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Information Management and  
Technology Division

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146530

Mr. James B. Lockhart, III  
Executive Director  
Pension Benefit Guaranty Corporation  
Washington, D.C.

Dear Mr. Lockhart:

We have been reviewing the Pension Benefit Guaranty Corporation's (PBGC) premium accounting system for the House Subcommittee on Oversight, Committee on Ways and Means, and plan to issue a report shortly. As part of our work, we have performed a limited review of the request for proposals (RFP-92-11) for the premium accounting system redesign. The RFP seeks a customized (i.e., not off-the-shelf) system through the use of a fixed-price contract. As you know, the RFP required initial proposals to be received by April 9, 1992. Contract award is currently scheduled for May 26, 1992, and the expected system implementation date is January 3, 1993.

We found that several important RFP functional and system requirements are ambiguous and subject to a broad range of interpretation. Requirements of this type can substantially increase the risk that expected system performance, schedule, and cost objectives will not be met. Moreover, indeterminate requirements can thwart the cost containment objective of a fixed-price contract, if change orders are necessary to correct the contractor's interpretation of the requirements.

To decrease the risk to the government, we believe that PBGC needs to resolve the following concerns, which have already been discussed with your staff

- Although the RFP provides the high-level rules for premium calculations and the forms to be used, the actual computations for the varying types of cases are not described. Instead, PBGC has made documents available in a reading room (copies of the Employee Retirement Income Security Act of 1974, premium packages, etc.) that must be researched to determine

GAO/IMTEC-92-49R PBGC's Premium Accounting System RFP

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the precise computation requirements. It would be helpful to have sample computations that show correct application of the rules to (1) calculate fixed and variable premium amounts due, as well as interest and penalties, (2) post premiums to the various funds, and (3) subtract amounts refunded from the proper funds.

- The RFP provides an ambiguous, high-level description of work-load requirements (e.g., yearly and some monthly, but no hourly data). Thus, PBGC is relying on the offeror to determine the peak work load. This approach is likely to result in different offerors determining different work loads, thus increasing the (1) time required to evaluate proposals, (2) difficulty of comparing proposals, and (3) risk that offerors may not provide systems that meet PBGC's work-load requirements. PBGC could reduce its risk by better defining the work load.
- The RFP states that the system shall be capable of sustaining a 15-percent per year growth in work-load requirements; however, as noted above, the RFP does not provide a work-load baseline, nor does it describe how a 15-percent increase will be determined.
- The RFP states that the automatic data processing equipment configuration shall be augmentable to at least 15-percent per year more than the initial capacity. It is not clear why this requirement is needed given the requirement for the system to meet a 15-percent increase in work load per year.

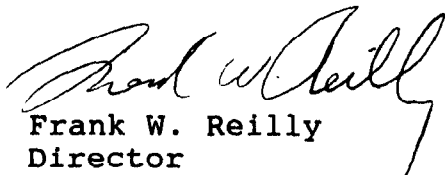
We have two additional concerns about the RFP that you should consider. First, differences in the RFP and responses to vendor questions have left unclear whether PBGC wants to own the application software or will be willing to consider licensed software. Second, the records confidentiality and accountability section has no audit or inspection provision. Because of the sensitivity of the information being processed by the contractor, PBGC needs to be able to ensure the confidentiality of system records by (1) verifying the contractor's procedures, and (2) monitoring compliance with the requirement.

All of the above concerns are meant to be constructive and helpful in terms of reducing overall project risks.

PBGC may wish to reconsider the use of a fixed-price contract. In projects involving a high degree of uncertainty, other contract mechanisms (e.g., cost plus fixed fee) may be more appropriate.

We will be contacting your staff in the near future to discuss these concerns and your approach for resolving them. If you have any questions, please call Bob Cavanaugh at (202) 512-6228.

Sincerely yours,



Frank W. Reilly  
Director  
Human Resources Information Systems

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