

GAO

Briefing Report To the Chairman,
Committee on Small Business
House of Representatives

November 1985

ADP EQUIPMENT

Buying Through GSA's
Office of Technology Plus
Stores



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UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

INFORMATION MANAGEMENT
& TECHNOLOGY DIVISION

B-221163

November 25, 1985

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

Dear Mr. Chairman:

In response to your May 29, 1985, request, we have reviewed the federal government's use of Office of Technology Plus (OTP) computer stores. Specifically, you asked us to investigate the stores' operations to find out whether (1) government agencies are paying more at these stores than they would if they used the General Services Administration's (GSA's) schedule contracts, (2) agencies are complying with applicable laws and regulations pertaining to the use of the OTP stores, and (3) small businesses have been adversely affected by the stores' presence.

A summary of our responses to these questions follows. We discuss the scope of our analysis, the specific methodologies used to answer your questions, and limitations of the information collected in greater detail in the appendices to this document.

SUMMARY OF GAO RESPONSES

In June 1983, GSA awarded a contract to Math Box, Inc., in Rockville, Maryland, to run one or more computer stores. The stores, referred to as Office of Technology Plus, are non-mandatory sources of supply by which federal agencies may learn about, buy, or be trained on the latest computer equipment and related products. These agencies may place single orders up to \$100,000; for the contract year ending June 1985, they had procured \$31 million worth of microcomputer products and services from OTP.

In response to your first question, we found that during May and June 1985 the government spent an estimated 12.8 percent more on items purchased from OTP stores than they would have if the items had been purchased under the terms of schedule contracts. The greatest disparity occurred with software products; OTP costs averaged 22 percent higher than schedule costs.

We found that differences in applicable rules and regulations made it easier to buy microcomputer products from OTP than from the schedule. Furthermore, difficulty in obtaining information for products available under the terms of GSA's schedule contracts has inhibited the schedule's use. Several services that may be of

value to potential buyers--such as configuration assistance and new product seminars--are available free of charge from OTP, but not necessarily from the schedule contractors. Although GSA cites these services as potential offsets to the higher prices paid at OTP, it is unclear what value buyers place on the services and to what degree these services influence buyers' decisions to purchase at OTP stores.

In response to your second question, we found indications that the five agencies we visited were not adhering to GSA rules concerning the documentation of procurement decisions. These rules require agencies to determine which procurement method, including buying from OTP stores, meets their needs at the lowest overall cost, price and other factors considered.

We also found 13 instances where agencies possibly circumvented OTP's \$100,000 maximum order limitation for procurement actions totalling \$1,807,465 over a 14-month period. We plan to discuss these matters with the cognizant Offices of Inspectors General.

Regarding your question about OTP's effect on small businesses, it is unclear whether OTP's existence has adversely affected small businesses on GSA's schedule. Because the current microcomputer market is unstable, it is difficult to isolate OTP's effect on any one small business. However, representatives from several small firms interviewed for this survey, both with and without schedule contracts, said that they believed competition from OTP affected the amount of business they did with the government.

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As you requested, we did not obtain formal agency comments, nor did we provide GSA with a draft copy of this briefing report. Throughout the course of our review, we sought the views of GSA and OTP officials responsible for the areas discussed in this document. As arranged with your office, unless you publicly announce its contents earlier, we plan no further distribution of this report until 30 days after its issue date. At that time, we will send copies to interested parties and make copies available to others upon request.

Should you desire additional information on our work, please contact Ms. Linda Budney, Group Director, on 275-3479.

Sincerely yours,



Thomas P. Giammo
Associate Director

C o n t e n t s

	<u>Page</u>
<u>BRIEFING REPORT</u>	
Background	1
GAO's Responses to the Chairman's Letter	7
<u>APPENDIX</u>	
I Objectives, Scope, and Methodology	16
II Cost of Items Purchased at OTP Versus Estimated Cost of Using Schedule Contracts	20



BACKGROUND

The Chairman, House Committee on Small Business, asked us to review certain matters concerning the government's use of Office of Technology Plus (OTP) stores. Concerned that agencies are routinely purchasing items from the store that are available at less expense from multiple-award schedule contractors, many of whom are small businesses, the Committee asked that we respond to the following questions:

1. Taking any two month sample period since the award of the subject contract, is the government paying more for supplies, equipment, and services from the Office of Technology Plus than it could obtain under terms of existing multiple award schedule contracts? If so, what is the amount of the differential?

2. Based on the sample period referenced in (1) above, does it appear that agencies are making use of the indefinite quantity contract in a manner consistent both with controlling law and relevant regulations?

3. Is the operation of the computer store driving small multiple award schedule contractors out of business, or otherwise causing them to abandon the federal market?

This briefing report provides background information on OTP and on the Automatic Data Processing (ADP) Schedule Contract Program and responds to questions in the Chairman's May 29, 1985, letter. The appendices include our objectives, scope, and methodology, as well as some detailed price comparisons.

ACQUISITION ALTERNATIVES FOR MICROCOMPUTER-RELATED PRODUCTS

When an agency decides to buy microcomputer-related products, it must determine which of several available procurement methods will be most cost-effective in meeting its requirements: (1) small purchases for procurements with a value of \$25,000 or less; (2) formal bid solicitations; (3) General Services Administration (GSA) ADP schedule contracts; or (4) OTP stores.

In accordance with the Chairman's request, we limited our review to a comparison of the last two alternatives.

MULTIPLE-AWARD SCHEDULE OVERVIEW

Under its ADP Schedule Contract Program, GSA awards multiple contracts yearly to vendors who supply computer equipment and services that may also be offered by OTP stores. The program consists of three sections offering

--a full line of commercially available equipment and software (Schedule A),

--peripheral devices (Schedule B), and

--microcomputer-related products (Schedule C).

GSA established Schedule C in 1983 to consolidate all microcomputer-related products that had been available on the other ADP schedules. Some equipment that may be used with microcomputers, however, is still available only on Schedule B.

Schedule contracts are awarded to vendors based on several factors. Discounts offered by vendors--one factor--are based on the vendors' commercial prices, as well as the amount of business the vendors anticipate from the schedule. Nationwide availability of vendor products and support services is another factor.

Schedule contracts--existing contracts with the government containing pre-negotiated terms--are non-mandatory sources of supply. This means that agencies are not required to purchase equipment and services under these contracts. However, agencies still must make sure they are meeting their requirements at the lowest overall cost, price and other factors considered.

The terms and conditions of schedule contracts vary from vendor to vendor. In addition to standard manufacturers' warranties, a variety of maintenance contracts, training options, and related services is offered under various fee arrangements.

MULTIPLE-AWARD SCHEDULE PROCUREMENT RULES AND REGULATIONS

Federal Information Resources Management Regulations (FIRMR §201-32.206)¹ sets forth the procedures and restrictions for the use of multiple-award schedule contracts. Under this regulation, an agency placing an order against an existing schedule contract for more than \$50,000 must synopsise its intentions in the Commerce Business Daily 15 days before placing the order (FIRMR §201-32.206(f)). The purpose of this announcement is to give other vendors an opportunity to notify the agency of products that could satisfy the agency's requirements, and for the agency to determine if it is advantageous to place an order against the schedule.

Although the maximum order limitations vary among the schedule contracts, orders of up to \$300,000 are within the limitations of most schedule contracts.

SMALL BUSINESSES AND SCHEDULE C

There are 116 contractors on the current Schedule C²; 32 of

¹FIRMR is the primary regulation for use by federal or executive agencies in their management, acquisition, and use of certain ADP, records, and telecommunications resources.

²The current Schedule C contract period is from April 1, 1985, through March 31, 1986, while the previous schedule ran from April 1, 1984 through March 31, 1985.

these are small businesses³ located in the Washington, D.C., area⁴. Of the 32 firms, 15 were on the previous Schedule C and did a total of \$2,323,157 worth of sales while on that schedule. The 17 remaining firms are new to the current schedule.

OTP PROGRAM OVERVIEW

On June 28, 1983, as the result of a competitive solicitation action, GSA awarded a contract to a small business in Rockville, Maryland--Math Box, Inc.--for the operation of the multiservice OTP computer stores. The first OTP store opened in Washington, D.C., in August 1983; stores in Philadelphia and Atlanta opened in 1984.

Specifically, these stores were to provide

- information to federal agencies on how microcomputer technology can be used to increase the effectiveness and efficiency of their operations;
- assistance in selecting hardware and software to meet specific agency functional requirements;
- side-by-side comparison of similar products from several manufacturers;
- sales of end-user computing equipment, software, and supplies;
- seminars on using products supplied by the store; and
- service and maintenance for products sold by the stores.

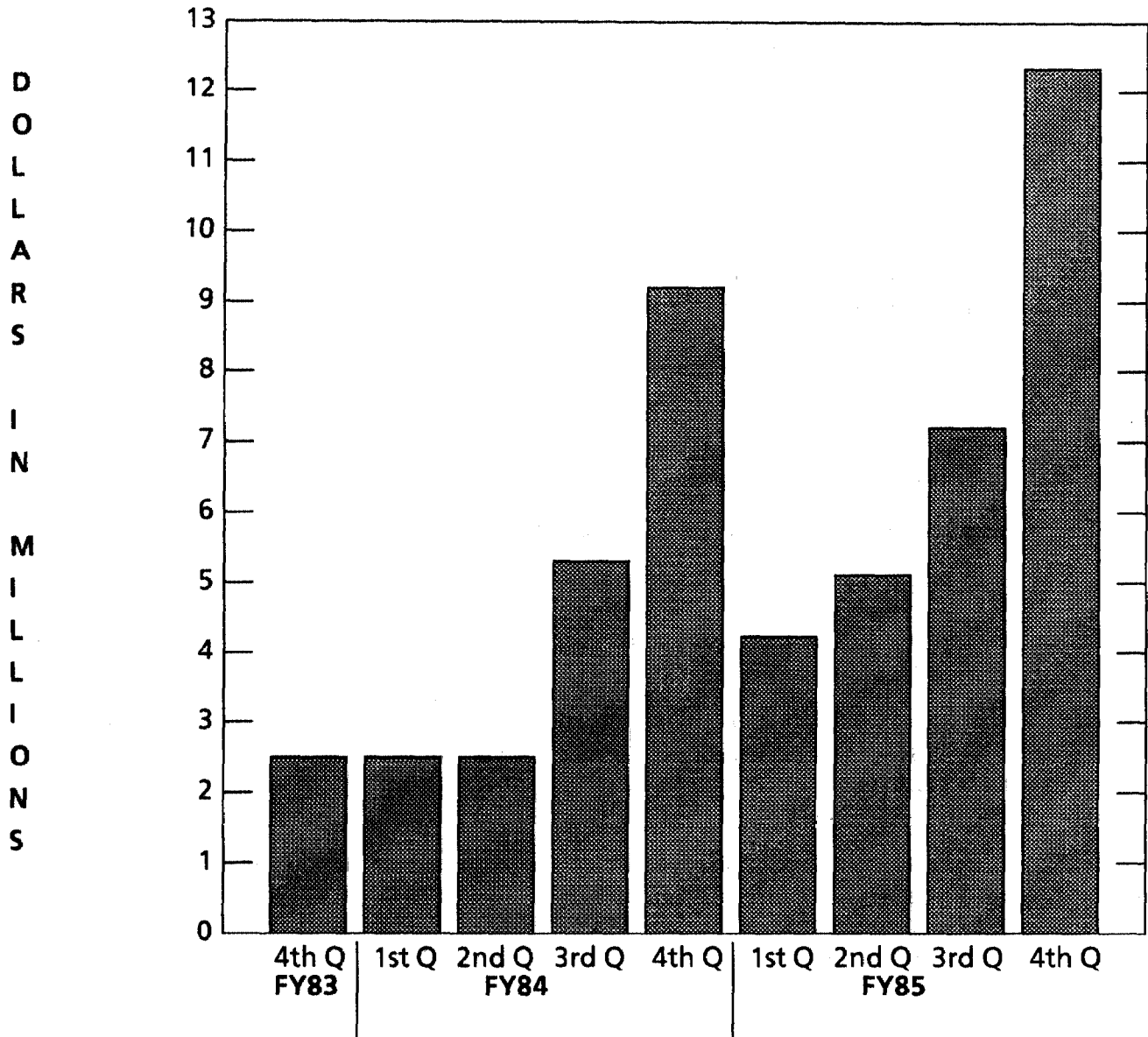
OTP sales have grown from about \$12.8 million to \$31 million over the first 2 years of operation beginning June 1983. The majority of the sales have been made through the Washington, D.C., store, which accounted for 92 percent (\$28.6 million) of sales during the 1984-1985 contract year. Figure 1.1 shows the cyclical, but increasing volume of sales for the Washington store since the beginning of its operation.

While there is considerable overlap in the types of products offered, more microcomputer-related items are offered through the contractors on Schedule C than through the OTP stores. However, OTP does offer some products not available on Schedule C.

³We use the term "small business" as defined by the Small Business Administration.

⁴Since the OTP store is contracted to serve government offices within a 50-mile radius of the District of Columbia, we defined Washington, D.C., area Schedule C contractors as those located in the District, Northern Virginia, or Maryland.

**Figure 1.1: VALUE OF OTP PROCUREMENT ORDERS
PLACED BY FEDERAL AGENCIES AT WASHINGTON, D. C., STORE
1983 - 1985 a, b**



a The first three quarters (i.e., fourth quarter fiscal year 1983 through second quarter fiscal year 1984) represent an average of the first nine months of operation.

b Numbers were rounded to the nearest thousand dollars.

Several OTP services (some types of maintenance and training, for example) are offered for a fee. Other services, however, are provided without a separate charge. These include assistance in selecting a hardware and software configuration, product demonstrations, single-point contact for multivendor orders, 2-hour testing of new equipment before delivery, loaner equipment, and 30-day delivery. In many cases, these are the types of "no-charge" services that a commercial business could expect to receive from any large, business systems-oriented computer store.

OTP PROCUREMENT RULES AND OTHER APPLICABLE REGULATIONS

The rules regarding agencies' use of OTP stores are described in FIRMR Bulletin 6, dated June 25, 1984. The bulletin places the following restrictions on the OTP stores:

- Only federal agencies with work sites within 50 miles (150 miles in Atlanta) of an OTP store may use the store's services or place orders. A store may not accept orders for goods to be delivered outside its geographical scope, and agencies are not supposed to place orders from one location and ship equipment or other items to offices beyond the area.
- A maximum order limitation of \$100,000 per order for orders placed at the store. GSA regulations state that any "requirements shall not be fragmented in order to circumvent established delegation of procurement authority thresholds" (FIRMR §201-23.103(a)(2)). This restriction would prevent an agency from "splitting orders," that is, placing separate orders that totalled more than \$100,000 within a short time period if the orders were intended to fulfill the same agency requirement.
- Since the stores are non-mandatory sources of supply, agencies must determine which of the available procurement alternatives will meet their requirements at the lowest overall cost, price and other factors considered. These "other factors" may include the cost of conducting the procurement, services needed to use the product, and implementation costs. Therefore, "the agency should document its file with the reasons that the item(s) selected satisfy its requirements at the lowest overall cost. Any factors other than price that influence the cost should be quantified if possible." In addition, Bulletin 6 states that, even if the price for an item is higher than could be obtained elsewhere, an agency may find that the stores offer the lowest overall cost if (1) the agency does not have the experience or expertise needed to identify comparable schedule offerings, or (2) the agency determines that the value of the services available at the store offsets the price difference.

Once an agency has determined that it is in its best interest to place an order with OTP, it submits the order directly to the store. In contrast to the requirement that purchases exceeding \$50,000 from existing schedule contracts be advertised, GSA has decided that agencies need not synopsise their intentions in the Commerce Business Daily.

GAO'S RESPONSE TO THE CHAIRMAN'S LETTER

Concerned that agencies are routinely purchasing items from OTP stores that can be obtained for less money from multiple-award schedule contractors, the Chairman, House Committee on Small Business, asked us to respond to the following questions.

QUESTION #1

Taking any two month sample period since the award of the subject contract, is the government paying more for supplies, equipment, and services from the Office of Technology Plus than it could obtain under terms of existing multiple award schedule contracts? ⁵ If so, what is the amount of the differential?

GAO RESPONSE

The amount the government pays for microcomputer products from OTP is more than the amount from the existing multiple-award schedule contracts for identical products. We estimated this additional amount to be 12.8 percent more than the schedule costs. This difference does not account for shipping costs and the value of any services provided by OTP or by schedule contractors. However, it does include OTP discounts but not schedule contractor discounts. We also found that factors other than price influenced agency decisions to procure from OTP, though we did not attempt to put a dollar value on these factors.

OTP store prices were higher than schedule contract prices

During May and June 1985 agencies spent an estimated 12.8 percent (or about \$380,000) more on microcomputer products from all OTP stores than they would have for identical products from schedule contracts (see figure 1.2). These comparisons were based on OTP's top-selling items, amounting to 75 percent of OTP sales in the May and June 1985 period, and did not include consideration of the value of any "no-charge" services offered either by OTP or by the schedule vendor. A detailed price comparison chart for the items selected is presented in appendix II.

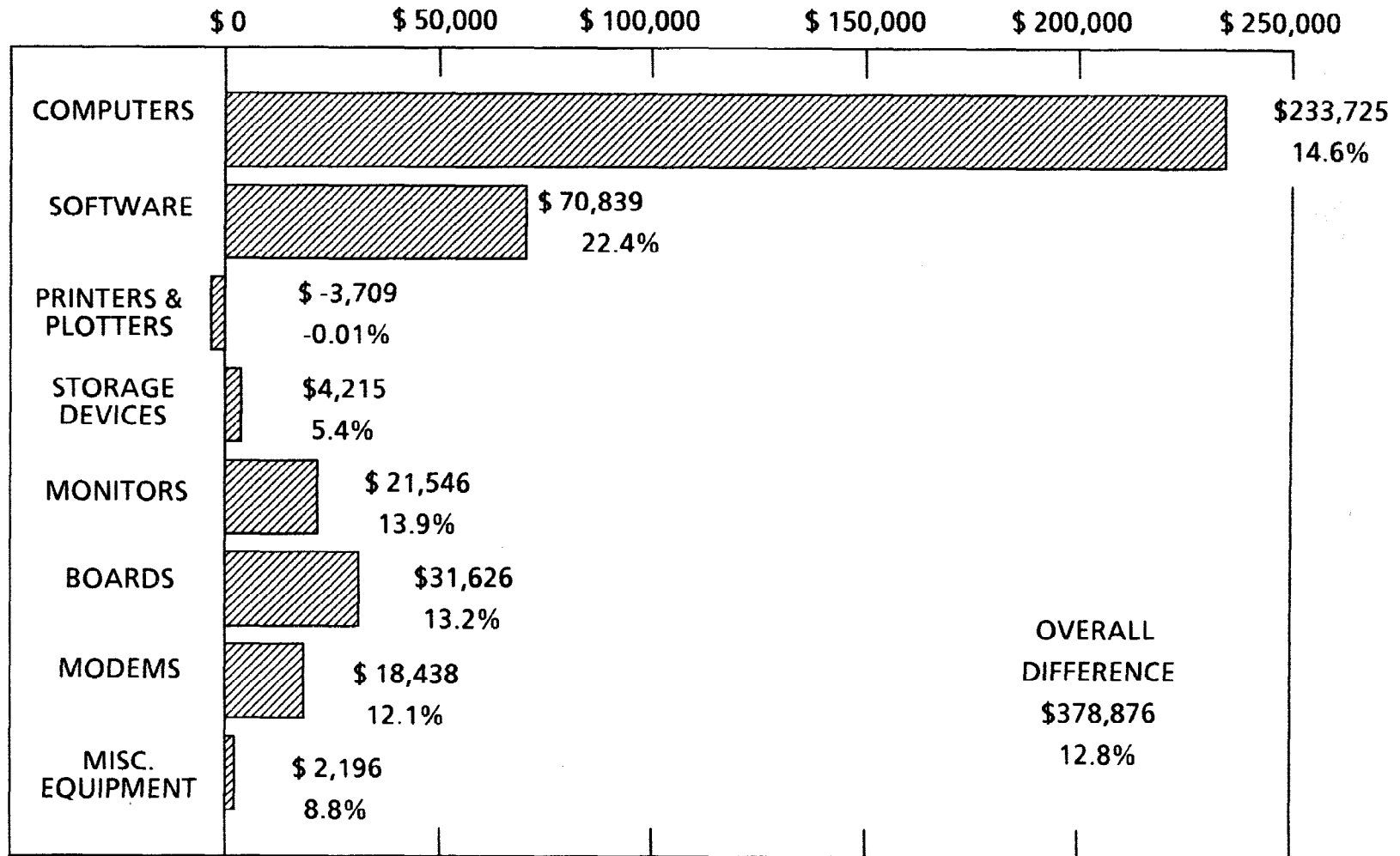
The percentage difference varied by product class, ranging from virtually no difference on printers and plotters to more than 22 percent on software.

OTP stores offer advantages to buyers who need assistance

We found that OTP stores are more convenient for inexperienced buyers who, unsure about their hardware requirements, need basic

⁵Contracts negotiated with several vendors offering products within some specific broad class ("schedule") sharing certain common terms and conditions.

**Figure 1.2: SUMMARY OF DIFFERENCES IN
COST OF ITEMS PURCHASED AT OTP VERSUS ESTIMATED COST
OF USING SCHEDULE CONTRACTS, MAY - JUNE 1985 ^a**



^a Items and amounts shown represent 75% of OTP sales in May/June 1985; the value of OTP and Schedule "no-charge" services was not considered.

information about many products before making procurement decisions. This is particularly true for persons who need assistance in designing configurations that require many pieces of equipment. OTP provides a single-point contact for a range of competitive product lines from different manufacturers. In contrast, access to a comparable range of products from Schedule C contractors usually involves dealing with multiple contractors. Figure 1.3 shows three typical hardware configurations and the number of contractors that must be dealt with to purchase these items on the GSA schedule. For example, to configure a typical system (see configuration #1), a buyer would have to contact four vendors (three with schedule contracts), as opposed to a single contact with OTP.

Using OTP stores requires less time and effort even for buyers who know what they want

If buyers need information on a particular product, they can refer to a single catalog that lists and describes all OTP products. In contrast, to obtain information about the terms and conditions of individual schedule contracts, buyers must contact a representative from each contractor. Because there is no single list of products offered, GSA program officials were unable to tell us whether several items purchased at OTP were also offered through schedule contracts.

Procurement regulations favor the use of OTP stores for quantity purchases

Procurement regulations favor the use of OTP stores for procurements between \$50,000 and \$100,000. In this range, the FIRMR requirement to synopsise an agency's intention to procure from schedule contracts adds to procurement time and effort. Purchases from OTP are exempt from this requirement.

Value to buyers of OTP "no-charge" services unclear

Although certain "no-charge" services offered by OTP stores (such as systems integration advice, seminars on equipment capabilities and new products, pre-testing and prompt delivery) are cited by GSA as potential offsets to higher costs, it is unclear what value is placed on these services by buyers and to what degree these services influence decisions to purchase at the stores. We contacted a small sample of 10 users (from nine organizations within the five agencies visited) who had acquired products from OTP stores. Their purchases represented about \$300,000 of Washington, D.C., OTP sales in May and June 1985.

Generally, none of the 10 users we contacted made extensive use of OTP's "no-charge" services. When asked why, most said they did not need assistance. For example, several users who received computer systems did not need configuration assistance because, they said, they had procured the same system before or had received assistance from their agency's ADP experts and knew what they wanted. Pre-delivery assembly of components from different

Figure 1.3: COMPARISON OF SOURCE OF SUPPLY FOR MICROCOMPUTER CONFIGURATIONS

<p><u>CONFIGURATION #1</u></p> <p>COMPAQ PORTABLE 1000000-002</p> <p>384KB QUAD BOARD</p> <p>HAYES SMART MODEM 1200 PLUS</p> <p>EPSON FX-80 PRINTER</p> <p>IBM PARALLEL CABLE</p> <p>CARRYING CASE</p>	<p align="center">OTP</p>	<p><u>SCHEDULE CONTRACTOR</u></p> <p>COMPAQ</p> <p>TECHNOLOGY SERVICES, INC.</p> <p>TECHNOLOGY SERVICES, INC.</p> <p>WARREN ASSOCIATES</p> <p>IBM (NON-SCHEDULE) *</p> <p>COMPAQ</p>
<p><u>CONFIGURATION #2</u></p> <p>IBM XT 256K</p> <p>384KB QUAD BOARD</p> <p>IBM COLOR DISPLAY</p> <p>IBM COLOR GRAPHIC MON. ADAPT</p> <p>EPSON FX-100 + PRINTER, 136 COL.</p> <p>IBM PARALLEL CABLE</p>	<p align="center">OTP</p>	<p><u>SCHEDULE CONTRACTOR</u></p> <p>IBM</p> <p>TECHNOLOGY SERVICES, INC.</p> <p>IBM</p> <p>IBM</p> <p>WARREN ASSOCIATES</p> <p>IBM (NON-SCHEDULE) *</p>
<p><u>CONFIGURATION #3</u></p> <p>IBM PC 2DD w/256K</p> <p>384KB QUAD BOARD</p> <p>IBM MONO DISPLAY</p> <p>IBM MONO ADAPTER</p> <p>EPSON FX-100 + PRINTER, 136 COL.</p> <p>IBM PARALLEL CABLE</p>	<p align="center">OTP</p>	<p><u>SCHEDULE CONTRACTOR</u></p> <p>IBM</p> <p>TECHNOLOGY SERVICES, INC.</p> <p>IBM</p> <p>IBM</p> <p>WARREN ASSOCIATES</p> <p>IBM (NON-SCHEDULE) *</p>

* Available from IBM but not under Schedule contract.

manufacturers was a service received by five users, some of whom said that this was a useful service.

Table 1.1: Extent of Use of OTP "No-charge" Services (May-June 1985)

Use of service ⁶	Price/Product information	Configuration assistance	Accelerated delivery	Installation assistance	Pre-delivery assembly	Training/Demonstration
Yes	6	0	11	1	5	1
No	5	11	0	10	6	10
Total	11	11	11	11	11	11

QUESTION #2

Based on the sample period referenced in [question] (1) above, does it appear that agencies are making use of the indefinite quantity contract⁷ in a manner consistent both with controlling law and relevant regulations?

GAO RESPONSE

We found indications that agencies were not adhering to the Bulletin 6 rules concerning the \$100,000 maximum order limitation and justification of lowest overall cost.

Sales records indicate that agencies may have circumvented the \$100,000 maximum order limitation through "split orders"

FIRMR Bulletin 6 places a maximum order limitation of \$100,000 per order for orders placed at the OTP stores. We examined all OTP purchases involving 77 agencies during a 14-month period beginning July 1, 1984. We found 13 instances of agencies' possibly circumventing OTP's \$100,000 maximum order limitation. Apparently, these agencies placed orders for related equipment within a very short period--the combined total of each agency's related orders

⁶Users receiving products where a particular service was "not applicable" were categorized as "no" responses in this table. This is because some types of purchases (e.g., most supply-type procurements, such as surgestoppers, ribbons, disks, and cables) did not require many of OTP's "no-charge" services.

⁷A contract that permits the government to issue purchase orders for goods or services covered in the contract (subject perhaps to maximum and minimum limitations on the total value of all orders), without committing the government to order specific amounts of individual items.

exceeded \$100,000. These cases involved about 8 percent of the government entities procuring from OTP, and 14 percent of government OTP expenditures during May and June 1985. We plan to discuss all 13 cases with the cognizant Offices of Inspectors General. GSA prohibits agencies from fragmenting (or splitting) orders to circumvent rules or regulations, such as the \$100,000 maximum order limitation.

Some agencies were not determining if OTP procurements represented lowest overall cost

We found that the five agencies we reviewed did not document, as required by Bulletin 6, which of several procurement alternatives met their requirements at the lowest overall cost, price and other factors considered. Although agency procurement officials stated that they considered cost in choosing OTP, we did not observe documentary evidence of this. Insufficient price comparison occurred, in our opinion, on over \$450,000 worth of OTP orders examined at all five agencies we visited. Each agency had established a dollar threshold, ranging from \$500 to \$100,000, beneath which the agency did not obtain any prices from alternative sources of supply. Three agencies, however, had no documentation of any contacts with alternative sources of supply, regardless of stated threshold policies. One of the two remaining agencies did obtain prices from one to three alternative sources, but it chose the usually higher OTP prices without documenting why. The other agency contacted two alternative sources, but it obtained no prices because these sources were inappropriate (for example, a Wang supplier was contacted for IBM equipment).

In interviewing officials, we found that factors other than price were sometimes stated as justification for using OTP. Procurement officers at all five agencies stated OTP's favorable delivery time of 30-days was a factor in their choice, and we did observe documented instances of this as a justification. Three agency officials also stated that they found OTP stores easier to use than other sources of supply, such as schedule contracts, because they (1) were not required to place announcements in the Commerce Business Daily, (2) could use one as opposed to several procurement orders for one purchase (i.e., "one-stop shopping"), and (3) could locate products. The latter choice was used by one agency as its documented justification. The availability of OTP's additional "no-charge" services, whether used or not, such as training, configuration assistance, and installation were given by three procurement officers as reasons why they used OTP. However, these value-added services were not documented on any OTP procurement records as justification.

No evidence of agencies exceeding geographical limitations of OTP services

All five agencies' OTP procurements we examined (all are in the Washington, D.C., area) were addressed to within a 50-mile destination point during May and June 1985.⁸

QUESTION #3

Is the operation of the computer store driving small multiple-award schedule contractors out of business, or otherwise causing them to abandon the federal market?

GAO RESPONSE

We could not establish any clear relationship between OTP sales and small multiple-award schedule contractors going out of business or otherwise abandoning the federal market. We did note that OTP sales in the hardware area are for items primarily offered by large businesses on the schedule. Eight of the nine top-selling software packages sold by OTP, however, are items offered at lower prices by small business firms on the schedule.

A market shakeout makes an analysis of OTP's effect difficult

One important constraint we encountered in responding to this question is that there is a "shakeout" occurring (i.e., firms are losing market shares and/or are going out of business) in the microcomputer field. Currently, much of the industry is in a slump and firms, facing stiff competition, are cutting their prices to get business. Because of this general market condition, we could not determine whether OTP is driving small contractors out of business or causing them to abandon the federal market.

Almost none of OTP's hardware sales could have gone to small businesses on Schedule C

Our analysis of OTP sales data for May and June 1985 showed that very little (only \$5,000) of OTP's microcomputer hardware sales could have gone to small Schedule C contractors. If these sales had gone to Schedule C contractors instead of OTP they would have gone to IBM, Compaq, and other large businesses listed on the schedule, such as AT&T, Wang, Hewlett-Packard, and Texas Instruments.

⁸We did not determine whether these procurements underwent a second shipment or were hand-carried out of the Washington, D.C., area.

Much of the software sold by OTP is offered
on the schedule by OTP supplier

Using OTP sales data from all OTP stores for the May and June 1985 period, we developed a list of the top-selling software packages (see table 1.2). If price were the primary selection factor, sales of eight of the nine top products could have gone to small businesses, for total sales of \$370,530.

We estimated that 82 percent of all software sales that might have gone to small businesses with schedule contracts would have gone to Technology Services, Incorporated (TSI). TSI is the vendor for over one-half of the software lines offered on the schedule by Washington area small businesses. This firm is also the subcontractor to OTP for the software sold through the stores.

Various firms complain
of OTP's favored position

We spoke with several firms, small and large, both on schedule and off, about OTP's impact on their businesses. We found one response to be most pervasive: that OTP has "favored" status in microcomputer procurement regulations. The firms' major point was that agencies may purchase up to \$100,000 at OTP without listing requirements in the Commerce Business Daily, but when they buy from the schedule they must list all purchases over \$50,000. Nine of 13 businesses we contacted mentioned this issue.

**Table 1.2: COMPARISON OF OTP AND SCHEDULE PRICES
FOR THE NINE TOP-SELLING SOFTWARE ITEMS FOR MAY/JUNE 1985**

ITEM	SCHEDULE ITEM PRICE	OTP AVG. PRICE PAID	PERCENT DIFFERENCE SCHED. - OTP	OTP'S SALES MAY - JUNE		SCHEDULE C CONTRACTOR	SMALL WDC BUSINESS
				# ITEMS	\$ VALUE		
LOTUS 1-2-3	\$306.90	\$379.50	23.7	412	\$151,112	TECHNOLOGY SERVICES, INC.	YES
DBASE III	\$417.00	\$526.45	26.3	228	\$98,084	TECHNOLOGY SERVICES, INC.	YES
MULTIMATE	\$306.90	\$377.92	23.1	108	\$58,303	FEDERAL DATA CORPORATION	YES
DOS 2.1	\$44.00	\$50.04	13.7	314	\$16,922	IBM	NO
FRAMEWORK	\$430.90	\$535.15	24.2	29	\$15,519	TECHNOLOGY SERVICES, INC.	YES
SYMPHONY; BY LOTUS FOR PC DOS	\$430.90	\$524.81	21.8	27	\$14,132	TECHNOLOGY SERVICES, INC.	YES
WORDSTAR PROFESSIONAL MICRO	\$262.35	\$373.65	42.4	33	\$12,073	TECHNOLOGY SERVICES, INC.	YES
CROSSTALK	\$93.60	\$147.47	57.6	77	\$11,412	SOFTWARE CONTROL INT'L.	YES
WORD PERFECT	\$257.40	\$377.81	46.8	27	\$9,895	TECHNOLOGY SERVICES, INC.	YES

OBJECTIVES, SCOPE, AND METHODOLOGY

The following describes our objectives, scope, and methodology for each of the three questions contained in the Chairman's May 29, 1985, letter.

PRICE DIFFERENCES

In response to the first question, we analyzed OTP's sales during a 2-month period to determine if the government was paying more for products and services at OTP than could be obtained from GSA's schedule contracts.

To accomplish this, we first identified the top-selling items representing 75 percent of OTP's sales for May and June 1985. We calculated the total amount charged by OTP for federal agency purchases of each of these items in the same period.

We then compared these amounts with the unit price for the same item on the relevant schedule contract and multiplied by the volume of OTP sales of that item in the sample period.

Our approach is not completely accurate for the following reasons:

- It potentially overestimates the cost of purchases from the schedule by ignoring the possibility that agencies might have negotiated discounts from the listed schedule prices while accurately reflecting OTP discounts.
- It potentially underestimates OTP charges by failing to include the \$15 per order OTP shipping charge.

We do not believe that these limitations affect use of our results as estimates of price differences.

It should also be understood that this approach does not include any consideration of factors, other than price, that might affect the overall cost of a procurement. Specifically, it does not consider the value of "no-charge" services offered either by OTP or by schedule contractors. To gain some insight into whether these services were of significant value to buyers, we conducted telephone interviews of users receiving these procurements. They were asked about the services they received from OTP as well as their general experiences with OTP. In all, we conducted 10 of these interviews involving 11 procurements.

AGENCY COMPLIANCE WITH RULES
AND REGULATIONS

In response to the second question, our objectives were threefold: to examine whether federal agencies were using OTP in accordance with the \$100,000 maximum order limitation, to see if agencies were justifying procurements as being of the lowest overall cost, and to determine whether OTP procurements were within the geographical limitations of OTP.

To gain an initial insight into whether federal agencies were using OTP in accordance with the \$100,000 maximum order limitation, we examined all orders to the Washington D.C., OTP store issued by five agencies; we selected these 5 from the 13 agencies that had expended over \$100,000 at OTP during May and June 1985. The five agencies, selected on the basis of our estimates of the ease of accessing the relevant records, were the Departments of the Treasury, Commerce, and Transportation, the Veterans Administration, and the U.S. Postal Service. Follow-up interviews with the appropriate contracting officers were conducted at two agencies.

Based on this initial survey, we searched computer tapes recording all OTP sales from their three locations for sets of procurement orders having the following characteristics:

- each order had been issued by the same "requesting office" within the same agency,
- each order had been issued within a 2-day period, and
- the products ordered could feasibly be used together to meet a common requirement.

Since computer tapes of all OTP sales were available from July 1, 1984, to August 31, 1985, we found it convenient to extend our search beyond the May and June 1985 sample period to cover the entire period for which we had tapes.

We classified as "possibly exceeding the maximum order limitation" all the sets of procurement orders meeting the above search criteria. One case we randomly encountered failed the above criteria because its orders were issued over a 5-day period. This approach, of course, does not definitively identify cases that exceed the \$100,000 maximum order limitation. Orders exceeding this limitation could be fragmented over a longer period and this would not have met the criteria. On the other hand, orders meeting

the criteria could possibly be directed to meeting independent, unrelated requirements and thus not exceed the \$100,000 limitation. We believe, however, that orders meeting our criteria give a rough indication of the magnitude of orders that were exceeding the maximum order limitation.

To examine whether agencies were justifying OTP procurements as being of lowest overall cost, we interviewed contract and procurement officers at the five agencies mentioned above. For each agency we selected three to six OTP procurements representing two types of orders: those where value-added services might apply and orders where they would not apply. The procurement file for each order was examined for documentation showing that alternative sources of supply had been contacted and other justification showing consideration of cost.

To determine whether OTP procurements were within the 50-mile geographical limitation, we reviewed all OTP procurements made by the five agencies in the Washington, D.C., store during May and June 1985. Our approach was to review the shipping address of each procurement to determine whether the destination point was within 50-miles of Washington. A limitation of this approach is that procurements could undergo a second shipment or be hand-carried outside the 50-mile radius. The amount of time required to trace equipment to final destination precluded our undertaking a more thorough examination of this rule.

EFFECT OF OTP ON SMALL BUSINESSES

In response to the third question, our objectives were to investigate the following areas: small business involvement with Schedule C; OTP's effect on vendors that left Schedule C; OTP's effect on vendors currently on Schedule C; OTP's effect on competitors in the Washington, D.C., area that are not on Schedule C; and characteristics of the microcomputer market in general.

To perform this work, we relied on data from Math Box, Inc., on OTP's sales during May and June 1985; on Schedule C data from GSA covering April 1, 1984, through October 30, 1985; and on interviews with the Vice-President of Math Box, Inc., in charge of OTP, GSA's OTP Contracting Officer's Technical Representative, GSA's Schedule C Branch Chief, 11 Schedule C vendors, 2 computer trade associations, and 4 computer vendors in the Washington, D.C., area that are not on Schedule C.

We used the term "small business" as defined by the Small Business Administration (SBA). According to an official at SBA's Office of Size Standards, there is no size standard for computer

retailers. The standard commonly employed by SBA is a two-tiered one for computer wholesalers: 500 employees must be in wholesale operation or the computer or related item must be manufactured by a firm with no greater than 1,000 employees. In its criteria for defining a small computer business, SBA does not use the small business's revenue.

Our approach was limited because we did not review small businesses marketing peripheral equipment or supplies.

COST OF ITEMS PURCHASED AT OTP VERSUS ESTIMATEDCOST OF USING SCHEDULE CONTRACTS

The following chart presents the detailed results of our comparisons of the estimated schedule contract prices to actual purchases at OTP stores. The items selected for comparison comprised 75 percent of OTP sales for May and June 1985. The specific products were grouped into the following classes:

- computers,
- software,
- storage devices,
- monitors,
- boards,
- modems,
- printers and plotters, and
- miscellaneous.

**COST OF ITEMS PURCHASED AT OTP VERSUS ESTIMATED COST
OF USING SCHEDULE CONTRACTS ^a
MAY/JUNE 1985**

COMPUTERS	COST FROM SCHEDULE	COST FROM OTP	DOLLAR DIFFERENCE OTP - SCHEDULE	PERCENT DIFFERENCE
IBM XT 256K	609,270.00	701,947.95	92,677.95	15.2
Compaq Portable 1000000-002	210,760.00	250,839.11	40,079.11	19.0
Personal Comp w/256K 2DD	182,637.00	208,032.40	25,395.40	13.9
IBM PC AT w/Key	130,416.00	162,264.00	31,848.00	24.4
IBM PC AT Enhanced	122,171.00	149,453.05	27,282.05	22.3
Compaq Plus	116,399.00	130,916.28	14,517.28	12.5
HP110 Portable Computer	68,885.00	52,120.04	-16,764.96	-24.3
Compaq Bullet Model 4	43,296.00	48,146.00	4,850.00	11.2
Compaq Bullet Model 2	33,786.00	37,367.28	3,581.28	10.6
Compaq IV B - w/30 MB Drive	28,890.00	32,038.92	3,148.92	10.9
IBM PC/XT 256K w/8Slot 2 Drive	17,480.00	20,457.20	2,977.20	17.0
256K IBM PC w/One Drive	14,927.00	16,758.00	1,831.00	12.3
Wang 8 Slot PC XC2	13,908.00	14,682.00	774.00	5.6
Compaq Bullet Model 3	12,052.00	13,580.00	1,528.00	12.7
Subtotal	1,604,877.00	1,838,602.23	233,725.23	14.6

^a Items and amounts shown represent 75% of OTP sales in May/June 1985; the value of OTP and Schedule "no-charge" services was not considered.

**COST OF ITEMS PURCHASED AT OTP VERSUS ESTIMATED COST
OF USING SCHEDULE CONTRACTS (CONT'D)
MAY/JUNE 1985**

SOFTWARE	COST FROM SCHEDULE	COST FROM OTP	DOLLAR DIFFERENCE OTP - SCHEDULE	PERCENT DIFFERENCE
Lotus 1-2-3	126,442.80	151,112.16	24,669.36	19.5
D-Base III	95,076.00	98,083.70	3,007.70	3.2
Multimate	33,145.20	58,302.75	25,157.55	75.9
Dos 2.1	15,004.00	16,921.55	1,917.55	12.8
Framework	12,496.10	15,519.35	3,023.25	24.2
Symphony; By Lotus For PC Dos	11,634.30	14,132.00	2,497.70	21.5
Wordstar Professional Micropro	8,657.55	12,072.75	3,415.20	39.5
Crosstalk	7,207.20	11,412.20	4,205.00	58.3
Word Perfect	6,949.80	9,895.35	2,945.55	42.4
Subtotal	316,612.95	387,451.81	70,838.86	22.4

STORAGE DEVICES	COST FROM SCHEDULE	COST FROM OTP	DOLLAR DIFFERENCE OTP - SCHEDULE	PERCENT DIFFERENCE
40MB Fixed/5MB Removable Ext.	24,220.00	22,571.40	-1,648.60	-6.8
5MB Removable Disk External	12,344.00	14,574.80	2,230.80	18.1
IBM PC AT Double Side DD	10,693.00	12,337.50	1,644.50	15.4
20MB Fixed/5MB Removable Cart.	11,416.00	11,960.00	544.00	4.8
3 1/2" Disk Drive For HP110	13,515.00	11,187.90	-2,327.10	-17.2
10MB Fixed/10MB Removable Ext.	6,172.00	9,943.40	3,771.40	61.1
Subtotal	78,360.00	82,575.00	4,215.00	5.4

**COST OF ITEMS PURCHASED AT OTP VERSUS ESTIMATED COST
OF USING SCHEDULE CONTRACTS (CONT'D)**

MAY/JUNE 1985

MONITORS	COST FROM SCHEDULE	COST FROM OTP	DOLLAR DIFFERENCE OTP - SCHEDULE	PERCENT DIFFERENCE
IBM Color Display	60,060.00	68,609.00	8,549.00	14.2
Princeton Monitor RGB	39,468.00	44,834.45	5,366.45	13.6
IBM Monochrome Display	38,896.00	44,024.50	5,128.50	13.2
IBM Monochrome Display and Print Adt.	17,000.00	19,502.50	2,502.50	14.7
Subtotal	155,424.00	176,970.45	21,546.45	13.9

BOARDS	COST FROM SCHEDULE	COST FROM OTP	DOLLAR DIFFERENCE OTP - SCHEDULE	PERCENT DIFFERENCE
384KB Quad Board	151,588.15	171,224.07	19,635.92	13.0
Color Graphics Monitor Adapter	39,674.00	44,979.70	5,305.70	13.4
384K Six Pack	35,280.90	40,108.25	4,827.35	13.7
Paradise Monochrome Graph/Card	13,552.45	15,409.25	1,856.80	13.7
Subtotal	240,095.50	271,721.27	31,625.77	13.2

MODEMS	COST FROM SCHEDULE	COST FROM OTP	DOLLAR DIFFERENCE OTP - SCHEDULE	PERCENT DIFFERENCE
Hayes 1200 Baud Smart Modem	77,989.80	87,560.14	9,570.34	12.3
Hayes Smart Modem 1200 Plus	74,621.40	83,489.43	8,868.03	11.9
Subtotal	152,611.20	171,049.57	18,438.37	12.1

**COST OF ITEMS PURCHASED AT OTP VERSUS ESTIMATED COST
OF USING SCHEDULE CONTRACTS (CONT'D)**

MAY/JUNE 1985

PRINTERS AND PLOTTERS	COST FROM SCHEDULE	COST FROM OTP	DOLLAR DIFFERENCE OTP - SCHEDULE	PERCENT DIFFERENCE
Epson FX-100 + Printer, 136 col.	97,713.00	106,361.61	8,648.61	8.9
HP Laserjet Printer	76,890.00	61,860.50	-15,029.50	-19.6
LQ 1500 Printer	41,151.00	44,098.50	2,947.50	7.2
Epson FX-80 Printer	40,221.00	43,488.95	3,267.95	8.1
Graphics Plotter, 6 Pens	39,795.00	32,366.60	-7,428.40	-18.7
Printer, NEC 8850, 65 CPS	28,405.00	31,801.45	3,396.45	12.0
Diablo 630 Printer	21,630.00	24,094.90	2,464.90	11.4
NEC 3550 Printer	20,387.00	23,086.25	2,699.25	13.2
Okidata 93P w/IBM Plug and Play	25,234.00	20,558.27	-4,675.73	-18.5
Subtotal	391,426.00	387,717.03	-3,708.97	-.01

MISCELLANEOUS ITEMS	COST FROM SCHEDULE	COST FROM OTP	DOLLAR DIFFERENCE OTP - SCHEDULE	PERCENT DIFFERENC
Etherlink	18,190.00	18,343.00	153.00	0.8
IBM PC AT 256K Mem. Mod Kit	9,436.00	11,478.75	2,042.75	21.7
Subtotal	27,626.00	29,821.75	2,195.75	8.8
TOTAL	2,967,032.65	3,345,909.11	378,876.46	12.8

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