



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

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March 24, 1982

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The Honorable Jack Brooks
Chairman, Committee on
Government Operations
House of Representatives

RELEASED

Dear Mr. Chairman:

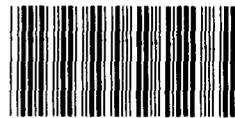
Subject: Teleprocessing Services Contracts for the Support of Army and Navy Recruitment Should be Re competed (AFMD-82-51)

In your January 7, 1982, letter (encl. 1), you asked us to investigate the conditions that led to the award of teleprocessing services contracts for the Army REQUEST-RETAIN and Navy PRIDE systems, including identifying the responsible officials. You also asked us to determine whether these contracts should be immediately re competed. On February 4, 1982, we briefed your office on the results of our review and gave you the names of the responsible officials.

Both the Army and the Navy have acquired teleprocessing services from Boeing Computer Services Company to support their recruiting efforts. Both are experiencing high cost overruns. The Army's initial cost projection for the Boeing proposal was about \$8.5 million for the 60-month life of the contract; it now projects a cost of about \$120 million. The Navy's initial cost projection for the Boeing proposal was about \$524,000 for the 42-month life of the contract; it now projects a cost of about \$13 million. Both the Army and the Navy used benchmarks 1/ to evaluate proposals. Neither benchmark adequately represented the actual workload subsequently placed on the system and as a result was a poor indicator of system life costs.

Computer resources used by both the Army and the Navy greatly exceeded the amount anticipated. Because Boeing submitted an

1/A benchmark, as used here, is a set of computer programs and associated data tailored to represent a particular workload and used to evaluate system performance and cost. In many teleprocessing services acquisitions, the benchmark is the primary evaluation tool and is used to project system life costs of each competing vendor.



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apparently unbalanced proposal (see p. 4) in which commercial rates were charged for teleprocessing services beyond the projected level, both services incurred costs well beyond that expected. Further, the lack of appropriate management controls--budgetary and cost controls for the users--has also contributed to the problem of excessive costs.

SCOPE AND METHODOLOGY

We conducted our review in accordance with the Comptroller General's standards for audit of Government organizations. We interviewed officials from all the organizations involved in the procurement: the Defense Supply Service-Washington, the Army Military Personnel Center, the Navy Recruiting Command, the Navy Automatic Data Processing Selection Office, and the General Services Administration (GSA). We held discussions with representatives of Boeing Computer Services Company and Computer Sciences Corporation. We reviewed contracts, billings, correspondence, and other documents supplied by the Army and the Navy. We also reviewed our decisions regarding unbalanced proposals and information contained in our workpapers from an ongoing Government-wide review of benchmarking activities.

ARMY REQUEST-RETAIN SYSTEM

In August 1980, GSA awarded a contract to Boeing for teleprocessing services to support the Army's recruiting efforts. The procurement was fully competitive and Boeing was one of four vendors that participated in the benchmark demonstration. An Army selection committee used the benchmark results to evaluate the proposals and select the vendor. The selection was approved through normal Army channels.

In December 1980, before actual performance began ¹/ and before any actual cost data had been generated, we reviewed this benchmark in response to a bid protest and concluded that it was adequate for evaluating costs associated with an estimated peak load of 139 simultaneous users. In our current review of substantially different and much broader aspects of the procurement, conducted in response to this request, we found that in other respects the Army's benchmark did not accurately represent its actual programs and transactions. In addition, the Army's workload projection did not include

--the support of recruiting and reenlistment activities outside the continental United States,

¹/The contract was in the "conversion" stage, when technical adjustments, reprogramming, training, and other activities associated with transfer of the system from the incumbent contractor to Boeing were ongoing.

--an increased number of users accessing the system at the same time, and

--a planned addition to the REQUEST-RETAIN system.

Under the terms of the contract with Boeing, Army pays a scheduled flat charge per month for using up to a fixed amount of computer services. Charges for these services range from no charge the first month to \$160,000 a month during the fifth year of the contract. For computer resources usage above the fixed amount, the Army pays standard commercial rates. Although the Army anticipated that its entire usage would be at the reduced rate, as of December 1981 about 87 percent of Army's computer resource consumption was being billed at the higher commercial rates. According to Boeing officials, Army estimated a peak number of 139 simultaneous terminal users, but the actual peak number is 248, and the Army uses two and one-half times the estimated amount of connect time.

We considered whether the increased cost for services was due to a rise in the number of recruits. Analyzing data for two comparable time periods, we found that although the number of enlistments decreased by 18 percent, the cost for teleprocessing services to enlist a recruit almost tripled under the Boeing contract. The Army enlisted 102,453 recruits during the months of June through October 1981 at an average teleprocessing cost of \$69.70. During the same period in 1980, under the previous contract with Computer Sciences Corporation, the Army enlisted 120,521 recruits at an average teleprocessing cost of \$23.57.

In January 1982, the Army began discussions with Boeing to renegotiate the contract charge rates. At present they are satisfied with Boeing's services and have no plans to recompetete.

NAVY PRIDE SYSTEM

In November 1979, the Navy awarded a contract to Boeing Computer Services Company for teleprocessing services. We found that the procurement was fully competitive and six vendors successfully completed the benchmark demonstration. The Navy established a Source Selection Evaluation Board and a Source Selection Advisory Council for the PRIDE acquisition. The board evaluated the proposals and the advisory council reviewed the evaluations and recommended a vendor to be awarded the contract.

We found that the benchmark the Navy used in estimating the cost of services had shortcomings similar to the one used by the Army in that it represented only 30 to 40 percent of the actual workload subsequently placed on the Boeing system by the Navy Recruiting Command. The Navy

--underestimated the number of users accessing the system at the same time, and

--used a benchmark that did not adequately represent the PRIDE system's programs and transactions.

Under the terms of the contract, Boeing provides the Navy with certain levels of computer service at no charge. Beyond these levels, Boeing charges standard commercial rates. The Navy anticipated that charges for service would average about \$12,475 monthly. Although Navy officials believe the workload has not substantially increased, the average bill per month was \$291,881 for the first 9 months of fiscal 1981. In July 1981, the Navy renegotiated the contract with Boeing to obtain a reduction of 35.5 percent on all charges over \$200,000, in addition to their continued levels of free usage. In the 6 months following renegotiation, the Navy has had an average bill of \$286,465. Boeing officials contend that the Navy uses computer resources greatly in excess of its original estimate. According to Boeing officials, the Navy estimated a peak number of 35 simultaneous terminal users but the actual peak number is 90. They said further that the Navy uses double the amount of estimated connect time and six times the estimated storage requirement.

Again, we considered whether the increased cost for services was due to a rise in the number of recruits. Analyzing data for two comparable time periods, we found that while enlistments have increased by 3 percent, the cost for teleprocessing services to enlist a recruit under the Boeing contract has about doubled. The Navy enlisted 73,216 recruits during the months of October 1980 through June 1981 at an average teleprocessing cost of \$36.44. During the same period in the preceding year, under the previous contract with Computer Sciences Corporation, the Navy enlisted 70,786 recruits at an average teleprocessing cost of \$18.10.

The Navy is constructing a new benchmark and working on a new request for proposals which it plans to issue during April 1982. It plans to award a new contract for teleprocessing services by February 1983.

UNBALANCED PROPOSALS

We considered the possibility that Boeing's rates for services might constitute an unbalanced proposal. A mathematically unbalanced proposal is one based on prices that are significantly less than cost for some work and significantly more than cost for other work. Our decisions indicate that a mathematically unbalanced proposal need not be rejected when the agency's quantity estimates are a reasonably accurate representation of actual requirements. If they are not, there is no assurance that the proposal evaluated as low will actually result in the lowest cost to the Government, and the proposal should be rejected and the estimates revised. In both the Army and Navy procurements, the estimates were not a reasonably accurate representation of workload requirements. The possibility of unbalanced proposals was not raised in the GAO

bid protests on the REQUEST-RETAIN system; however, the Navy specifically recognized this unbalancing problem in handling another vendor's protest, which was filed only with the Navy.

GSA has recognized that unbalanced proposals are a problem in the procurement of teleprocessing services. In September 1981, GSA amended the Teleprocessing Services Program Basic Agreement 1/ to include specific clauses that would limit the probability of receiving unbalanced proposals. GSA also issued a report that provided recommendations on

- techniques for evaluating proposals when the workload is not defined,
- ways to contractually minimize unbalanced proposals, and
- ways to recognize unbalanced pricing structures.

The report recognized that when the agency cannot specify the workload, unbalanced pricing can result in a disproportionate increase in the evaluated price.

MANAGEMENT CONTROLS

The increase in usage has clearly contributed to the growth in costs for both of the contracts. The Army and the Navy have not implemented the recommendations to all agency heads in our report "Accounting for Automatic Data Processing Costs Needs Improvement," 2/ our "Guidelines for Accounting for ADP Costs," 3/ and Office of Management and Budget Circular No. A-121 (Sept. 16, 1980). While these primarily address the establishment of cost accounting, operating budgets, and cost reimbursement by users of in-house facilities, their intent is to institute businesslike procedures to account for and allocate all costs of data processing to users according to the service they receive. All costs of contractual services, including those for teleprocessing services, should be accounted for, billed to, and, if feasible, reimbursed by the user. Such usage can then be appropriately controlled in the context of other user expenses through operating expense budgets. Finally,

1/The Basic Agreement is an agreement between GSA and a number of teleprocessing services vendors. It contains standard provisions, other than technical or cost, that apply to future procurements.

2/FGMSD-78-14, Feb. 7, 1978.

3/Federal Government Accounting Pamphlet No. 4, June 1978, as required by Defense Directive 7920.1 "Life Cycle Management of Automated Information Systems" (Oct. 17, 1978).

both the Army and the Navy experience significant peak demand periods with large numbers of simultaneous users, and should consider surcharges and discounts for different periods and priorities of usage. (See Federal Government Accounting Pamphlet No. 4, p. 30.)

As explained in our August 1979 exposure draft "The ADP Planning Process," we believe the reporting of actual-to-planned usage in physical and dollar terms to user management is an essential element of management planning and control for automatic data processing. In our recent study ^{1/} of computer acquisition practices at 18 non-Federal organizations, we found that making the information user responsible for defining and paying for information system services was a primary tool to ensure that such services are beneficial and cost effective.

CONCLUSIONS

Both the Army and the Navy failed to construct benchmarks that adequately represented their actual workloads. In addition, the winning vendor submitted an apparently unbalanced proposal which provided substantial credits for the benchmark workload while charging commercial rates for additional work. Because of the combination of these factors, the Army and the Navy greatly underestimated system life costs.

We believe that both the Army and the Navy can achieve significant savings by immediately recompeting both contracts and using representative benchmarks in the evaluation of vendor proposals. We also believe both services could substantially reduce costs now and in the future by (1) implementing appropriate management controls over the usage of these systems and (2) eliminating nonpriority usage and improving the operational efficiency of the systems.

RECOMMENDATIONS

To substantially reduce the costs of the teleprocessing services that support Army and Navy recruiting efforts, we recommend that the Secretaries of the Army and the Navy take steps to immediately recompetete, including the development of a new benchmark, for teleprocessing services now provided by the Boeing Computer Services Company.

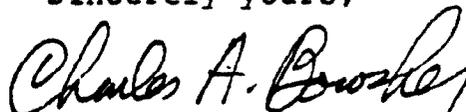
^{1/}"Non-Federal Computer Acquisitions Practices Provide Useful Information for Streamlining Federal Methods" (AFMD-81-104, Oct. 2, 1981).

We further recommend that the Secretaries of the Army and the Navy (1) institute appropriate management controls over the usage of these systems through the operating expense budgets of the users by distributing the costs of teleprocessing according to the service received, and (2) direct the program managers to to expeditiously reduce costs by eliminating nonpriority usage and improving operational efficiency.

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As you requested, no official comments were obtained from the Army or the Navy on our findings, conclusions, and recommendations. As arranged with your office, unless you publicly announce the contents earlier, we plan no further distribution of this report until 30 days from its date. At that time we will send copies to the Director of the Office of Management and Budget, the Secretary of Defense, the Secretary of the Army, the Secretary of the Navy, Boeing Computer Services Company, and Computer Sciences Corporation, and will make copies available to other interested parties.

Sincerely yours,



Comptroller General
of the United States

Enclosure

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Congress of the United States
House of Representatives

COMMITTEE ON GOVERNMENT OPERATIONS

2157 Rayburn House Office Building

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January 7, 1982

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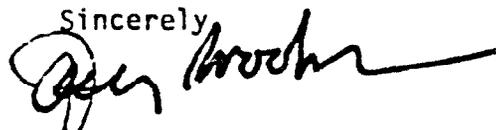
The Honorable Charles A. Bowsher
 Comptroller General
 General Accounting Office
 441 G Street, N.W.
 Washington, D.C. 20548

Dear General:

I have recently been made aware of two ADP telecommunications procurements that have resulted in the government being billed anywhere from 30 to over 100 times as much as the winning vendor's evaluated system life costs. In one case, the Navy for its Project PRIDE awarded a contract where the evaluated costs were about \$12,000 per month whereas the first month's bill was \$350,000. In the other case, the bill expected by the Army for its Project Request and Retain was \$10,000 per month but the actual first month's bill was \$1.3 million. These contracts not only represent a waste of the taxpayers' money, but also show DOD's continued inability to efficiently manage its ADP resources.

I request that GAO undertake an immediate investigation to determine (1) what conditions led to the award of these two specific contracts, including the officials responsible for these procurements, and (2) whether these contracts should be immediately recompeted. While this review should be completed within 30 days, I request that GAO initiate a longer term review to determine if a similar pattern of abuse exists in the award of teleprocessing contracts in other agencies and what actions can be taken to remedy this situation on a government-wide basis. Since Dr. Carl Palmer of the Accounting and Financial Management Division is already familiar with these contracts, I request that Dr. Carl Palmer be assigned this review.

With best wishes, I am

Sincerely

 JACK BROOKS
 Chairman