

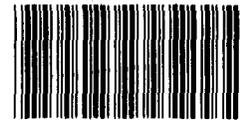
GAO

Report to the Chairman, Committee on
Government Operations, House of
Representatives

April 1990

RETIREMENT
SYSTEM

Concerns About OPM's
FERS Automated
Processing System
Procurement



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Information Management and
Technology Division

B-238930

April 4, 1990

The Honorable John Conyers, Jr.
Chairman, Committee on
Government Operations
House of Representatives

Dear Mr. Chairman:

This report responds to your December 11, 1989, request that we review a planned \$54 million procurement by the Office of Personnel Management (OPM). OPM plans to develop an automated system to support the Federal Employees Retirement System (FERS) and buy hardware compatible with International Business Machines, Inc. (IBM) equipment for this new system and to enhance the Civil Service Retirement System.¹ You asked that we determine whether (1) the request for proposals contains unnecessarily restrictive specifications and conditions and (2) whether OPM received any outside assistance in developing the requirements and the request for proposals. Details on our objectives, scope, and methodology are included in appendix I.

At the time of our review, OPM was in the proposal evaluation phase of this procurement. Information related to the competition, including the number of offerors, is procurement sensitive and thus is not discussed in this report.

Results in Brief

We found that the technical specifications in the FERS request for proposals were not unduly restrictive. We also found that OPM did not act improperly in obtaining assistance from two outside sources in developing the request for proposals. However, in seeking to reduce project risk, OPM required prospective vendors to meet six experience requirements on a strict go/no go basis.² We believe that OPM's objective of reducing risk was proper but that the go/no go basis for evaluation may have unnecessarily restricted competition for the procurement. Further, even after complaints by potential offerors that the go/no go requirements

¹OPM currently manages two federal retirement systems: FERS and the Civil Service Retirement System. FERS covers over 900,000 federal employees including 9,000 annuitants, and is supported by an automated/manual system. The Civil Service Retirement System covers nearly 2 million federal employees and over 2 million annuitants and is supported by an IBM-compatible automated system.

²In the request for proposals, the experience requirements are located in Section L.32 and the go/no go evaluation approach is described in Section M. Under a go/no go evaluation, vendors who fail to meet one or more of the requirements are eliminated from the procurement competition.

were overly restrictive, OPM did not adequately evaluate the effect of these requirements on potential competition.

Given the magnitude of this procurement and the concerns raised by potential offerors, we believe it would be prudent for OPM to determine if a less restrictive approach, such as awarding offerors points for their experience, would meet the agency's minimum needs.

Recommendations

We recommend that the OPM Director not award the FERS Automated Processing System contract until OPM has:

- reviewed the validity of vendor concerns regarding the impact of these requirements on competition; and
- determined whether OPM's method of evaluating them on a go/no go basis is needed or whether a less restrictive method, such as using a weighted point system to consider vendors' experience, could adequately meet OPM's needs.

If OPM determines that the go/no go experience requirements unnecessarily restricted competition, we recommend that the OPM Director ensure that the request for proposals is revised and that the procurement is reinitiated.

Background

On June 6, 1986, the FERS Act became law, creating a new retirement plan for federal employees. FERS covers most of the 820,000 federal employees hired after December 31, 1983, and around 60,000 employees who transferred to FERS from the Civil Service Retirement System during the 1987 open season. OPM administers both the FERS Basic Benefit Plan and the Civil Service Retirement System.

Soon after FERS was enacted, the OPM Director determined that an automated system was needed to support processing claims and benefits for future FERS annuitants. In June 1989, after a FERS system conceptual design was developed, OPM issued a request for proposals to hire the services of a contractor for 8 years to:

- design, develop and implement the FERS automated processing system;
- acquire IBM-compatible hardware and software to support development and operation of the FERS system and to upgrade operation of the present Civil Service Retirement System; and

- provide data-processing services as required by OPM for FERS and the Civil Service Retirement System.

The FERS system project, which is estimated to cost \$54 million, is the largest single automated data-processing project that OPM has undertaken.

OPM's Mandatory Experience Requirements May Have Unduly Restricted Competition

In developing its request for proposals for the FERS system, OPM sought to reduce project risk by requiring vendors to meet six mandatory experience requirements. OPM felt that these requirements would ensure that only experienced vendors could participate. One of these requirements, for example, states that offerors must demonstrate that they have successfully completed at least two large-scale systems integration projects, involving both the installation of a mainframe computer and design and development of large-scale transaction processing systems. (See app. II for a complete list of these requirements.) OPM also decided to evaluate each vendor's experience on a go/no go basis, which means that unless a company can meet all six requirements, it will not be considered further for the contract. According to the FERS project manager, these restrictions were needed to limit competition only to offerors who have credible depth and breadth of experience on similar systems development projects.

After the request for proposals was issued in June 1989, two vendors questioned the mandatory experience requirements, stating that they appeared to be too restrictive and suggesting that if these requirements were not changed, the vendors would not compete. OPM responded by stating:

"We have reviewed our rationale for constructing the solicitation with the high hurdle factors as they now appear.³ We believe the experiences represented by the high hurdle factors are essential to achieve the objectives of this project in a timely, efficient and effective way. Moreover, we have no reason to believe that these provisions will preclude a competitive procurement."

OPM made minor changes to its experience requirements in response to the vendors' comments, but did not change the go/no go evaluation method.

³OPM sometimes refers to its mandatory experience requirements as "high hurdles."

OPM's decision to evaluate its experience requirements on a strict go/no go basis restricted the competition to firms that could meet all those requirements. We agree with OPM's objective of minimizing project risk. However, we are not aware of any reason why OPM could not have adequately addressed this issue with a less restrictive evaluation approach, for instance, one that would have given vendors the opportunity to demonstrate equivalent or even superior experience as a result of similar or more difficult undertakings.

OPM staff said that they did not refer vendor complaints about the experience criteria and the go/no go evaluation to OPM's Competition Advocate⁴ because they viewed the complaints as technical issues, not issues related to competition. OPM staff said that they believed the procurement would be competitive, despite vendor misgivings about the mandatory experience requirements. This belief was based primarily on the number of vendors who visited the reading room (72), attended the pre-proposal conference (32), and visited the FERS processing site in Pennsylvania (8).

We believe that OPM's method of estimating potential vendor interest was inadequate and that OPM should have taken greater steps to assure that the request for proposals would promote maximum competition. In particular, we believe OPM erred in concluding that the vendors' concerns about the experience requirements were technical issues that would not deter competition. Both complaints specifically challenged the restrictiveness of the go/no go experience criteria and both clearly indicated the vendors, who had spent considerable resources preparing for the competition, would not participate further if the requirements were not changed.

We believe it was unreasonable for OPM not to have recognized the vendors' concerns as evidence that these experience requirements may have been unnecessarily restrictive. Moreover, given these clear challenges to the restrictiveness of the solicitation and threatened withdrawals by vendors, OPM staff should have been alerted that the competition may be unduly limited. Attendance by potential offerors at specific OPM events and locations is questionable support for the agency's conclusion that its

⁴The Competition in Contracting Act requires an executive agency to designate a Competition Advocate who is responsible for "challenging barriers to and promoting full and open competition." 41 U.S.C. 418 (1984).

request for proposals was appropriately competitive. Further, attendance at events is not relevant to determining whether the go/no go evaluation approach was necessary.

Technical Specifications Did Not Unnecessarily Restrict Competition

Our review of the technical specifications in the FERS request for proposals did not reveal any requirements that posed an unnecessarily restricted competition. The request for proposals contained functional specifications, which, according to the Federal Information Resources Management Regulation Part 201-30.013-1, are the most desirable for maximizing competition. Also, the procurement did not restrict equipment to any specific type, such as a particular size computer that only one manufacturer could supply. Further, vendors said that they believed the technical specifications were competitive and did not favor any particular vendor. Finally, while the technical specifications limit the procurement to IBM-compatible computers and peripheral equipment, OPM properly justified this restriction based on agency needs and a study that estimated it would cost over \$21 million to convert software to a non-IBM-compatible format.

OPM's Use of Contractors to Help Develop the FERS Request for Proposals Was Proper

OPM properly obtained help from two outside contractors—American Management Systems, Inc. and Compuware Corporation—in developing the FERS request for proposals. OPM contracted with American Management Systems, a consulting firm, to perform a variety of services, including writing and reviewing portions of the request for proposals. The American Management Systems staff helped write the two sections of the request for proposals that contain the experience requirements and the evaluation criteria. Because of the contractor's extensive involvement in developing and reviewing the document, OPM properly precluded American Management Systems from competing on future FERS system contracts.

OPM also obtained help from on-site Compuware personnel in writing the hardware technical specifications in the request for proposals. OPM has an ongoing contract with Compuware to provide software and hardware support services for the Civil Service Retirement System. Because the assistance was limited to compiling information on the amount and size of computers needed to run FERS, OPM properly determined that Compuware would not have an unfair competitive advantage and did not prohibit the firm from competing in the procurement.

We conducted our review from December 1989 through March 1990 at OPM headquarters in Washington, D.C., and at vendor locations in the Washington, D.C. metropolitan area. Our review was conducted in accordance with generally accepted government auditing standards. In accordance with your wishes, we did not obtain official agency comments on a draft of this report; however, we discussed our review with OPM officials and have incorporated their views where appropriate.

As arranged with your office, unless you publicly announce its contents earlier, we plan no further distribution of this report until 30 days after the date of this letter. At that time, we will send copies to the Chairman of the Senate Committee on Governmental Affairs; the Director, OPM; other interested parties; and will make copies available to others upon request. This report was prepared under the direction of Jack L. Brock, Jr., Director, Government Information and Financial Management Issues, who can be reached at (202) 275-3195. Other major contributors are listed in appendix III.

Sincerely yours,



Ralph V. Carlone
Assistant Comptroller General

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Abbreviations

ADP	Automated Data Processing
FAPS	FERS Automated Processing System
FERS	Federal Employees Retirement System
GAO	General Accounting Office
IBM	International Business Machines
IMTEC	Information Management and Technology Division
OPM	Office of Personnel Management

Objectives, Scope, and Methodology

On December 11, 1989, the Chairman, House Committee on Government Operations, asked that we review a \$54 million procurement by OPM to (1) develop an automated system that would support FERS and (2) acquire IBM-compatible computer hardware for both the new FERS system and the Civil Service Retirement System. Our specific objectives for this assignment were to determine if (1) the procurement contained unnecessarily restrictive specifications and conditions, and (2) OPM received assistance from any outside sources in developing the requirements and the request for proposals for the procurement.

To determine if the procurement contained unnecessarily restrictive specifications and conditions, we reviewed the provisions of the Competition in Contracting Act, the Federal Acquisition Regulation, and the Federal Information Resources Management Regulation regarding competition and vendor experience requirements. Further, we discussed with private industry officials any requirements they believed were overly restrictive. We also interviewed OPM officials to determine their rationale for having restrictive requirements, examined OPM documents regarding the types of restrictions needed for the procurement, reviewed information from Datapro¹ to determine if the requirements were overly restrictive, and assessed OPM's software conversion study, which concluded that the FERS system should be IBM-compatible.

To determine what assistance OPM received from outside sources, we interviewed FERS Design Division staff, who developed the FERS system request for proposals. Additionally, we reviewed OPM documents related to the FERS system development project including the conceptual design for FERS, draft statement of work for the FERS system, FERS system project summary, consulting contract with American Management Systems, and FERS system request for proposals. We interviewed American Management Systems and Compuware personnel to determine what assistance they gave to OPM in developing the request for proposals.

Our review was conducted at OPM Headquarters in Washington, D.C., and at vendor locations in the Washington, D.C. metropolitan area. Our review was conducted from December 1989 through March 1990. We performed our work in accordance with generally accepted government auditing standards.

¹Datapro is a trade publication that provides detailed information on computers, peripheral equipment, and software.

Vendor Experience Criteria

Section L.32 of the FERS Automated Processing System (FAPS) request for proposals contains six experience criteria that vendors must meet on a go/no go basis. The criteria presented below are taken verbatim from the FAPS request for proposals.

Criterion #1: Defined Benefit Programs. Minimum of two (2) major projects successfully completed by the Offeror and/or subcontractor(s) in support of the development, implementation and/or improvement of public or private sector defined benefit pension programs (each covering a minimum of 15,000 employees) similar in character and complexity to the Federal Employees Retirement System. Projects should show an in-depth understanding of these programs and the ability to apply that understanding to the development of new systems. It is desirable that the prime contractor have defined benefits experience.

Criterion #2: Applications Development. Minimum of two (2) application development projects successfully completed by the Offeror and/or subcontractor(s) which are similar in size, scope and complexity to FAPS, where "size, scope, and complexity" are represented by full life-cycle development, large scale on-line business-type transaction processing application, at least 200,000 lines of custom COBOL code (or its equivalent if a 4GL is employed), use of data management software to support a 250,000+ record data base and use of the methodologies and tools proposed for FAPS. It is desirable that the prime contractor have this experience.

Criterion #3: Large Scale Systems Integration. Minimum of two (2) successful projects completed by the Offeror which included substantially the same major tasks as FAPS — installation of a mainframe-based platform and design and development of one or more large scale transaction processing applications integral to the operations of the client organization — in which the Offeror had primary responsibility for the integration of all major technology components. A mainframe-based platform in this context is defined as one whose characteristics (size, capacity, throughput, volume, etc.) are similar in size, scope and complexity to the proposed equipment. Projects where a subcontractor served as the prime contractor may not be used to meet the requirements of this criterion.

Criterion #4: Large Scale Data Conversion. Minimum of two (2) projects successfully completed by the Offeror and/or subcontractor(s) which demonstrate the ability to convert large, nonstandard, complex files containing either manual or automated/manual records, where large is at

least 250,000 records. Projects should show the conversion time expended and should demonstrate an understanding of the technical and management complexities of the effort.

Criterion #5: Federal Agencies and Programs. Minimum of two (2) major projects successfully completed by the Offeror and/or subcontractor(s) which demonstrate: (1) an in-depth understanding and ability to comply with Federal policies for accounting and financial management, information resources management, and ADP; and (2) an understanding of the environment in which new Federal programs are implemented.

Criterion #6: Installation and Upgrade of Computing Facilities. Minimum of two (2) major projects successfully completed by the Offeror and/or subcontractor in which a similar technical platform was installed. The platform should encompass systems software and utilities as well as a large mainframe host and associated peripherals. As used in this context, a large mainframe host is defined as one whose characteristics (size, capacity, throughput, volume, etc.) are similar in size, scope and complexity to the proposed equipment. It is desirable to cite projects in which the initial platform was upgraded in a manner similar to that envisioned for FAPS.

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