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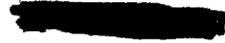
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REPORT TO THE CONGRESS

UNITED STATES
GENERAL ACCOUNTING OFFICE

JUL 28 1975



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Opportunity For Savings Of Large Sums In Acquiring Computer Systems Under Federal Grant Programs

Because of the large amount of Federal grant money being spent for automatic data processing systems, there is potential for either savings or waste--often amounting to hundreds of thousands of dollars for an individual grantee. This report shows that it is important that Federal managers make sure that grantees follow business-like procedures in acquiring (by purchase, lease, or other methods) computers for grant programs. Although instructions and procedures exist, these need to be extended to require consideration of all reasonable alternatives. Agencies should make sure that the instructions are followed.

**BY THE COMPTROLLER GENERAL
OF THE UNITED STATES**

FGMSD-75-34

JULY 24, 1975

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COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

B-115369

To the President of the Senate and the
Speaker of the House of Representatives

During the last several years, grant funds spent for computer systems have increased. Hundreds of millions of dollars are being spent for computer systems for use in grant programs.

This report summarizes GAO's findings about the adequacy of controls and procedures established by Federal Agencies to promote greater economy in the acquisition of computer systems under Federal grant programs.

We made our review 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; Administrator, General Services Administration; and heads of the Federal departments and agencies.

James B. Heath
Comptroller General
of the United States

C o n t e n t s

| | | <u>Page</u> |
|----------|--|-------------|
| DIGEST | | i |
| CHAPTER | | |
| 1 | INTRODUCTION | 1 |
| | Purpose of this review | 1 |
| | Federal policy guidance | 2 |
| | Scope of review | 3 |
| 2 | EQUIPMENT REQUIREMENTS AND SHARING OPPORTUNITIES NOT FULLY EVALUATED | 6 |
| | Needs often not thoroughly determined | 6 |
| | Importance of performance evaluations in determining requirements | 7 |
| | Sharing opportunities often not fully explored | 9 |
| 3 | ALTERNATIVE METHODS OF FINANCING AND SOURCES OF SUPPLY OFTEN NOT CONSIDERED | 13 |
| | Most equipment leased without fully considering alternative methods of financing | 13 |
| | Low cost equipment suppliers were often excluded or not considered | 16 |
| 4 | CONCLUSIONS AND RECOMMENDATIONS | 20 |
| | Recommendation to the Office of Manage- ment and Budget | 20 |
| | Recommendation to the General Services Administration | 21 |
| | Agency comments | 21 |
| APPENDIX | | |
| I | Letter dated March 6, 1975 from the Department of Health, Education, and Welfare | 23 |
| II | Letter dated March 3, 1975 from U.S. Department of Labor | 24 |
| III | Letter dated March 14, 1975 from U.S. Department of Justice | 26 |
| IV | Letter dated February 26, 1975 from Office of the Secretary of Transportation | 29 |

APPENDIX

| | | <u>Page</u> |
|----|---|-------------|
| V | Letter dated May 30, 1975 from General Services Administration | 31 |
| VI | Letter dated June 18, 1975 from Office of Management and Budget | 36 |

ABBREVIATIONS

| | |
|-----|---------------------------------|
| ADP | automatic data processing |
| GAO | General Accounting Office |
| GSA | General Services Administration |
| OMB | Office of Management and Budget |

COMPTROLLER GENERAL'S
REPORT TO THE CONGRESS

OPPORTUNITY FOR SAVINGS OF
LARGE SUMS IN ACQUIRING
COMPUTER SYSTEMS UNDER
FEDERAL GRANT PROGRAMS

D I G E S T

In this report, GAO evaluates the adequacy of controls and procedures established by Federal agencies so that acquisitions of data processing equipment by recipients of Federal grants, such as State and local governments, with grant funds, are made as economically as possible.

The Office of Management and Budget and the General Services Administration have established policies to see that grantees use Federal funds economically when acquiring (by purchase, lease, or other methods) automatic data processing systems. 57

However, these policies do not specify some important analyses needed, or some alternatives to be considered for keeping the cost low in acquiring computer equipment. Many Federal agencies adopted only some of the policies and those that had been adopted were not always enforced.

As a result, grantees were allowed to:

- Obtain new computer systems or add to existing systems without thoroughly evaluating their needs. Better evaluations would show, for example, if more efficient use of existing computers could make it possible to do the work planned for a new computer. (See p. 6.)
- Obtain their own computer systems without fully exploring opportunities for joint use of existing computer facilities. (See p. 9.)
- Lease equipment for short periods of time without fully considering the savings from purchasing or long term leasing. (See p. 13.)

FGMS-75-34

--Exclude certain sources of equipment supply, even though price reductions can normally be obtained from these sources. (See p. 16.)

The Office of Management and Budget, the General Services Administration and Federal grantor agencies should work together to establish consistent guidelines so that grantees obtain necessary automatic data processing equipment economically. Grantor agencies should adopt procedures to insure grantee compliance with those guidelines. (See p. 20.)

GAO recommends several specific procedures that should strengthen Federal policies to insure that grantee agencies follow business-like practices in acquiring computer equipment. (See p. 20.)

Comments from the Office of Management and Budget, General Services Administration, and four grantor agencies are presented in the appendixes.

CHAPTER 1

INTRODUCTION

Federal grant programs 1/ (sometimes called grants-in-aid programs) motivate and assist State and local governments--and to a lesser extent private organizations and citizens--to provide needed services to meet certain national goals. Federal agencies manage and impose certain requirements on the grantees to insure that the funds are spent for approved purposes and are applied efficiently and effectively.

Federal policies and legislation have approved and encouraged using automatic data processing (ADP) in grant programs. During the last several years grant funds spent for developing, acquiring, and operating ADP systems have increased. The amount of Federal expenditures 2/ is unknown; however, we know that the amount is large and increasing. For example:

- An Office of Management and Budget (OMB) study showed that \$257 million of grants were spent in fiscal year 1972 for ADP activities.
- The Department of Labor projects a rise in grant funds for State employment agencies' ADP operations from \$67 million in 1970 to \$126 million in 1976.
- The Department of Justice predicts that the cost of an information system to exchange criminal history data may exceed \$100 million.

PURPOSE OF THIS REVIEW

Although using ADP can contribute to grant program objectives and goals, computerized systems are expensive. Thus one objective is to keep grantee ADP expenditures minimal without jeopardizing program goals. For this reason

1/ This includes project and formula grants. Our report does not deal with revenue sharing funds.

2/ Federal financing for grantee costs is generally shared in accordance with the legislative provisions for financing individual grant programs. Thus, the Federal Government may pay the entire cost of both acquiring and operating such grantee systems, pay only a formula percentage, or share only the operating costs.

Federal agencies responsible for managing grant programs have imposed procedural requirements for grantees to follow in acquiring ADP systems. Our objective was to evaluate these control procedures and Federal efforts to implement them.

FEDERAL POLICY GUIDANCE

The responsibility for providing regulations governing the use of data processing by the Federal Government and grantees was assigned to OMB. (Some functions were redelegated to the General Services Administration (GSA) and the Department of Commerce in May 1973, but OMB retained general oversight responsibility.) ^{1/} Recognizing the need for guidance in this area, OMB provided general policies for grantor agencies to follow. The pertinent documents were OMB Circulars A-87, A-90, and Attachment 0 to A-102, which were effective in May 1968, September 1968, and July 1973, respectively. GSA replaced Circulars A-87 and A-102 with its own regulations in 1974 ^{2/} and OMB began updating Circular A-90 in early 1975. Under these regulations grantees desiring Federal assistance for ADP equipment were required to:

- Receive previous approval from the Federal grantor agency for Federal assistance in developing and operating information systems and purchasing ADP equipment (A-87 and A-90).

- Make an analysis of the need for data processing capability (A-90).

^{1/} By Executive Order No. 11717, issued in May 1973, certain ADP responsibilities were transferred from OMB to the Administrator of GSA and to the Secretary of Commerce. Those functions relating to establishing Government-wide ADP standards became the responsibility of the Department of Commerce and all other ADP policy control was transferred to GSA. The Director of OMB still retains general oversight responsibilities.

^{2/} Responsibility for OMB Circulars A-87 and A-102 has been transferred to GSA. Circular A-87 has been replaced by GSA Federal Management Circular (FMC) 74-4, July 18, 1974, and A-102 by FMC 74-7, dated Sept. 13, 1974. No substantive changes were made to either one.

- Show the requested system did not duplicate other similar capabilities and establish procedures to avoid purchasing unnecessary or duplicative items (A-90 and A-102).
- Determine whether lease or purchase of needed equipment is less costly (A-102).
- Use competitive procurement techniques to acquire equipment (A-102).

Federal agencies responsible for managing grant programs have issued instructions to grantees which implement the OMB guidelines. These instructions vary by agency in the extent to which they include all OMB requirements.

The chart on the following page summarizes which steps in the computer system acquisition process we consider important and shows OMB and agency coverage of these steps in their guidelines.

SCOPE OF REVIEW

We reviewed ADP activities of 33 grantees in 8 States and 3 Federal regions. The responsible Federal agencies included:

- Department of Labor, Manpower Administration.
- Department of Justice, Law Enforcement Assistance Administration.
- Department of Transportation, National Highway Traffic Safety Administration.
- Office of Economic Opportunity.
- Department of Health, Education, and Welfare:
 - Social and Rehabilitation Service.
 - Office of Education.
 - Health Services and Mental Health Administration.

SUMMARY OF

FEDERAL GUIDELINES TO GRANTEES

AS OF JULY 1974

| | <u>OMB</u> | <u>Law Enforcement Assistance (note a)</u> | <u>Manpower</u> | <u>Nat'l Highway Traffic Safety</u> | <u>Office of Equal Opportunity</u> | <u>Department of Health, Education, and Welfare Health Services and Mental Health</u> | <u>Office of Education</u> | <u>Social Rehabilitation</u> |
|--|-------------------|--|-----------------|-------------------------------------|------------------------------------|---|----------------------------|------------------------------|
| Prior approval for acquiring ADP equipment | Required | <u>b/Required</u> | Required | <u>b/Required</u> | <u>b/Required</u> | <u>b/Required</u> | <u>b/Required</u> | Required |
| Detailed study to determine ADP requirements | Required | (d) | Required | Encouraged | (d) | <u>c/Encouraged</u> | (d) | Required |
| Computer performance evaluation | (d) | (d) | Encouraged | (d) | (d) | (d) | (d) | (d) |
| Consideration of sharing computers where practical | Required | Encouraged | Encouraged | Encouraged | (d) | (d) | (d) | (d) |
| Lease-purchase analysis | <u>c/Required</u> | Required | Required | Encouraged | Encouraged | Required | <u>c/Required</u> | Required |
| Consider all capable equipment suppliers | (d) | (d) | Required | (d) | (d) | (d) | (d) | (d) |
| Competitive procurement | <u>c/Required</u> | Required | Required | <u>c/Required</u> | (d) | <u>c/Required</u> | <u>c/Required</u> | Required |

a/ Are in the process of developing revised guidelines.

b/ Advance approval for purchase.

c/ These instructions were effective subsequent to the date the acquisitions we reviewed were transacted.

d/ Not covered.

When visiting grantees who had recently acquired more than one system, we reviewed only the latest acquisition.

In addition to reviewing specific actions at the grantee and grantor organizations, we reviewed grant policy guidance issued by OMB, GSA, the seven Federal grantor agencies, and the grantees and their parent State and local governments.

CHAPTER 2

EQUIPMENT REQUIREMENTS AND SHARING OPPORTUNITIES

NOT FULLY EVALUATED

Several of the Federal grantor agencies included in our review permitted grantees to acquire new ADP systems or enhance existing systems without thoroughly evaluating their equipment requirements or fully exploring opportunities for sharing computer resources. As a result, grant funds have been spent for unnecessary equipment.

NEEDS OFTEN NOT THOROUGHLY DETERMINED

The wisdom of assessing needs before acquiring computer equipment has been recognized for many years. OMB Circular A-87, issued in May 1968, provides that purchasing ADP equipment is an allowable cost to grant programs only upon specific prior approval of the Federal grantor agency. Circular A-90 issued in September 1968 required that grant applications for financing such systems be supported by a detailed study approved by the grantor agency. Such a study was to indicate a need for the system, showing that benefits would justify costs, and help grantor agencies determine that proposed systems would not duplicate other systems.

Despite these instructions only the Social and Rehabilitation Service and the Manpower Administration required that grantees' requests for advance approval be supported by a detailed requirements study. The other five Federal grantor agencies issued instructions requiring grantees to obtain advance approval, but they did not require that the request be supported by a detailed requirements study; further, they limited advance approval to purchases--either outright, lease-purchase, or other methods. Renting and leasing were considered operating expenses and were approved as ADP service costs in grantee budgets.

These Federal grantor agencies, except the Manpower Administration, generally did not get involved in determining or reviewing grantee ADP requirements. (When equipment was not purchased, advance approval was technically not required, and most equipment was not purchased; see p. 13.) In contrast the Manpower Administration made the studies and determined the requirements for the grantees for a major system. Near the completion of our fieldwork the Social and Rehabilitation Service became concerned with grantee expenditures for new ADP equipment and started hiring technical personnel to give greater attention to grantee ADP requirements.

We did not attempt to verify grantee ADP requirements because after-the-fact verification was made difficult by frequent changes in applications and workload, and by audit time constraints. However, several facts lead us to question the adequacy and objectivity of some grantee requirements studies. In several instances equipment was acquired based on studies made by the equipment supplier. In some cases the person in charge of the ADP facility determined equipment requirements without making a detailed study. In other cases, grantees made no requirements studies. The following examples illustrate what we found.

A State agency with a computer system totally funded by Office of Education grants upgraded its system from another system of the same make. The justification study for the new system was made 3 years earlier by the computer manufacturer, and the study had not been updated. The grantee chose a new computer smaller than the one recommended in the manufacturer's study because of funding limitations. The smaller system proved to be adequate; it operates only 40 hours a week. Computer systems are often used three shifts a day from 5 to 7 days a week.

Although the Social and Rehabilitation Service instructions required previous approval based on detailed studies, we found a grantee receiving funds from the Service, after reportedly making an in-house study of its requirements. The grantee ordered two different sized computers (an IBM 370/155 and 370/145) to test which one would best meet its needs under actual conditions. Only the 370/145 was acquired. However, the fact that two different computers were ordered indicates the requirements study was less than adequate. Of the seven Social and Rehabilitation Service grantees we reviewed, four had not received previous approval for their systems acquisitions. One of the grantees had made no study for its system, another had no record of a study, one study had been done by the computer manufacturer, and one study was made after the grantee received an unsolicited proposal from a manufacturer.

These cases illustrate the importance of requirements studies. Accordingly, we believe it essential that the OMB instructions covering requirements studies be fully implemented.

IMPORTANCE OF PERFORMANCE EVALUATIONS IN DETERMINING REQUIREMENTS

Before enhancing or replacing a computer system, it is important to look for ways to improve the performance of the existing system so that only essential equipment is

acquired. Computer performance evaluation techniques can be used to identify workload changes and computer program modifications which will enhance computer operating efficiency and reduce processing capacity requirements. If such performance improvements are made, a new or larger system may not be needed.

OMB has recognized the importance of performance evaluations since August 1971 when it instructed Federal agencies to evaluate their own systems before replacing equipment. However, this instruction does not apply to grant programs. Of the seven agencies included in our review, only the Manpower Administration addressed the use of such evaluation techniques in its instructions to grantees. The Manpower Administration encouraged but did not require their use.

We did not evaluate the efficiency of grantee computer operations, so we cannot cite specific examples of cost savings. However, we have studied this matter previously and have two reports mentioning sizable savings from such studies. 1/ In our August 1972 report we stated that such techniques, " * * * could increase the productivity of computer systems--some estimate by as much as 20 to 40 percent--with only a minimal increase in cost." Also, following our review, the Department of Labor audited operations at data processing centers of two grantees we had visited. The audit staff reported that:

--Use of computer equipment was low at one location and a huge reserve for future requirements was indicated. The existing software was using more main storage capacity of the computer than was necessary and the auditors suggested areas where reductions could be made. The report also stated that average use of the central processing unit was less than 50 percent and average use of most disk devices was less than 10 percent. Release of several disk storage devices was recommended which would result in savings of \$154,000 a year.

1/B-115369, June 3, 1974, "Tools and Techniques for Improving the Efficiency of Federal Automatic Data Processing Operations."

B-115369, Aug. 22, 1972, "Opportunity for Greater Efficiency and Savings Through the Use of Evaluation Techniques in the Federal Government's Computer Operations."

--At the second location, the computer could have been used much more efficiently. In fact, all of the central processing unit work could be done in one shift instead of the three the grantee was then using. Use of disk and tape devices was also found to be low. Reducing the number of these and other devices was recommended to save approximately \$97,000 a year.

While limited to two grantee facilities, these findings point out the important operating improvements and reductions in new ADP requirements which can be identified by performance evaluation studies.

Federal procedures now require that Federal agencies use computer performance evaluation techniques before acquiring additional computer capacity. We believe that this procedure should also apply to grantees.

SHARING OPPORTUNITIES OFTEN NOT FULLY EXPLORED

It is generally recognized that savings in data processing costs can often be achieved by joint use of computer facilities. Savings from sharing computer resources can be realized in two ways. First, joint use of a large central facility may be less expensive than acquiring and operating separate facilities. Second, users could take advantage of unused capacity on existing computers. Even if a system must be upgraded to allow sharing, the upgrading may cost less than acquiring separate facilities.

OMB Circular A-90 points out advantages of joint equipment use by State and local governments. Nonetheless, four of the Federal agencies had no formal guidelines encouraging sharing. The three that did were the Manpower Administration, the Law Enforcement Assistance Administration, and the National Highway Traffic Safety Administration.

Although the Manpower Administration policy statement encourages establishing and using centralized ADP systems, assuming work priorities can be met and charges are fair, in actual practice the Manpower Administration has not consistently supported this policy. It usually did, however, participate in the decision on sharing. The National Highway Traffic Safety Administration, as a matter of policy, encourages grantees to obtain or use existing ADP capability, and they have joined with other agencies to get their systems operating.

The Law Enforcement Assistance Administration also encourages sharing, and some State planning agencies are using State facilities on a time-sharing basis for their grant management information systems. However, insofar as criminal justice information systems are concerned, experience has been that grantees generally have to acquire dedicated systems to interface with the Federal Bureau of Investigation's National Criminal Information Center.

Despite this savings potential, the grantee agencies in our study had generally obtained their own ADP systems without fully exploring advantageous sharing opportunities. Of the 33 grantees, 6 were sharing computer resources and 2 were switching to sharing. This does not mean that sharing would have been advantageous in each of the other cases. However, we believe that in many cases sharing was a realistic possibility and should have been fully explored.

Some reasons given by grantee officials for not wanting to share computer resources were (1) apprehension that requirements would not be adequately served, (2) fear that the costs might not be reasonable, and (3) the need for security. These reasons may have merit, but we observed that grantee agencies were reluctant to use a computer that was outside their control. Of the grantees that were sharing, all but two were doing so on the basis of decisions made by their parent State or local government or because sharing was a financial necessity.

In commenting on our report, one Federal grantor agency stated that a grantee may find it more economical to have its own minicomputer than to share, and that a dedicated minicomputer also provides greater security. We have no objection to agencies buying dedicated systems where it is proven to be necessary or less expensive. However, our review showed that decisions on sharing were not supported by comparative cost studies and that reasons given for needing dedicated systems were largely perfunctory.

For example, a State agency grantee, acting on a recommendation from the Manpower Administration, was considering acquiring a larger computer system to handle projected workload increases. The State operated a central ADP facility and asked that the work be transferred there. Savings totaling up to \$1 million over 6 years were estimated if the operations were consolidated. However, the grantee agency planned to acquire its own system because of its (1) concern over

the central facility's ability to meet its requirements and (2) fear that the work would receive low priority. The Manpower Administration's position was that it would cooperate with centralization efforts if the grantee submitted a plan for consolidation but would not initiate action to support the State's efforts to achieve consolidation. We noted that manpower programs were being processed in a central State facility in Hawaii with no reported problems and Illinois was in the process of consolidating such programs on a central computer system.

In another case a Federal grantee that received funds from the Office of Economic Opportunity, Department of Labor, and Department of Health, Education, and Welfare, was operating a computer 10 hours a day within a few city blocks of another grantee that operated that same make and model computer 8 hours a day. While we recognize that use of one computer by both grantees could raise certain problems (for example work priorities, hours of operation, and staffing), our concern is that neither the grantees nor the Federal grantor agencies considered sharing. We found no evidence that the Federal grantor agencies had coordinated these acquisitions to avoid unnecessary duplication of ADP systems.

Another State agency operates a small computer which is totally funded by Office of Education grants. It is operated only 40 hours a week. Although the State has a central ADP system the grantee could have shared, the grantee preferred to have its own system to set its own priorities.

Although we did not estimate the savings possible from sharing in these cases, we believe further use of sharing would reduce ADP costs in many instances. The opportunity for savings is illustrated by GSA's reported cost avoidance resulting from the Federal Government's ADP time-sharing program. ^{1/} For fiscal year 1972 GSA reported a savings of about \$128 million achieved Government-wide through time sharing. We have not verified the accuracy of that figure but believe it indicates the potential savings.

It is not economical to permit expensive ADP systems to be idle or to buy two systems when one will suffice.

^{1/}To carry out some of the responsibilities given it by Public Law 89-306 (Oct. 30, 1965), GSA established an ADP Sharing Exchange to promote sharing and joint use of ADP equipment within and among Federal agencies.

Accordingly, we believe it is important that OMB instructions on sharing be fully implemented. When sharing ADP facilities is possible, the grantees should be required to obtain concurrence from their State or local governments that sufficient capacity does not exist and sharing is not cost effective before Federal financing for additional equipment is approved. Where grantee ADP systems dedicated to grant programs and financed entirely or largely by Federal grant funds are concerned, grantor agencies should coordinate with one another to insure that existing ADP facilities are used fully.

CHAPTER 3

ALTERNATIVE METHODS OF FINANCING AND SOURCES OF SUPPLY OFTEN NOT CONSIDERED

Federal grantor agencies permitted grantees to acquire ADP equipment without fully considering alternative methods of financing and sources of supply. This has resulted in paying more for needed equipment.

MOST EQUIPMENT LEASED WITHOUT FULLY CONSIDERING ALTERNATIVE METHODS OF FINANCING

GAO has established in previous reports that it is usually less expensive to purchase ADP equipment than to lease it and that short-term rental is the most expensive method of equipment acquisition. We had reported the potential for savings in this area as early as March 1963 when we made the following statement: 1/

"* * * Because of the substantial savings that may be available, all decisions to acquire the use of data processing equipment should be supported by specific computations showing the comparative cost of acquiring by lease and by purchase."

OMB has also recognized the potential for savings by purchase since October 1961 when it instructed Federal agencies to make a lease-versus-purchase analysis before buying equipment. OMB did not make this requirement applicable to grant programs until July 1973 when Attachment O to Circular A-102 was made effective. However, six of the Federal grantor agencies had issued instructions requiring or encouraging grantees to make such analyses before the OMB requirement.

In practice, we found very little compliance with these instructions. Except for five Law Enforcement Assistance Administration grantees who were given funds specifically to purchase computers, those grantees who had acquired computers financed them almost exclusively by either lease or extended lease-purchase arrangements. Half of the grantees that were leasing admitted that they either had not seriously considered purchasing or had not analyzed the potential savings.

1/B-115369, "Study of Financial Advantages of Purchasing Over Leasing...", Mar. 6, 1963, p. 37.

Federal grantor agencies, except for the Manpower Administration and the Law Enforcement Assistance Administration, usually did not get involved in financing decisions. The Manpower Administration had provided funds for purchasing some previous systems and was trying to get funds to purchase some equipment currently being leased. The Law Enforcement Assistance Administration had issued specific instructions encouraging grantees to purchase computers and lease peripheral equipment. Officials stated that they now prefer that grantees lease all equipment unless purchasing clearly is shown to be advantageous.

There were two common reasons given by grantees for not giving more consideration to purchasing. First was a desire to have the flexibility to change ADP equipment to respond to changing workload needs or to take advantage of new advances in computer technology. Second was a lack of funds for purchase, which requires a greater immediate outlay than leasing.

Flexibility could be a problem if a grantee must dispose of used equipment to obtain new equipment. But there is a large market for used ADP equipment. Accordingly, it should be possible to arrange for a secondary user. In fact, one grantee obtained its computer from another State agency. In other cases the Manpower Administration arranged transfers to other grantees of three computers, financed by Federal grant funds, that were being replaced by grantees' State employment service agencies.

--A 360/40 computer being replaced in Wisconsin was to be transferred to an employment security agency in South Carolina.

--The employment security office in Illinois planned to transfer one 360/30 computer to a State employment agency in another Federal region and planned to transfer a 360/40 computer to the State employment agency in Minnesota.

Lack of available funds for purchase can be a problem. However, the near exclusive use of leasing when funds were not specifically provided for purchase as a provision of the grant leads us to question whether a serious effort was made to obtain funds for purchase.

We did not attempt to establish where equipment should have been purchased rather than leased or estimate the amounts that might have been saved. Our findings in

previous audits and a few examples in this review however, indicate that savings can be large.

In a report issued April 1971 we reported that the Department of Defense, after reviewing its rented ADP equipment, estimated that the purchase of 60 systems or parts of systems could save \$47 million.

In an example from this review, one State grantee found by making an analysis that outright purchase of equipment for a proposed system would be less costly than the next cheapest method--an installment purchase plan. On the central processing unit and the main memory unit alone the savings were estimated at \$140,000. The grantee's selection report therefore recommended outright purchase if funds were available. But the grantor indicated funds were not available, so the central processing and memory units were acquired on the installment plan.

While a lease-versus-purchase analysis is important, the above factors indicate the need goes beyond making an analysis. We believe that Federal grantor agencies, in approving grantee proposals to lease, need to carefully review each case to insure that

--grantee justifications for leasing are warranted, and

--every effort has been made to obtain funds for purchasing when purchasing is shown to be economically advantageous.

When purchasing is advantageous we believe the State and Federal agencies should make funds available. If States have no financial interest in purchasing (that is, where grant programs are 100 percent federally funded) or are unable to provide funding, then Federal grantor agencies should make every effort to obtain Federal funds.

In commenting on our report, GSA stated that using Government-furnished equipment may be a worthwhile consideration for grantees, especially when they are acquiring dedicated machines. GSA also stated that, within limitations, Federal grantor agencies could use the Federal ADP Fund authorized by Public Law 89-306 to purchase equipment for the account of the Government and then provide it to grantees as Government-furnished equipment. GSA pointed out such use of the ADP fund would have to be coordinated with OMB.

Since purchasing can offer cost savings over leasing in some circumstances, we concur that if grantor agencies cannot provide funds for the purchase of computer equipment, grantees should consider using Government-furnished equipment, financed if necessary through the ADP fund.

LOW COST EQUIPMENT SUPPLIERS WERE
OFTEN EXCLUDED OR NOT CONSIDERED

In addition to the manufacturers of computer mainframes, there are several other sources of supply for ADP equipment. These include leasing firms, the used computer market, and independent manufacturers of peripheral (non-mainframe) equipment. Some peripheral components include tape and disk storage units, printers, card reading and punching machines, communication devices such as terminals, and supplemental memory units. Consideration of these alternative sources of supply is important because they often can supply equipment at prices below those charged by major computer manufacturers. We previously identified companies offering price savings ranging up to 58 percent below prices quoted by mainframe computer manufacturers. 1/

At the time the acquisitions we reviewed were transacted, OMB had not issued any instructions regarding the selection of equipment suppliers. Nonetheless, three of the Federal grantor agencies had instructed grantees to use competitive procurement and not unduly restrict competition. (For details see chart on p. 4.) The Manpower Administration specifically stated that all sources of supply were to be considered.

We found very little effort by grantees to use alternative sources of supply for ADP equipment, even by those grantees receiving funds from the Manpower Administration. Of the 27 grantees having their own computers, only 6 obtained equipment from a source other than an original mainframe manufacturer. While acquisition of equipment from a major computer manufacturer may have been reasonable in some instances, grantees often did not seriously consider other sources.

Although the Federal grantors should have been aware that savings could be obtained from excluded sources, they permitted grantees to use State and local procedures and did not specify alternative sources which could have been considered.

1/"Study of the Acquisition of Peripheral Equipment for Use With Automatic Data Processing Systems," B-115369, June 24, 1969.

Below are examples of grantees who did turn to alternative sources of supply and reported sizable savings.

1. One grantee obtained three disk drives from a computer leasing firm, which allowed it to save rental cost at an annual rate of \$9,720. These devices had been manufactured by an independent peripheral company, not by a mainframe manufacturer.

2. A second grantee purchased equipment competitively from a broker at a savings of about \$400,000 over the computer manufacturer's price. The grantee had sent proposals to 62 potential sources of both new and used equipment.

The following examples give further evidence of potential unrealized savings.

A State agency receiving Federal grant funding from the National Highway Traffic Safety Administration has acquired an ADP system and upgraded it twice since 1967. In each instance, all of the peripheral equipment was obtained from the mainframe manufacturer. A peripheral equipment manufacturer estimated it could have supplied certain peripheral devices to the grantee at a 2-year cost of \$270,000 less than what the grantee was paying.

The Department of Labor audit staff, after completing reviews at two grantee ADP facilities, reported that savings of \$155,000 a year could be obtained at one location by replacing certain peripheral devices with equipment from an independent peripheral manufacturer. At the other location, substantial savings were estimated if plug-to-plug compatible equipment had been obtained from independent peripheral manufacturers and if a recently acquired computer were obtained from a third party after a 1-year rental. In total, the auditors estimated that during 2 years more than \$500,000 could have been saved had proper management practices been applied to system hardware acquisitions.

We did not attempt to verify the figures given by either the peripheral manufacturer or the Department of Labor audit staff, but we feel the examples illustrate ways in which grantees could obtain equipment more economically.

Grantees gave different reasons for excluding different sources of supply. The possibility of maintenance problems was the most prevalent reason given. In addition, seven grantees acquired computers for which compatible,

independently manufactured peripheral equipment was not being made--at least at the time--or was in limited supply.

Our experience has been that the maintenance problem usually does not materialize. 1/ One grantee who did have peripherals from an independent company reported no real problems.

For the most part, it seemed that third-party leasing firms and the used computer market were overlooked as sources of supply. When leasing firms were considered, they were generally excluded for two reasons. First, leasing firms were not considered capable of providing the necessary technical support. Second, to retain flexibility grantees did not want to enter into a long-term lease which such firms sometimes require, normally for only the latest models of equipment.

We believe the technical service problem is not a serious one. Engineering support is commonly purchased from the original equipment manufacturer. For instance, the grantee who purchased a computer from a used equipment dealer obtained technical support services from the original computer manufacturer. Engineering services can also be obtained from independent maintenance firms. 1/

As for opposition to long-term leases, we recognize the merit of retaining flexibility to respond to changing grant program needs or to take advantage of new advancements in computer technology. However, major leasing firms offered month-to-month and short-term lease arrangements as well as long-term leases. Also several grantees who cited the need for flexibility had bought the latest state-of-the-art equipment. Thus, flexibility for them in terms of technology would seem to be less of a problem since these up-to-date computers should have a useful life of at least 5 years. 2/

1/"Study of the Acquisition of Peripheral Equipment for Use With Automatic Data Processing Systems," B-115369, June 24, 1969.

2/Economic life taken from discussion in "Study of Financial Advantages of Purchasing Over Leasing...", B-115369, March 6, 1963, pp. 15-16.

After the acquisitions that we reviewed were transacted, OMB issued Attachment O to Circular A-102. The attachment requires that all procurement transactions provide maximum open and free competition and that invitations for bids or requests for proposals provide a clear and accurate description and do not unduly restrict competition.

While we agree that such instructions are useful, the evidence in this review and our experience in the Federal sector have demonstrated that compliance will not directly follow. First, three of the seven Federal agencies required competitive acquisition before the OMB instruction was issued. Second, the instruction does not specifically require that other sources of supply be considered. Third, savings available from the other sources of equipment supply were or should have been well known. Thus, the problem is not only lack of instructions but also failure to follow sound business practices; that is, to obtain a suitable product for the lowest possible price. Accordingly, Federal instructions need to clearly specify that alternative sources of supply be considered. Also, Federal agencies should adopt procedures to insure that grantees do not unjustly exclude considering any realistic source of supply in selecting equipment.

CHAPTER 4

CONCLUSIONS AND RECOMMENDATIONS

Because of the large amount of grant money being spent for ADP systems, there is potential for either large savings or large waste--often amounting to hundreds of thousands of dollars for an individual grantee. We believe it is important that Federal managers insure that grantees follow business-like procedures and controls so that computer resources applied to grant programs are acquired and used in the most economical manner. Although useful instructions and procedures exist, instructions need to be extended to require considering all reasonable alternatives and agencies should insure that such instructions are followed.

Recognizing the emphasis on giving more authority for grant-in-aid program management to State and local governments and individual grantee organizations, Federal agency procedures should be directed at encouraging grantees to develop procedures and controls that will provide the discipline needed for prudent management of ADP resources. The degree of management oversight to be exercised and assistance to be given by the responsible Federal agency could then be individualized on the basis of the adequacy of the procedures and controls set up by the grantee, in conjunction with its State and local governments, and the competence and expertise demonstrated by grantees in managing ADP systems.

The adoption of centralized procedures setting forth the alternatives to be considered and the analysis that needs to be made in acquiring and using ADP systems will not eliminate the State and local governments' and individual grantees' authorities to determine their ADP requirements. Since there exists a considerable degree of uncertainty about the responsibility between State and local Government and Federal agencies and since the latitude of authority often varies from program to program and agency to agency, we believe that sensible Federal procedures for acquiring and using ADP applicable to all grant programs would enhance decisionmaking. It would also enable State and local governments to establish uniform management procedures that would be applicable for all (or a majority of) grant programs.

RECOMMENDATION TO THE OFFICE OF MANAGEMENT AND BUDGET

The Office of Management and Budget is reviewing and updating policies on providing Federal assistance to State and local governments for information systems.

We recommend that the Director of OMB insure that the revised policies further strengthen the existing Federal

policy encouraging joint equipment use, by requiring both grantees and Federal grantor agencies to evaluate the costs and benefits of sharing computers where possible.

RECOMMENDATION TO THE GENERAL
SERVICES ADMINISTRATION

We recommend that the Administrator of GSA in coordination with Federal agencies review the adequacy of existing instructions for managing of ADP resources under grant programs. These instructions should specify the analyses to be made; alternatives to be considered; and procedures to be followed in determining ADP requirements, selecting and acquiring the equipment, and operating the system.

We specifically recommend that the Administrator of GSA:

1. Adopt followup procedures to insure that Federal agencies provide for uniform implementation of OMB and GSA instructions and full compliance by grantees.
2. Issue instructions requiring Federal agencies to insure that hardware requirements studies have been made before approving funds for new equipment. The instructions should specify that the studies include results of performance evaluations of existing equipment.
3. Strengthen existing instructions to clearly require objective consideration of all sources of supply in acquiring new equipment and grantor approval to exclude any sources of supply.
4. Work with OMB to establish procedures for using the ADP fund to purchase equipment on account of the Government for use by grantees when purchase is advantageous and Federal grantor agencies cannot provide the necessary funds.

AGENCY COMMENTS

In comments dated June 18, 1975, the Office of Management and Budget generally agreed with our recommendation but expressed the desire to guard against over regulation of State and local management.

The General Services Administration also generally agreed with our report. It specifically agreed with our first three recommendations to them.

Concerning our final recommendation, however, GSA felt that using of the Federal ADP Fund to acquire computers for the account of the Government to be used by grantees should be coordinated with OMB. We agree and have modified our recommendation accordingly.



DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE
OFFICE OF THE SECRETARY
WASHINGTON, D.C. 20201

MAR 6 1975

Mr. Donald L. Scantlebury
Director, Financial and General
Management Studies Division
441 G Street, N.W.
Washington, D.C. 20548

Dear Mr. Scantlebury:

The Secretary asked that I respond to your request of January 22 for our comments on your draft report, "Opportunity for Greater Economy in Acquisition of Computer Systems Under Federal Grant Programs." We fully agree with the report's conclusion that "...OMB, GSA, and federal grantor agencies should work together to establish consistent guidelines to insure that grantees economically obtain necessary ADP equipment."

As indicated by the report, HEW has, in fact, taken steps towards this end with respect to its grantees in connection with ADP lease, and purchase arrangements. We would like to stress, however, our concern that any new regulations pertaining to ADP acquisition be developed in full coordination with affected federal agencies.

We appreciate the opportunity to comment on this draft report before its final publication.

Sincerely yours,

A handwritten signature in cursive script, appearing to read "John D. Young".

John D. Young
Assistant Secretary, Comptroller

U.S. DEPARTMENT OF LABOR
OFFICE OF THE ASSISTANT SECRETARY
WASHINGTON

MAR 3 1975

Mr. Donald L. Scantlebury
Director
Financial and General Management
Studies Division
U. S. General Accounting Office
Washington, D. C. 20548

Dear Mr. Scantlebury:

This is in response to Mr. Ahart's letter dated January 22, 1975, addressed to the Secretary of Labor enclosing copies of the report on "Opportunity for Greater Economy in Acquisition of Computer Systems Under Federal Grant Programs".

Our comments on the report are confined to Chapter 1, Introduction. The paragraph on the Department of Labor should read:

-- The Department of Labor projects a rise in grant funds for State employment agencies' ADP operations from \$67 million in 1970 to \$126 million in 1976.

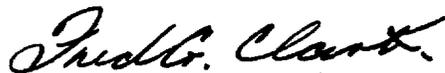
The \$226 million for 1976 stated in the report would approximate the ADP cost if the nationwide job matching system were on line in all SMSA's. This was initially planned to commence in 1976, but was deferred until 1977 or 1978.

I appreciate your pointing out the audit effort of the Department in this area. We have completed four

reviews of State Agencies which were either fully or partially funded by the Department.

Thank you for the opportunity to review this report.

Sincerely,



FRED G. CLARK
Assistant Secretary for
Administration and Management



UNITED STATES DEPARTMENT OF JUSTICE

WASHINGTON, D.C. 20530

MAR 14 1975

Address Reply to the
Division Indicated
and Refer to Initials and Number

Mr. Victor L. Lowe
Director
General Government Division
U.S. General Accounting Office
Washington, D.C. 20548

Dear Mr. Lowe:

This letter is in response to your request for comments on the draft report titled "Opportunity for Greater Economy in Acquisition of Computer Systems Under Federal Grant Programs."

Generally, we are in agreement with the findings and recommendations contained in the report. The observations and comments made concerning the need for Federal agencies to promote efficiency and economy in grantee acquisition of data processing equipment are significant and appear to be well founded. However, we wish to point out some inconsistencies in the report insofar as it pertains to the Law Enforcement Assistance Administration (LEAA) as well as indicate some concerns regarding implementation of the recommendations.

A statement is made on page 9 of the report that computer sharing opportunities are not always fully explored. Currently, LEAA is involved in two major nation-wide projects involving the acquisition of computer systems--grants management information systems and criminal justice information systems. Under both of these projects, the feasibility of employing shared computers is considered before a decision is made to obtain dedicated systems. To illustrate, an automated system is currently being installed in each of 11 States under LEAA's project to provide assistance to State planning agencies in the installation of grants management information systems. In each instance, the purchasing or leasing of a computer has not been necessary.

Time-sharing agreements for the use of computers have been secured from either State data centers or State agencies operating their own equipment. Further, the remaining State planning agencies who desire to install an automated system will probably be able to secure time-sharing agreements.

LEAA intends to provide funds only for costs associated with "putting the system up" (machine time, systems analyst services, data conversion expenses, etc.). State planning agencies may secure access to computers through time-sharing agreements with private industry if such access can be proven the most economical. LEAA does not envision outright purchase of computers under this project.

Insofar as criminal justice information systems are concerned, the needs of the computer user must be critically analyzed and evaluated before determining whether shared computers or dedicated computers should be selected for use. With the burgeoning growth of microprocessors and minicomputers, an independent agency frequently finds it more economical to have its own minicomputer than to share a large unresponsive computer belonging to another agency.

In addition, the law enforcement community is closely tied to operations of the National Criminal Information Center (NCIC) and must respond to NCIC requirements. Consequently, programmatic reasons exist for having dedicated computers rather than shared computers. Subgrantees' experience has shown that shared computer facilities, in certain circumstances, are not permitted to interface with the NCIC operation.

An additional consideration is that of security. No absolute guarantee of computer security exists as of 1975. Small computer installations probably provide the best computer security because all employees are loyal to and under the control of one manager.

In another paragraph on page 9, a statement is made that the Office of Management and Budget (OMB) instruction, which now makes computer performance evaluations a requirement before replacing Federal ADP systems, should apply to grant programs. We agree that evaluations can play an important role in determining computer performance requirements.

However, before the OMB instruction is expanded to require computer performance evaluations for Federal grant programs, a thorough study should be made to determine the impact and feasibility of such a requirement on Federal grant agencies. Computer performance evaluations require both time and money. The source of funds for such evaluations and the time required to perform comprehensive evaluations should be clearly defined before expanding the OMB instruction.

A statement is made on page 16 of the report that low cost equipment suppliers were often excluded or not considered. We agree that substantial improvements can be made in this area. The acquisition of computer equipment requires a fairly sophisticated clientele and it encompasses state-of-the-art awareness about minicomputers, microprocessors, automated source data capture, computer interfacing, and telecommunications; procurement expertise; financial awareness of cash flow procedures; and strict enforcement of the spirit of OMB Circular A-102. Mere adherence to minimum Federal standards relative to reviewing and selecting vendors is not sufficient. Although the report recommendations are not unreasonable, we believe that simply modifying procedures, without a positive "carrot and stick" (training and penalties) effort, will not produce the desired results of including and considering all sources of supply for ADP equipment during the procurement process.

We appreciate the opportunity to furnish comments on the draft report. We will be pleased to provide any additional information at your request.

Sincerely,



Glen E. Pommerening
Assistant Attorney General
for Administration



ASSISTANT SECRETARY
FOR ADMINISTRATION

OFFICE OF THE SECRETARY OF TRANSPORTATION
WASHINGTON, D.C. 20590

February 26, 1975

Mr. Henry Eschwege
Director
Resources and Economic Development Division
U. S. General Accounting Office
441 "G" Street, N. W.
Washington, D. C. 20548

Dear Mr. Eschwege:

The Department of Transportation generally concurs with the recommendations contained in the draft report "Opportunity for Greater Economy in Acquisition of Computer Systems under Federal Grant Programs."

We agree that there are opportunities for significant savings in requiring "business-like practices" for procurement of ADP equipment. However, in recommending that GSA issue instructions and procedures for grantor and grantee use in acquisition--and more particularly in sharing--of ADP equipment, the report may very well negate its earlier recommendation to individualize authority delegated to grantees on the basis of competence and expertise in management of ADP functions. The previous history of GSA procedures shows no such discrimination, at least not among Federal agencies. If the full set of regulatory requirements is imposed on all grantees, the increased cost to the more effective managers may well offset the savings achieved by the less effective groups.

Consideration should also be given to state laws concerning ADP support in reviewing grantee procurements. To allow--or to require--a separate ADP system for a Federal grantee in a state where central support is mandated may cause problems in the state operations not warranted by the perceived advantage of separate systems.

The last recommendation (to make funds available for procurement) is not clear. If purchase is most advantageous for the activity supported by the grant, it would appear that less money would be needed to purchase than to lease. If additional money is needed, then the "advantage" to purchase would seem to accrue to some other activity. This would raise the question as to whether grant funds can legitimately be used to support activities other than those for which the grant was made. In this regard, the question of residual value or ownership of purchased equipment should be resolved in a uniform manner.

Sincerely,



William S. Heffelfinger

UNITED STATES OF AMERICA
GENERAL SERVICES ADMINISTRATION
WASHINGTON, DC 20405



MAY 30 1975

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

Dear Mr. Staats:

We appreciate the opportunity to review your draft report entitled "Opportunity for Greater Economy in Acquisition of Computer Systems under Federal Grant Programs."

We agree with your two major conclusions that consistent guidelines should govern how grantees obtain ADP equipment and that the grantor agencies should ensure compliance with the guidelines. We therefore agree with your recommendations 1, 2, and 3.

However, grantor agencies should guard against the establishment of any policies or procedures which could result in excessive regulation of State and local management or be inconsistent with the general policy of strengthening State and local government capability by placing greater reliance on their administration of Federally assisted programs.

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. Recommendation number 5, referred to in the following paragraph, was modified and became recommendation number 4 in the final report.

Keep Freedom in Your Future With U.S. Savings Bonds

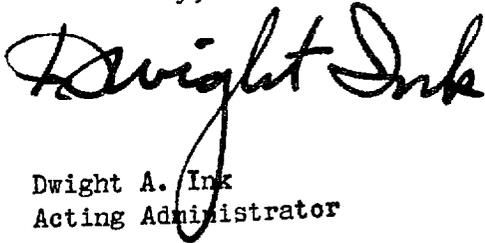
With regard to Recommendation 5, we assume that GSA would make the funds available through the use of the ADP Fund. Public Law 89-306, which authorized the ADP Fund, and current policies limit the utilization of the ADP Fund to the purchase, lease and maintenance of ADPE for use by Federal agencies. It is our interpretation that the ADP Fund cannot be used to provide Federal grantor agencies with funds which could then be transferred by them to grantees for their use in purchasing equipment. However, the ADP Fund could be used, within certain limitations, if the Federal grantor were to purchase the equipment for the account of the Government and then provide it to the grantee as Government-furnished equipment. Under such circumstances, title to the equipment would be vested in the ADP Fund. In which case, coordination with OMB would be required. Thus, we cannot agree with the recommendation as written.

In addition to the above comments on the recommendations, we offer this for consideration. We suggest that "Chapter 3: Alternate Methods of Financing and Sources of Supply Often Not Considered" be revised to

include a discussion of Government-furnished equipment. We feel this is a worthwhile consideration when the Federal grantee plans to acquire dedicated equipment.

Finally, an editorial improvement is suggested which would eliminate possible confusion. Recommendation 1 should read "... full compliance by grantees." If the term "State and local governments" is omitted, the phrase is now in consonance with the Report subject and is more accurate.

Sincerely,

A handwritten signature in cursive script that reads "Dwight Ink". The signature is written in black ink and is positioned above the typed name and title.

Dwight A. Ink
Acting Administrator

Enclosure

RULES AND REGULATIONS

20061

Title 38—Pensions, Bonuses, and Veterans' Relief

CHAPTER I—VETERANS ADMINISTRATION

PART I—GENERAL PROVISIONS

Membership of the Contract Appeals Board

Section 1.772(a) is amended to specify the position designations for the Chairman and members of the Veterans Administration Contract Appeals Board.

Compliance with the provisions of § 1.12 of this chapter as to notice of proposed regulatory development and delayed effect date is unnecessary in this instance and would serve no useful purpose. This amendment places in regulatory form a non-substantive change in title designation which is already approved and in practice.

In § 1.772, paragraph (a) is amended to read as follows:

§ 1.772 Composition of the Board.

(a) *Membership.* The Board is composed of a Chairman and members designated by the Administrator, all of whom shall be members of the bar of a State, commonwealth, or territory of the United States or of the District of Columbia. The Chairman and members of the Board are designated Administrative Judges.

(72 Stat. 1114; 38 U.S.C. 216)

This VA Regulation is effective April 22, 1974.

Approved: May 31, 1974.

By direction of the Administrator.

[SEAL] R. L. ROUBESUSH, Deputy Administrator.

[FR Doc. 74-12690 Filed 6-5-74; 8:45 am]

Title 43—Protection of Environment

CHAPTER I—ENVIRONMENTAL PROTECTION AGENCY

SUBCHAPTER C—AIR PROGRAMS

PART 52—APPROVAL AND PROMULGATION OF IMPLEMENTATION PLANS

Final Reclassification of Air Quality Control Regions; Corrections

In FR Doc. 74-10440 appearing at 39 FR 16344 in the issue for Wednesday, May 8, 1974, on page 16346 in Subpart V—Maryland, the reference to the Metropolitan Baltimore Intrastate Region in §§ 52.1071 and 52.1078 is deleted and the reference to § 52.1076, which was incorrectly revoked, is deleted.

In FR Doc. 73-18620 appearing at 38 FR 24333 of the issue for Friday, September 7, 1973, on page 24341 the reference to "paragraph (b) (9) in § 52.84" should be "paragraph (d) (9) in § 52.84."

In FR Doc. 73-25118 appearing at 38 FR 33368 of the issue for Monday, December 9, 1973, on page 33368 the reference to § 52.131 is corrected to read as follows:

In § 52.131, the attainment date table is amended by replacing the date "May 31, 1975," for attainment of the national standards for carbon monoxide and photochemical oxidants (hydrocarbons) in the Phoenix-

Tucson Intrastate Region with the dates "May 31, 1977" and "May 31, 1975" respectively and by revoking and reserving footnote "d".

Dated: June 3, 1974.

ROGER STRELOW, Acting Assistant Administrator for Air and Waste Management. [FR Doc. 74-13026 Filed 6-5-74; 8:45 am]

PART 51—REQUIREMENTS FOR THE PREPARATION, ADOPTION AND SUBMITTAL OF IMPLEMENTATION PLANS

Nitrogen Dioxide Control Strategy; Correction

In FEDERAL REGISTER document 74-10439 appearing at page 16122 of the issue for Tuesday, May 7, 1974, the date "June 5, 1971" in the second paragraph was incorrectly referred to. This reference is changed to read "June 5, 1973."

Dated: June 3, 1974.

ROGER STRELOW, Acting Assistant Administrator for Air and Waste Management. [FR Doc. 74-13027 Filed 6-5-74; 8:45 am]

Title 41—Public Contracts and Property Management

CHAPTER 101—FEDERAL PROPERTY MANAGEMENT REGULATIONS

SUBCHAPTER H—UTILIZATION AND DISPOSAL [FPMR Amendment H-84]

PART 101-43—UTILIZATION OF PERSONAL PROPERTY

Use of Excess Property on Contracts and Grants

This amendment of Part 101-43 provides added requirements for the acquisition, use, and eventual disposition of excess personal property obtained by executive agencies and furnished to project grantees. It sets forth the responsibility of Federal agencies to improve the operation and administration of their grantee program in five key areas: (1) Making usable excess property available quickly and efficiently to authorized grantees; (2) allocating and distributing property evenly among grantees; (3) ensuring proper use of property by grantees; (4) ensuring that the Federal Government obtains the maximum use of the property; and (5) strengthening the administration of the grantee program through improved information and accounting systems.

The table of contents for Part 101-43 is amended as follows:

101-43.4903 GSA Form 2946, Authorization Certificate to Select/Freeze Excess Personal Property

Subpart 101-43.3—Utilization of Excess

Section 101-43.320 is revised to read as follows:

§ 101-43.320 Use of excess property on contracts and grants.

(a) Executive agencies are responsible under § 101-43.302 for fulfilling requirements for property, including require-

ments of cost-reimbursement type contractors by transferring to and obtaining from other Federal agencies excess personal property. The use of excess personal property shall be considered by Federal agencies in their cost-reimbursement type contracts and project grants which are made pursuant to programs established by law and for which funds are appropriated by the Congress. As used in this § 101-43.320, the term "project grants" refers to grants made for a specific purpose with established termination dates; e.g., grants made to specific institutions to perform specific tasks within set time frames and costs.

(b) It is the responsibility of all agencies to achieve their program objectives at the least possible cost. Excess personal property can be used to reduce costs and shall be considered for such use wherever possible. Excess personal property can also be used to expand the ability of a contractor or project grantee to fulfill his mission, and shall be considered for this use wherever possible. Excess personal property may be furnished to a contractor or project grantee with the approval of an authorized Federal official provided a determination is made by the contracting or sponsoring Federal agency that the acquisition will result in a reduction in the cost to the Government of the contract or grant or an enhancement in the product or the benefit from the contract or grant. Transfer orders for excess personal property must be executed by a duly authorized accountable official of the contracting or grantor agency. The project officer, at the discretion of the acquiring Federal agency, may also be required to sign such orders.

(c) Excess personal property is transferred between Federal agencies as provided in § 101-43.315-5. The receiving Federal agency may furnish the property to its contractor or project grantee as Government-furnished property, but title generally remains vested in the Government. A few Federal agencies have specific statutory authority to vest title in contractors or grantees under certain circumstances. When competing Federal claims are made for particular items of excess personal property, GSA will give preference to the Federal agency whose contractor or grantee is operating under agreements which do not permit ultimate vesting of title.

(d) Federal agencies, when drawing up contract or grant documents, shall ensure that appropriate provisions are included therein to accommodate the furnishing of excess personal property to contractors or project grantees. The system of accountability for such property will be in accordance with contractual and agency procedures, and records will be subject to audit by an internal audit group of the contracting or granting Federal agency. Federal grantor agencies shall include the following information in their grants record-keeping sys-

20062

RULES AND REGULATIONS

tems; number of grantees using excess personal property; total dollar value of property loaned to all grantees; dollar value of property on loan to each grantee; date of grant termination; acquisition cost of loaned items; dollar value of the grant; and percentage of acquisition cost of loaned property to the dollar value of the grant. Where an agency has statutory authority to vest title in grantees, comparable records shall be maintained, including records which will indicate the dollar value of property vested in any grantee.

(e) Records of Federal contracting and grantor agencies shall be made available upon request to the General Accounting Office. The contract or grant shall include adequate safeguards and assurances relative to use, maintenance, consumption, unauthorized use, and redelivery to Government custody of Government-furnished property.

(f) Federal grantor agencies shall make excess personal property available only to project grantees, with authorization for such grantees to use the property made a part of the grant document. To ensure that all such property transferred is for the specific purpose authorized by the grantor agency, all transfer orders submitted to GSA for excess personal property to be made available to project grantees shall be signed by the agency accountable officer and shall state the name of the project grantee, the grant number, and scheduled date of grant termination. The transfer order shall also specify the purpose of the transfer, and affirm that the transfer of the property is requested for use by a project grantee in accordance with the provisions of 41 CFR Part 101-43.

(g) With the exception of consumable items, Federal grantor agencies are encouraged to make all eligible types of excess personal property available to their project grantees. Consumable items, for the purpose of this section, are those items which are intended for one-time use and actually consumed in that one time (e.g., drugs, medicines, surgical dressings, cleaning and preserving materials, fuel, etc.). In those instances where there is a question concerning the consumability of an item of excess personal property for use by a project grantee, the final decision on whether the item is approved for transfer will rest with the appropriate GSA regional office. When circumstances warrant, agencies may set economic quantities for orders processed or set minimum life expectancies for excess personal property made available to grantees. To help ensure a more equitable distribution of property among grantees, Federal grantor agencies shall limit the amount of excess personal property (in terms of Government acquisition cost) loaned to a grantee to the dollar value of the grant. Any higher percentage of excess personal property loaned to a grantee shall be subject to approval by an administrative level in the Federal agency higher than the project officer administering the grant. It is expected that agencies will give full consideration to all factors in

determining whether to approve or disapprove transfers to grantees of excess property above the dollar value of the grant. Pro forma approvals or disapprovals are inconsistent with the purpose of this regulation. GSA will monitor agency actions in this regard to ensure compliance with the provisions of this regulation. Limits on the value of excess personal property and/or material grants consisting of excess personal property used in lieu of financial support, below the dollar value of the grant, may be authorized by Federal grantor agencies but should be justified in the basic grant instrument.

(h) For the purpose of reducing delays in screening excess personal property at holding activities, and to make property available quickly and efficiently to authorized grantees, non-Federal grantee screeners shall be subject to certification by Federal authority as follows:

(1) Federal grantor agencies shall recommend and submit to GSA the names of non-Federal grantee screeners. The sponsoring Federal agency recommending the designation of a non-Federal grantee screener shall prepare a request covering each such designation and forward it for evaluation and approval to the appropriate GSA regional office serving the region in which the intended screener is located. (See § 101-43.4903 for regional offices, addresses, and assigned areas.) The request shall state the applicant's qualifications to screen excess personal property for use on grants, indicate the name, number, and termination date of the specific grant to which the screener is to be assigned, and list the Federal installations which the grantor agency wishes the applicant to visit. Since GSA certification of screeners will be made on a regional basis, the list of installations shall be limited to those located within the boundaries of the GSA regional office in which the screener is located. Requests by Federal grantor agencies for screeners to visit holding activities located in a GSA region other than the region in which the screener is located shall be a matter of separate handling by GSA and any such requests will require special approval by the involved GSA regional offices. Requests for approval of such interregional visits shall include the name of the installation(s) and the specific reason for the visit. Information shall also be included as to whether similar requests for interregional visits have been sent to other GSA regional offices. The request shall be forwarded to the GSA regional office representative serving the region in which the screener is located who will coordinate the request with the regional office in which the installation is located and advise the requestor of the action taken on the request.

(2) Federal grantor agencies shall accompany each non-Federal grantee screener request with GSA Form 2946, Authorization Certificate to Select/Freeze Excess Personal Property. (See § 101-43.4908 for illustration). GSA Forms 2946 must contain the typed name of the sponsoring Federal grantor

agency, the signature of the grantor agency representative, and the typed name and signature of the proposed non-Federal grantee screener.

(3) GSA regional offices shall be responsible for processing the Federal grantor agency request for certification of the non-Federal agency screener. Upon review and evaluation, the GSA regional office, if the request is approved, will enter the issue and expiration dates on the GSA Form 2946. The form will then be signed by the GSA regional representative and returned to the sponsoring Federal grantor agency for distribution to and use by the non-Federal grantee screener when visiting holding activities.

(4) Each Federal grantor agency shall be responsible for maintaining a record of the number of certified screeners working through their authority and for immediately notifying the GSA regional office of any changes in screening assignments. Upon termination of a grant or whenever the services of an approved non-Federal grantee screener are discontinued, the Federal grantor agency shall recover the GSA Form 2946 and forward it to the appropriate GSA regional office for cancellation.

(i) Federal grantor agencies shall develop and maintain an effective system for the prevention or detection of situations involving the nonuse, improper use, or the unauthorized disposal or destruction of excess personal property furnished to grantees. This responsibility shall include compliance reviews, field inspections, and other enforcement procedures to monitor the excess personal property being used by their grantees. Grantor agencies shall publish procedures which clearly outline the scope of their respective surveillance program, the policies and methods for the enforcement of their compliance responsibilities, and the correction of abuses in the use of property.

(j) Except when specifically authorized by statute to vest title, Federal agencies, upon termination of the contract or grant in whole or in part, shall reassign Government-furnished property as far as practicable, to other contractors or grantees, or to other activities of the contracting Federal agency. If no reassignment is made, and if the property is not disposed of pursuant to applicable regulations or contract provisions relating to contract or inventory, it shall be reported to GSA by the contracting or grantee Federal agency for possible further Government use, as provided in § 101-43.311, unless other reporting requirements have been agreed upon by GSA and the reporting agency. Property not required to be reported shall be handled as provided in §§ 101-43.306 and 101-43.318-2. Property normally shall be held by the contractor or grantee until transfer, donation, or disposal instructions are received. Contracting or grantor agencies shall publish procedures which clearly delineate the obligations of contractors and grantees with respect to the use and consumption or return to Government custody of property acquired from excess sources.



EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

JUN 18 1975

Mr. D. L. Scantlebury
Director, Division of Financial
and General Management Studies
General Accounting Office
Washington, D.C. 20548

Dear Mr. Scantlebury:

We appreciate the opportunity to review your draft report entitled "Opportunity for Greater Economy in Acquisition of Computer Systems Under Federal Grant Programs." As you know, OMB fully supports improvements in Federal policies and processes which will achieve efficiency and economy in our operations without jeopardizing program goals and objectives.

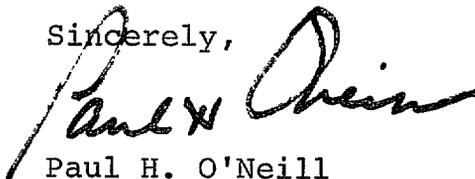
The report provides a number of good suggestions on possible ways of strengthening existing policies pertaining to acquisition and management of computers under Federal Grant Programs which merit further analysis and consideration. We are generally pleased to note the overall approval of our efforts in this important area, and we shall, in conjunction with the General Services Administration and the Office of Federal Procurement Policy, continue to improve these policies and procedures, including those which you have suggested.

There is however, one general comment in regard to the recommendations we would like to stress. That is, we must guard against the establishment of any policies or procedures which could result in over regulation of State/local management. We completely agree that acquisition and use of computers by State/local governments under Federal financing should be subject to the same policies, evaluation of alternatives, cost/benefit analysis and other "good management" practices as those required of Federal agencies, but we must be sure that any "full compliance" monitoring as suggested would not result in the establishment of any procedures which would usurp appropriate State/local decisionmaking authorities and responsibilities.

BEST DOCUMENT AVAILABLE

We have discussed this matter with the GSA and they will be providing their comments to you shortly.

Sincerely,

A handwritten signature in cursive script, appearing to read "Paul H. O'Neill". The signature is written in black ink and is positioned above the typed name.

Paul H. O'Neill
Deputy Director

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