental appropriation request for
$30 million. In that request GSA stated that agencies had already identified equipment to be purchased for $22.5 million, and GSA estimated that an additional $7.5 million in equipment purchases would be identified later. GSA estimated that the equipment purchases of $30 million would result in a $29 million savings—the difference between the cost of the purchases using the ADP Fund and the cost of continued equipment leasing by the agencies. The request was denied by OMB.

For 1971 GSA did not request an appropriation for the Fund in its initial budget submission, but it later requested a $30 million supplemental appropriation. OMB approved a supplemental request of $20 million, which was approved by the Congress in January 1971.

The 5-year plan for fiscal year 1973, prepared in April 1971, requesting the resources necessary for further capitalization of the ADP Fund and for assuming single purchaser responsibility, contained the following:

"Subject to OMB approval, the use of the ADP Fund will be expanded by the end of the planning period by: transferring all Government-owned ADPE to the ADP Fund; providing that all future procurement dollars appropriated and justified by Federal agencies are transferred to the ADP Fund* * *.*

"The 21 additional direct positions are required in order for GSA to assume total ADPE procurement responsibility. The assumption of total ADPE procurement responsibility will be accomplished on a phased basis with total assumption being completed in FY 76 and will require 6 additional positions in FY 73, and five each year thereafter through FY 76.

"In order to support the capital outlay projected for this program[1] during the planning period, additional appropriated capital in the amount of $10 million each year will be required in fiscal years 1973, 1974, and 1975."

OMB did not approve further capitalization of the ADP Fund or GSA's assumption of total procurement responsibility.

[1]Refers to program whereby equipment purchased through use of the ADP Fund is leased to agencies.
OMB officials told us that GSA's 5-year ADP financial plans, like those of some other large agencies, are submitted to OMB in the spring for information purposes and do not require formal OMB action. They said that review and approval action is taken in the fall when agencies submit budget requests.

On at least two occasions (October 1973 and February 1974), OMB requested the results of a GSA study (started in August 1973 as a result of the GAO inquiry) that was to include various implementation alternatives for capitalization of the ADP Fund as well as GSA's estimates of the benefits and the assumptions on which the estimates were based. In January 1975 OMB officials told us that GSA has not yet responded to the OMB request.

As noted on page 8, it was the intent of the House and Senate committees that, in addition to appropriations to the Fund, the Fund was to be "augmented by the unamortized value of the general purpose equipment" that agencies had purchased. The law and the committee reports further provided that agencies "from time to time" were to transfer their equipment to the Fund and that GSA was to work with agency representatives to establish the most acceptable methods by which agencies would reimburse the Fund for use of the equipment. This transfer of equipment has not taken place. Some excess equipment has been transferred to the Fund by agencies, and agencies have leased certain equipment from the Fund.

In fiscal year 1974 agencies reimbursed the Fund about $6 million for the lease of equipment. A comparison between the 1974 reimbursements to the Fund and the $274 million that these agencies paid contractors to lease equipment (see p. 10) shows that a much greater implementation of the single purchaser concept is needed to make the Fund as fully operational as the Congress intended it to be.

**OMB limitations on capital expenditures**

GSA uses the ADP Fund to purchase equipment for use at the Federal Data Processing Centers and for lease to agencies. Since fiscal year 1973, OMB has placed annual limitations on capital expenditures from the Fund even though the unobligated balance of the Fund has been substantial.
The following tabulation shows the unobligated balance of the Fund and the OMB capital expenditure limitation for fiscal years 1973 through 1975.

<table>
<thead>
<tr>
<th>Fiscal year</th>
<th>Unobligated balance (note a) (millions)</th>
<th>OMB limitation on capital expenditures (millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1973</td>
<td>$27.4</td>
<td>$3.0</td>
</tr>
<tr>
<td>1974</td>
<td>30.6</td>
<td>1.4</td>
</tr>
<tr>
<td>1975</td>
<td>37.0</td>
<td>6.0</td>
</tr>
</tbody>
</table>

*Derived principally from (1) $30 million appropriated to the fund in fiscal years 1968 and 1971 and (2) charges to leasing agencies for depreciation on equipment owned by the Fund.*

These limitations have prevented GSA from purchasing leased equipment to achieve savings. For example, the 5-year ADP financial plan for fiscal year 1973 (see p. 16) projected annual capital expenditures from the Fund of $25 million for each of fiscal years 1973 and 1974 and $30 million for fiscal year 1975 for the purchase of equipment for lease to agencies. The $80 million in capital expenditures projected for the 3 fiscal years could have been financed primarily through charges to agencies for the lease of equipment from the Fund which, GSA estimated, would be about $52.7 million for the 3-year period.

The remaining projected requirement for $27.3 million ($80 million less $52.7 million) could have been financed by appropriations of $30 million to the fund, which GSA was proposing in its 5-year ADP financial plan (see p. 16), or by the unobligated balance of $27.4 million in the Fund at the beginning of fiscal year 1973. However, as shown above, OMB has limited capital expenditures from the Fund to $10.4 million for the 3 fiscal years.

**OPTIMUM UTILIZATION OF EQUIPMENT**

To achieve optimum utilization of ADP equipment, the law authorizes GSA to establish and operate data processing centers and to provide for the joint use of equipment by two or more agencies. The law also authorizes GSA to delegate this authority to agencies when necessary for the economy and efficiency of operations.
GSA established 12 Federal data processing centers in fiscal year 1969, including 11 that previously were GSA ADP installations. In January 1972 GSA authorized the Department of Health, Education, and Welfare to operate its Data Management Center in Washington, D.C., as a Federal data processing center.

The Federal centers offer a full range of data processing services to agencies, including data conversion (for example, magnetic tape to microfilm), computer time, programming, and systems analysis and design. Most of the services furnished by the Federal centers are for GSA activities. For example, of the $18.5 million in income reported by the Federal centers for fiscal year 1974, $10.7 million, or about 58 percent, was for services provided for GSA activities.

Income and expenses of the GSA-operated Federal centers are handled through the ADP Fund. In fiscal year 1969 GSA transferred to the ADP Fund GSA-owned equipment at its data processing centers worth about $9.7 million. At June 30, 1974, the value of equipment at the GSA centers, before the allowance for depreciation, was $12.7 million.

The law authorizes GSA, for the services furnished by Federal centers, to establish rates that approximate costs of the services, including depreciation of equipment, provision for accrued leave, and amortization of installation costs. Any net income from operations is to be transferred to the Treasury as miscellaneous receipts. Through June 30, 1974, GSA had transferred $134,000 to the Treasury, representing net income from center operations and the equipment leasing program.

**Sharing program**

The Government's sharing program, begun in 1964, provides for the interagency sharing of ADP equipment and services. According to OMB policy, sharing was to be the primary source of an agency's ADP services when its in-house resources were insufficient. GSA was given responsibility for establishing sharing exchanges that were to provide resource information to potential users of the services, and
GSA was to participate in negotiations between users and providers of the services.

Circular A-71, issued by OMB in 1965, reemphasized GSA's responsibility to promote sharing of ADP equipment and services. The provisions of the law, providing for an improved management information system for equipment inventory and fiscal data and establishment of an ADP Fund, were expected to improve the sharing program.

Pursuant to the OMB circulars and the law, GSA has established a Government-wide sharing exchange program and participated in creating joint agency ventures for acquiring and operating ADP facilities. Agency participation in the program and in the joint use of equipment is voluntary.

Two time-sharing systems available through GSA--Remote Access Multi-User System (RAMUS) and National Teleprocessing Services Contract (INFONET)--permit users to submit programs and data through terminals connected to computers by telephone and to receive data in the same manner. Many agencies have used the time-sharing systems and in fiscal year 1974 paid about $11 million to the ADP Fund for these services.
CHAPTER 3
CONCLUSIONS, AGENCY COMMENTS AND OUR EVALUATION, AND RECOMMENDATIONS

CONCLUSIONS

Ten years have passed since enactment of Public Law 89-306 and, while there have been savings and improvements in the procurement and management of Government ADP equipment, more could be saved if major objectives of the law were fully accomplished.

We believe that OMB's interpretation of the law has restricted GSA's ability to fully implement the law's basic concepts—central procurement by a single purchaser with full use of the ADP Fund for all acquisitions of ADP equipment. Although the law made OMB responsible for establishing fiscal and policy controls for the ADP program, in our opinion, the Congress intended that OMB use these controls to assure protection of the Government's interests in a way which would be consistent with the goal of central procurement.

OMB, for the most part, has neither approved nor disapproved GSA's plans and requests for resources with which to fully implement the law. In addition, OMB has limited the amount of expenditures that GSA might have made from available capital in the Fund. For fiscal year 1975 OMB placed a $6 million limitation on capital expenditures even though the fund had an unobligated balance of $37 million at the beginning of the year.

We believe that the Government has been denied savings that might have resulted if GSA had been permitted to further capitalize and use the Fund to purchase equipment that would be leased to agencies. The potential for such savings has been demonstrated by those cases when the Fund was used or when GSA procured equipment for agencies. (See pp. 11 and 13.)
These savings would, in our opinion, increase if GSA were given the resources and authorized to make full use of the ADP Fund. In fiscal year 1974 alone, most of the purchases and leases entered into were by the using agencies under GSA delegations of authority ($441 million or about 88 percent of the dollar value of equipment acquired); $307 million, (or about 70 percent of the cost of equipment acquired by agencies) were reported under the generally noncompetitive ADP Schedule contracts.

Achievement of the single purchaser concept of the law is a joint problem for GSA and OMB. GSA therefore should have expedited completion and submission to OMB of the results of the study started in August 1973 that was to include the estimated benefits that could be derived through alternative ways of capitalizing the ADP Fund. Since this problem's solution depends on the judgments and actions of both agencies, OMB and GSA should proceed promptly to identify and resolve their differences.

The ADP management information system provides much useful information about Government owned and leased equipment, its costs, and operating costs of ADP systems. If GSA is to effectively assume its role as the single purchaser, the management information system must provide timely and reliable data on agencies' prospective requirements. The planning system recently established by GSA could provide it with an important management tool; however, we believe even greater benefits could be realized if the planning system included also smaller ADP systems (under $1 million) and equipment not requiring a delegation of procurement authority. Therefore, we believe that the planning system should be expanded.

Because we believe that OMB's interpretation of the law has restricted its full implementation, we proposed that the Director, OMB:

--Remove the limitations on capital expenditures imposed on the ADP Fund.
--After approval of the 5-year ADP financial plan prepared by GSA to fully accomplish the major objectives of the law (including the results of the study of alternative ways of capitalizing the ADP Fund), include such plan in the President's budget for 1977.

We also proposed that the Administrator of General Services:

--Following congressional approval of the 5-year ADP financial plan, (1) develop the detailed plans--including the milestones, resources needed, and alternatives considered--for further capitalization and use of the ADP Fund and for orderly implementation of the single purchaser concept and (2) periodically advise the Congress of the progress or problems in accomplishing those plans.

--To make the ADP management information system more effective, expand the planning system to include small systems (under $1 million) and equipment not requiring a delegation of procurement authority.

AGENCY COMMENTS AND OUR EVALUATION

OMB comments

The Deputy Director, OMB, did not agree that under Public Law 89-306 GSA was to be the single purchaser of ADP equipment or that capitalization of the ADP Fund was to be substantially increased. (See app. I.) He said that OMB's actions had been based upon its interpretation of the law which

--gave GSA broad discretionary authority to delegate procurement authority to agencies and did not require GSA to procure all ADP equipment and

--did not require that the ADP Fund be the sole financing mechanism for ADP equipment and services, superseding the practice of agencies budgeting for, justifying, and controlling ADP-related expenditures.
The Deputy Director concurred in the view expressed in a Comptroller General decision of November 21, 1967, that GSA possessed exclusive authority to procure ADP equipment but did not agree with the position stated in this report that proper exercise of that authority necessitated centralized purchasing. He said that the question of centralized or decentralized purchasing should be determined on the grounds of efficiency, economy, and responsiveness to agency needs and requirements.

The decision referred to by OMB, 47 Comp. Gen. 275 (1967), contains the following opinion.

"The language of the act and its legislative history make it clear, in our opinion, that it was the legislative intent to place GSA in the position of acting, subject to direction and control by the President and the Bureau of the Budget, as the Government's single purchaser for all general purpose ADPE estimated to cover about 90 percent of the Government's requirements. At the same time it was recognized that full implementation of this single purchaser concept would necessarily require a considerable period of adjustments. The legislative history shows that the delegation authority provided in subsection (b)(2) was to be resorted to during the period the Administrator would be developing the necessary procedures toward assuming his exclusive jurisdiction in the ADPE area. See the lengthy treatment afforded the concepts underlying the act, as set forth in S. Rept. No. 938, dated October 22, 1965; H. Rept. No. 802, dated August 17, 1965; and Hearings before a subcommittee of the House Government Operations Committee on H.R. 4845, March 30, 31 and April 7, 1965." (Underscoring supplied.)

The Deputy Director said that OMB saw the ADP Fund as a financing mechanism established to provide flexibility in achieving management and procurement savings. He identified the following situations where use of the Fund was appropriate:

--For lease back to an agency, when that agency is confronted with unforeseen and unbudgeted purchase opportunities that would expire or devalue before the
agency can get the necessary funds through the usual budget process.

--To finance the refurbishment of Government-owned excess equipment when necessary to make it usable at a cost which, when compared to the next available alternative, will produce acceptable rates of return.

--To purchase additional features to enhance equipment already owned by the ADP Fund.

--To purchase equipment when a lease versus purchase determination shows that purchase will yield an acceptable rate of return over the projected useful life and when the original user of the equipment does not have firm plans to use the equipment for its projected life, provided there is a very high probability that there will be a secondary user.

--To guarantee certain procurement volumes to achieve discounts for Government-wide requirements. If the volume actually procured falls short of the required volume, the ADP Fund may be used to purchase or lease the guaranteed minimums or to finance adjustments in the terms of the contract.

The Deputy Director said that OMB has removed the limitation on capital expenditures from the Fund, as suggested by GAO, but was continuing to establish program guidance and to apportion the funds. As required by the Impoundment Control Act 1974, the Congress would be kept fully apprised of any restrictive actions.

OMB's decision to remove the limitations on capital expenditures is a step in the right direction toward orderly implementation of the single purchaser concept. Whether GSA obtains the needed resources by this action will depend largely, however, on the program and policy guidance provided by OMB.

The Deputy Director said that a March 1975 report of a consulting firm engaged by GSA concluded that GSA should delegate procurement authority to those agencies which are qualified to conduct all elements of specification and source selection. He also said that there was little, if any, evidence that such agencies could not realize savings equivalent to that being achieved by GSA.
At the time the law was passed, we believe that the Congress was aware that certain agencies--most notably, the Department of Defense--were qualified to conduct all elements of specification and source selection. Nevertheless, the Congress confirmed the conclusion of the House Committee on Government Operations, based upon two comprehensive OMB (BOB) ADP management studies, about 100 GAO audit reports, and 3 years of active investigation by the Committee, that legislation incorporating the single purchaser concept was essential to effective Government ADP management.

We do not contest the OMB statement that agencies can realize savings in ADP procurement. In earlier reports (see p. 11 and 13) we identified examples of various savings. One report contained examples of agency procurements of ADP equipment through the use of Schedule contracts where no attempt had been made to realize the savings possible through competitive procurements. Since agencies were still acquiring equipment through the use of ADP Schedule Contracts at costs totaling about $2.2 billion, which represented 85 percent of their total direct equipment procurements, while GSA was awarding competitive contracts at substantial savings, we concluded that expanding the single purchaser concept could result in savings.

Notwithstanding the views of GAO, OMB, other agencies, and those outside the Federal Government, the Congress, after long and careful deliberation, legislated its preferred method for acquiring the Government's ADP equipment--GSA acting as the single purchaser for the Government's ADP needs.

The Deputy Director said that OMB had no objection to GSA including details of the 5-year estimates in the President's budget. He said, however, that OMB could not accept our proposal that would require prior congressional approval of GSA's plans for carrying out its responsibilities under Public Law 89-306 and gave the following reasons.

--OMB did not agree in principle that executive branch agencies should be required to obtain explicit congressional committee approval of plans outside the annual budget and appropriation process.

--It would not be prudent for OMB to make a judgment now that the 1977 budget and outyear projections should
anticipate significant changes in the direction or level of GSA's present ADP procurement.

The purpose of our proposal to OMB was to permit general congressional oversight and approval of GSA's broad plans for implementing the law. As stated in our proposal to the Administrator, after general approval is obtained, GSA would develop the detailed plans including the resources needed to accomplish those plans. The House and Senate Committees on Government Operations in reports issued before enactment of Public Law 89-306 (see p. 9), anticipated no change in the annual budgetary process.

Thus, we did not intend that general congressional approval of the plans would mean that changes could not be made in subsequent years, specific approval of funds for the outyears, or that there would be any change in the annual budget and appropriation process. Our proposals were expressed in general terms whereas the methods for submission and approval would be worked out by the oversight and appropriations committees and the executive branch.

In summary, we believe OMB's application of fiscal controls is not consistent with the law's intent as evidenced in the House and Senate Committee reports discussed on pages 8 and 11. Contrary to OMB's interpretation, these reports clearly show that GSA was to become the single purchaser for the Government's ADP needs and that the ADP Fund would be fully utilized to help accomplish that purpose.

At this time, in our opinion, the Government's financial interest requires that the single purchaser concept be applied to all acquisitions, including the selected situations cited by OMB, but, most importantly, where a lease versus purchase determination shows a favorable rate of return based on discounted cash flow over the useful life of the equipment. After GSA assumes its intended role of single purchaser, alternatives for fully capitalizing the remainder of the ADP inventory should be explored and plans for implementation prepared.

GSA comments

In response to our proposal that the Administrator of General Services develop the detailed plans to achieve full capitalization of the ADP Fund and the single purchaser concept, he advised us that:
"GSA, in conjunction with developing its budget proposals for FY 76, is considering various alternative approaches (including detailed planning and resource requirements for each alternative) needed to effect the single purchaser concept of the law."

The Administrator's comments indicate agreement with the single purchaser concept and the need for further action but do not specify the nature or timing of the alternative approaches being considered by GSA. The reply does not express GSA's views on the importance of further capitalization of the ADP Fund.

Responding to our proposal that the planning system be expanded, the Administrator said:

"The exclusion of ADP systems under the one million dollar threshold was included as a recognition of the limited capacity of agencies to develop and submit plans for the many smaller applications, and of the limited capacity of GSA to effectively review them. As our experience and capability in systems planning grows, GSA might be able to expand its coverage. On the other hand, recent changes in the ADP schedule contract program mean more small systems will be included under the definition of 'major system.'"

We recognize that GSA may have a problem of limited capacity to effectively review all proposed systems and equipment acquisitions. In our opinion, however, the reporting of agencies' prospective requirements for systems under the $1 million threshold would not by itself consume GSA's limited systems planning resources. Instead, such reporting would provide GSA greater opportunity to selectively use the single purchaser role now for cost savings through consolidated acquisitions. Meanwhile, we believe GSA should determine the added resources needed to effectively review agency plans--including the resources needed for the expanded coverage that we are proposing--and should include that data in its 5-year ADP financial plan.

The Administrator's reference to recent changes in the ADP Schedule contract program refers to a temporary regulation issued in June 1974 and renewed in June 1975. The
regulation, effective January 1, 1975, requires agencies to obtain a delegation of procurement authority from GSA before renewing leases or purchasing certain makes and models of equipment under ADP Schedule contracts. GSA took the action as a result of our May 1974 report, "More Competition Needed in the Federal Procurement of Automatic Data Processing Equipment" (B-115369). The full effect of the regulation on the planning system, however, is not yet determinable.

Because the objectives of Public Law 89-306 have not been fully accomplished in the 10 years since enactment, we believe that the Congress should be kept informed of the manner in which GSA plans to execute its responsibilities for the economic and efficient acquisition, utilization, and maintenance of Federal ADP systems and of progress or problems encountered by GSA. Such information would be useful to those committees of the Congress responsible for oversight and appropriations.

RECOMMENDATION

Because OMB has not recognized that the objectives of Public Law 89-306 require central procurement of the Government's ADP equipment by a single purchaser (GSA) and full use of the ADP Fund, we recommend that the Congress require the Director, OMB, and Administrator of General Services to (1) prepare and submit a financial plan to fully accomplish the major objectives of the law (including alternative ways of capitalizing the ADP Fund) and (2) advise it periodically of progress or problems in accomplishing the plan.
Honorable Elmer B. Staats  
Comptroller General  
General Accounting Office  
Washington, D.C. 20548

Dear Mr. Staats:

Forwarded herewith are OMB's views on your revised draft report entitled "Further Action Needed to Accomplish Objectives of P. L. 89-306 for Government-Wide Management of Automatic Data Processing Equipment" (B-115369).

We appreciate the opportunity afforded to OMB staff over the past months to discuss the many issues raised in the report. While we still have some differences with the conclusions of the report, I believe this dialog has served to highlight the key issues which need to be addressed.

I look forward to continued close cooperation with you and your staff in finding ways to assure effective, economical and efficient operation of computers in the Federal Government.

Sincerely,

Paul H. O'Neill  
Deputy Director

Enclosure
Throughout the report, GAO has used the term "single purchaser" to describe the GSA's responsibility under P.L. 89-306. As used in the report, the term appears to imply three different responsibilities. First, that the law has vested in the Administrator of GSA exclusive authority to procure automatic data processing (ADP) equipment; second, that proper exercise of this authority would call for GSA to centrally purchase all, or most, Federal Government ADP equipment; and third, that such central procurement by GSA should be financed through the ADP Fund.

We concur in the view expressed in the Comptroller General's decision of November 21, 1967, that GSA possesses exclusive authority to procure ADP equipment. However, we do not share the view expressed in your draft report that proper exercise of this authority necessitates either centralized purchasing by GSA or financing through the ADP Fund. We believe the current practice employed by GSA wherein they selectively delegate their authority to agencies to procure ADP equipment is consistent with the broad discretionary authority given to the Administrator under Subsection 3 of Section III of P.L. 89-306. We further believe that the question of centralized or decentralized purchasing by agencies (after receipt of a delegation of procurement authority from the Administrator of GSA) should be determined on the grounds of efficiency, economy and responsiveness to agency needs and requirements. We believe GAO's more restrictive view -- that the Administrator should rarely exercise this authority -- is not required by this section of the law.

Early in 1974 GSA engaged a consultant to conduct a study of possible improvements in the planning, acquisition and management of computers in the Federal Government. This report "Automatic Data Processing Strategy Study" completed by Decisions and Designs, Inc. in March 1975 and now under review by Federal agencies, concludes that GSA should delegate procurement authority to those agencies which are qualified to conduct all elements of specification and source selection. There is little, if any, evidence that the major agencies which are ADP intensive and have qualified procurement staffs cannot realize savings equivalent to that being achieved by GSA.
As noted in the draft GAO report, GSA has been instrumental in effecting substantial savings (45% lower costs during FY 1972 through 1974) compared to procurement by other agencies, primarily under schedule contracts. However, virtually all of such central procurement by GSA (97%) was financed by agency funds rather than from the ADP fund. Acting as a central procurement agent for other agencies, GSA is able to realize economies under present procurement which does not necessitate nor anticipate increased capitalization of the ADP Fund. Consequently, even if a shift from agency delegation and/or schedule contracting to central procurement by GSA were pursued, it does not necessarily follow that the procurements should be financed through the ADP Fund (see Comment 2).

Comment 2

OMB does not believe that expansion of the ADP Fund towards an unspecified goal of "full capitalization" represents an end required by the provisions of P.L. 89-306. We do not believe that establishment of the Fund was intended to supersede the practice of agencies budgeting for, justifying and controlling their expenditures for their ADP equipment and services. Consistent with Bureau of the Budget testimony during consideration by the Congress of P.L. 89-306, we continue to see the Fund as a financing mechanism established by the Act to provide flexibility in achieving economies in management and procurement of ADP. Within this broad role, we believe it is appropriate for the Fund to be used for purchase of ADP equipment in the following situations:

- For lease back to an agency, when that agency is confronted with unforeseen, special, unbudgeted and attractive purchase opportunities that would expire or devalue before the agency is able to acquire the necessary funds through usual budget process. The usual budgetary processes include reprogramming, when authorized, or requests for annual appropriations, supplemental funds or budget amendments.

- To finance the refurbishment of Government-owned excess ADP equipment when such refurbishment is necessary to make the subject equipment usable at a cost which, when compared to the next available alternative, will produce acceptable rates of return.

- To purchase additional features and/or devices to enhance a machine or configuration of machines which is already owned by the ADP Fund.

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* To purchase equipment when a lease versus purchase determination shows that purchase will yield an acceptable rate of return over the projected useful life of the equipment within the Government and when the original user of the equipment does not have firm plans to use the equipment for its projected life, provided there is a known secondary user, or a very high probability that there will be a secondary user or users.

* To guarantee certain volumes of devices procured by the Government in order to achieve volume discounts for Government-wide requirements. (In the event that the volume of devices procured under these Government-wide requirements contracts falls short of plan, the ADP Fund may be used to purchase or lease devices to satisfy guaranteed minimums or finance adjustments in the terms of the contract.)

While GSA, in the past, has included estimates for increased capitalization of the ADP Fund in its long-range ADP plans it has not developed any detailed proposal which sets forth the cost and benefits of significantly changing the present procurement practices. The consultant's report referred to in Comment 1 concludes that "full capitalization" was the least favored approach for financing ADP acquisitions among options studied, primarily because of the present close identification of ADP with user agency goals and missions costs/benefits. The report recommends that the ADP Fund's present uses be continued.

Finally, we see the role of the fund as evolutionary -- that is, it provides flexibility of financing for the Federal Government in acquiring ADP equipment and services. As conditions change within that market place, so also will the program being financed by the Fund. For example, beginning this fiscal year major emphasis in GSA's ADP Fund program is being given to expanding the use of commercial service contracts and financing multi-year leasing. The use of multi-year leasing is proposed for further expansion if proposed legislation to facilitate financing is enacted.

Comment 3

Under provisions of P.L. 89-306, the establishment of resource levels and the fiscal policies under which the ADP Fund operates is a responsibility of the Director, OMB. In exercising these responsibilities, the Director must consider the efficiencies, economy and responsiveness to agency needs
and requirements for ADP procurement as well as traditional fiscal policies and controls. It is the composite of these responsibilities which provide the basis on which questions of ADP Fund limitations have been established in the past.

Furthermore, decisions concerning the level and direction of the ADP Fund must recognize changes in the market place and ADP program objectives. Such program changes account, in part, for the $11.8 million unobligated balance projected in the ADP Fund at the beginning of the fiscal year 1976. This is substantially less than the $37 million estimated for the beginning of fiscal year 1975 and indicates that any significant change in present central procurement practices as proposed in the draft report would most likely necessitate additional appropriations to increase the capitalization of the Fund.

We have removed the limitation on capital expenditures of the ADP Fund as suggested in your draft report. However, we are continuing the practice of reviewing the Fund's performance, establishing program and policy guidance such as that set forth in the agency's budget allowance letter of February 3, 1975, and apportioning the Fund along with other agency accounts. Program guidance and decisions on the levels apportioned will be made within the considerations outlined above.

Under Title X of the Budget Impoundment and Control Act of 1974, we will continue to keep the Congress fully apprised of any restrictive actions which may be taken. The Congress will, of course, continue to have its own opportunity to act on any budget deferrals or rescissions which may be proposed. The Congress, through the annual budget and appropriation committees has the opportunity, of course, to annually review the ADP program and to request multi-year plans from the agency.

We have no objection to GSA setting forth details of the five year estimates included in the President's budget. However, it would not be prudent to make a judgment now that the 1977 budget and outyear projections should anticipate significant changes in the direction or level of GSA's present ADP procurement. We would first need to carefully review the implications for GSA and other agencies of any multi-year plans for ADP procurement, either for maintaining the present program, proposing other alternatives to GSA's present ADP program under existing legislation, expanding centralized procurement through the ADP Fund as proposed in
this report, or recommending legislation to amend P.L. 89-306. Second, we would need to consider GSA plans in the context of the broader budget and economic considerations outlined above. More important, however, we do not agree in principle that executive branch agencies should be required (outside the annual budget and appropriation process) to obtain explicit Congressional committee approval of plans for carrying out their statutory responsibilities and for allocating budget resources. While we agree that the Congress should be kept fully informed of agency activities we cannot accept the proposed recommendations which would require prior Congressional approval of GSA's plans for carrying out its responsibilities under P.L. 89-306.

Comment 4

We note that the GAO report makes no reference to the policy of OMB Circular A-76, which calls for executive agencies to rely on private enterprise for needed goods and services in preference to establishing or continuing an in-house commercial or industrial activity. Proper implementation of the policy requires that first consideration be given to this alternative in preference to acquisition and management of ADP facilities. Executive agencies should not initiate action to purchase or lease equipment unless the requirement meets the criteria of Circular A-76 for approval of commercial and industrial activities.
SEP 30 1974

Honorable Elmer B. Staats
Comptroller General of the United States
General Accounting Office
Washington, D.C. 20548

Dear Mr. Staats:


We appreciate your recognition of the accomplishments and problems involved in fully implementing Public Law 89-306. In light of numerous previous GAO audits and the continuing interest in the program, we invite GAO to periodically and continually review the implementation of their recommendations.

In response to your specific recommendation, GSA, in conjunction with developing its budget proposals for FY 1976, is considering various alternative approaches (including detailed planning and resource requirements for each alternative) needed to effect the "single purchaser" concept of the law.

Further, we are enclosing actions GSA has taken in the areas of ADP Schedule Contracts, Software Exchange, and Systems Planning for ADP and Telecommunications, in order to make the ADP management information system a more effective management tool.

There are several areas that require some clarification and the following specific comments are offered:

[See GAO note.]

GAO note: Deleted comments refer to material contained in draft report which has been revised or which has not been included in the final report.

Keep Freedom in Your Future With U.S. Savings Bonds
- Reference recommendation number 3. Although we are establishing a software inventory as "an effective management tool", there is no plan to include it in the existing ADP management information system. It will be a separate management system.

[See GAO note, p. 36.]

- Reference page 12, paragraph 1. The exclusion of ADP systems under the one million dollar threshold was included as a recognition of the limited capacity of agencies to develop and submit plans for the many smaller applications, and of the limited capacity of GSA to effectively review them. As our experience and capability in systems planning grows, GSA might be able to expand its coverage. On the other hand, recent changes in the ADP schedule contract program mean more small systems will be included under the definition of "major system".

[See GAO note, p. 36.]

If there are any questions, please let us know.

Sincerely,

Enclosures

GAO note: Page reference in this appendix refers to the draft report and may not agree with the page number in the final report.
Measures taken to Expand the "Single Purchaser" Role

1. FPMR Subpart 101-32.15 - Future Plans for ADP and Telecommunications Systems, is to determine potential requirements for computer facilities for use by more than one agency, concurrently, it will provide data which will permit us to manage the ADPE procurement process more efficiently. Based on the information submitted by the agencies, GSA will be able to determine those ADP requirements susceptible to consolidation into a single volume procurement. While this does not constitute full implementation of the "single purchaser" concept within the meaning of the Public Law or the GAO Report, it is a further step in that direction.

2. Action already has been initiated to place limitation on the acquisition of ADP equipment under FY 75 ADP Schedule contracts. A specific delegation of procurement authority will be required before a Federal agency may issue an order against these Schedule contracts for the following types of procurement transactions:

   a. Renewal of a lease for an installed central processing unit, CPU, or an ADP system that includes a CPU, when there is competition in the market place for such equipment.

   b. Initial acquisition of a CPU, or ADP system that includes a CPU, (by lease or purchase), except for minicomputers and those CPU's where the ADP Schedule purchase price is less than $50,000.

   c. Conversion from lease to purchase of any CPU, or any specific make and model machine that can be cable connected to that CPU, when GSA has determined that there is viable competition for the CPU in question. Minicomputers and CPU's where the Schedule price is less than $50,000 are exempt from this restriction.
Measures taken to More Effectively Use the
Management Information System

1. In August 1973, the National Bureau of Standards (NBS) published a proposed Federal Information Processing Standard in the Federal Register. The proposed Federal Standard established procedures and provided a standard form for recording and reporting summary information about computer programs and software systems. Subsequently, NBS and GSA agreed to the establishment of a Software Exchange Program (SEP) with NBS publishing the Federal Information Processing Standard Form for reporting software summaries and GSA publishing a Federal Property Management Regulation (FPMR) providing policy and procedures for reporting and distributing common use software to Federal agencies.

When all the necessary internal GSA and other agency comments have been obtained and reconciled, GSA will proceed to revise the FPMR to include policy and procedures pertaining to the SEP. The Department of Commerce has approved a Federal standard Software Summary for Describing Computer Programs (FIPS PUB 30). By agreement with NBS, Standard Form 185 provided by (FIPS PUB 30) will be used by agencies to report summary descriptions of computer programs to GSA in accordance with the procedures set forth in the FPMR. The data received will be published in a catalog which summarizes information about common use software produced by and for Federal agencies.

2. Item No. 2 on the preceding page, also serves to expand the planning system to include more proposed acquisition of equipment and services.
An Act

To provide for the economic and efficient purchase, lease, maintenance, operation, and utilization of automatic data processing equipment by Federal departments and agencies.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That title I of the Federal Property and Administrative Services Act of 1949 (63 Stat. 977), as amended, is hereby amended by adding a new section to read as follows:

"AUTOMATIC DATA PROCESSING EQUIPMENT

"Sec. 111. (a) The Administrator is authorized and directed to coordinate and provide for the economic and efficient purchase, lease, and maintenance of automatic data processing equipment by Federal agencies.

"(b) (1) Automatic data processing equipment suitable for efficient and effective use by Federal agencies shall be provided by the Administrator through purchase, lease, transfer of equipment from other Federal agencies, or otherwise, and the Administrator is authorized and directed to provide by contract or otherwise for the maintenance and repair of such equipment. In carrying out his responsibilities under this section the Administrator is authorized to transfer automatic data processing equipment between Federal agencies, to provide for joint utilization of such equipment by two or more Federal agencies, and to establish and operate equipment pools and data processing centers for the use of two or more such agencies when necessary for its most efficient and effective utilization.

"(2) The Administrator may delegate to one or more Federal agencies authority to operate automatic data processing equipment pools and automatic data processing centers, and to lease, purchase, or maintain individual automatic data processing systems or specific units of equipment, including such equipment used in automatic data processing pools and automatic data processing centers, when such action is determined by the Administrator to be necessary for the economy and efficiency of operations, or when such action is essential to national defense or national security. The Administrator may delegate to one or more Federal agencies authority to lease, purchase, or maintain automatic data processing equipment to the extent to which he determines such action to be necessary and desirable to allow for the orderly implementation of a program for the utilization of such equipment.

"(c) There is hereby authorized to be established on the books of the Treasury an automatic data processing fund, which shall be available without fiscal year limitation for expenses, including personal services, other costs, and the procurement by lease, purchase, transfer, or otherwise of equipment, maintenance, and repair of such equipment by contract or otherwise, necessary for the efficient coordination, operation, utilization of such equipment by and for Federal agencies: Provided, That a report of equipment inventory, utilization, and acquisitions, together with an account of receipts, disbursements, and transfers to miscellaneous receipts, under this authoriza-

BEST DOCUMENT AVAILABLE
Report to
Budget Bureau
and Congress.

Appropriation.

Appropriation shall be made annually in connection with the budget estimates to
the Director of the Bureau of the Budget and to the Congress, and
the inclusion in appropriation acts of provisions regulating the opera-
tion of the automatic data processing fund, or limiting the expendi-
tures therefrom, is hereby authorized.

"(d) There are authorized to be appropriated to said fund such
sums as may be required which; together with the value, as determined
by the Administrator, of supplies and equipment from time to time
transferred to the Administrator; shall constitute the capital of the
fund: Provided, That said fund shall be credited with (1) advances
and reimbursements from available appropriations and funds of any
agency (including the General Services Administration), organization,
or contractor utilizing such equipment and services rendered
them, at rates determined by the Administrator to approximate the
costs thereof met by the fund (including depreciation of equipment,
provision for accrued leave, and for amortization of installation costs,
but excluding, in the determination of rates prior to the fiscal year
1967, such direct operating expenses as may be directly appropriated
for, which expenses may be charged to the fund and covered by
advances or reimbursements from such direct appropriations) and
(2) refunds or recoveries resulting from operations of the fund,
including the net proceeds of disposal of excess or surplus personal
property and receipts from carriers and others for loss or damage to
property: Provided further, That following the close of each fiscal
year any net income, after making provisions for prior year losses,
if any, shall be transferred to the Treasury of the United States as
miscellaneous receipts.

(e) The proviso following paragraph (4) in section 201(n) of this
Act and the provisions of section 602(d) of this Act shall have no ap-
lication in the administration of this section. No other provision
of this Act or any other Act which is inconsistent with the provisions
of this section shall be applicable in the administration of this section.

(f) The Secretary of Commerce is authorized (1) to provide
advisory services to agencies, and the Administrator of General Services in the exercise
of the authority delegated in this section, with scientific and technolog-
ical advisory services relating to automatic dataprocessing and
related systems, and (2) to make appropriate recommendations to
the President relating to the establishment of uniform Federal auto-
matic data processing standards. The Secretary of Commerce is
authorized to undertake the necessary research in the sciences and
technologies of automatic data processing computer and related sys-
tems, as may be required under provisions of this subsection.

(g) The authority conferred upon the Administrator and the
Secretary of Commerce by this section shall be exercised subject to
direction by the President and to fiscal and policy control exercised
by the Bureau of the Budget. Authority so conferred upon the
Administrator shall not be so construed as to impair or interfere with
the determination by agencies of their individual automatic data proc-
sessing equipment requirements, including the development of speci-
cifications for and the selection of the types and configurations of equip-
ment needed. The Administrator shall not interfere with, or attempt
to control in any way, the use made of automatic data processing
equipment or components thereof by any agency. The Administra-
tor shall provide adequate notice to all agencies and other users con-
cerned with respect to each proposed determination specifically affect-
ing them or the automatic data processing equipment or components
used by them. In the absence of mutual agreement between the
Administrator and the agency or user concerned, such proposed deter-
minations shall be subject to review and decision by the Bureau of the
Budget unless the President otherwise directs.

### APPENDIX IV

**COMPUTERS OWNED AND LEASED**

**BY FEDERAL AGENCIES**

**AT JUNE 30, 1974**

<table>
<thead>
<tr>
<th>Agency</th>
<th>Owned No.</th>
<th>Percent</th>
<th>Leased No.</th>
<th>Percent</th>
<th>Total No.</th>
<th>Percent</th>
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<tr>
<td>Atomic Energy Commission</td>
<td>1,568</td>
<td>23.7</td>
<td>1,574</td>
<td>20.1</td>
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<tr>
<td>Department of Agriculture</td>
<td>46</td>
<td>.7</td>
<td>58</td>
<td>.7</td>
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<tr>
<td>Department of Commerce</td>
<td>222</td>
<td>3.3</td>
<td>241</td>
<td>3.1</td>
<td></td>
<td></td>
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<tr>
<td>General Services</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Administration</td>
<td>24</td>
<td>.4</td>
<td>29</td>
<td>.4</td>
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</tr>
<tr>
<td>Department of Health, Education, and Welfare</td>
<td>81</td>
<td>1.2</td>
<td>104</td>
<td>1.3</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Department of the Interior</td>
<td>52</td>
<td>.8</td>
<td>70</td>
<td>.9</td>
<td></td>
<td></td>
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<tr>
<td>National Aeronautics and Space Administration</td>
<td>1,016</td>
<td>15.4</td>
<td>1,028</td>
<td>13.1</td>
<td></td>
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<tr>
<td>Department of Transportation</td>
<td>278</td>
<td>4.2</td>
<td>296</td>
<td>3.8</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Department of the Treasury</td>
<td>84</td>
<td>1.3</td>
<td>124</td>
<td>1.6</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Veterans Administration</td>
<td>90</td>
<td>1.4</td>
<td>99</td>
<td>1.3</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other civil agencies</td>
<td>135</td>
<td>2.0</td>
<td>200</td>
<td>2.6</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Department of Defense:</td>
<td>3,018</td>
<td>45.6</td>
<td>4,007</td>
<td>51.2</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Department of the Army</td>
<td>(576)</td>
<td>(8.7)</td>
<td>(965)</td>
<td>(12.3)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Department of the Navy</td>
<td>(1,040)</td>
<td>(15.7)</td>
<td>(1,236)</td>
<td>(15.8)</td>
<td></td>
<td></td>
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<tr>
<td>Department of the Air Force</td>
<td>(1,247)</td>
<td>(18.8)</td>
<td>(1,577)</td>
<td>(20.1)</td>
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<tr>
<td>Defense Supply Agency</td>
<td>(71)</td>
<td>(1.1)</td>
<td>(136)</td>
<td>(1.7)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other Defense agencies</td>
<td>(84)</td>
<td>(1.3)</td>
<td>(93)</td>
<td>(1.3)</td>
<td></td>
<td></td>
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<tr>
<td>Total</td>
<td>6,614</td>
<td>100.0</td>
<td>7,830</td>
<td>100.0</td>
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</tr>
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</table>

Percent of total 94 16 100
**APPENDIX V**

**PRINCIPAL OFFICIALS**

**RESPONSIBLE FOR THE ACTIVITIES**

**DISCUSSED IN THIS REPORT**

<table>
<thead>
<tr>
<th>Tenure of office</th>
<th>From</th>
<th>To</th>
</tr>
</thead>
</table>

**OFFICE OF MANAGEMENT AND BUDGET**

**DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET:**

<table>
<thead>
<tr>
<th>Official</th>
<th>From</th>
<th>To</th>
</tr>
</thead>
<tbody>
<tr>
<td>James T. Lynn</td>
<td>Feb. 1975</td>
<td>Present</td>
</tr>
<tr>
<td>Caspar W. Weinberger</td>
<td>June 1972</td>
<td>Feb. 1973</td>
</tr>
<tr>
<td>George P. Shultz</td>
<td>July 1970</td>
<td>June 1972</td>
</tr>
<tr>
<td>Charles L. Schultze</td>
<td>June 1965</td>
<td>Jan. 1968</td>
</tr>
</tbody>
</table>

**GENERAL SERVICES ADMINISTRATION**

**ADMINISTRATOR OF GENERAL SERVICES:**

<table>
<thead>
<tr>
<th>Official</th>
<th>From</th>
<th>To</th>
</tr>
</thead>
<tbody>
<tr>
<td>Arthur F. Sampson</td>
<td>June 1973</td>
<td>Present</td>
</tr>
<tr>
<td>Arthur F. Sampson (acting)</td>
<td>June 1972</td>
<td>June 1973</td>
</tr>
<tr>
<td>Rod Kreger (acting)</td>
<td>Jan. 1972</td>
<td>June 1972</td>
</tr>
</tbody>
</table>

**COMMISSIONER, FEDERAL SUPPLY SERVICE (note a):**

<table>
<thead>
<tr>
<th>Official</th>
<th>From</th>
<th>To</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lewis E. Spangler (acting)</td>
<td>May 1969</td>
<td>June 1969</td>
</tr>
<tr>
<td>H. A. Abersfeller</td>
<td>May 1964</td>
<td>May 1969</td>
</tr>
<tr>
<td>Name</td>
<td>From</td>
<td>To</td>
</tr>
<tr>
<td>-----------------------------</td>
<td>---------</td>
<td>----------</td>
</tr>
<tr>
<td>Theodore D. Puckorius</td>
<td>May 1975</td>
<td>Present</td>
</tr>
<tr>
<td>Warren E. Burton (acting)</td>
<td>Aug. 1974</td>
<td>May 1975</td>
</tr>
<tr>
<td>Harold S. Trimmer, Jr. (acting)</td>
<td>July 1972</td>
<td>June 1973</td>
</tr>
</tbody>
</table>

*Effective July 15, 1972, the Government-wide ADP responsibilities of the Federal Supply Service and the telecommunications responsibilities of the Transportation and Communication Service were assigned to the Automated Data and Telecommunications Service.*
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