

**A**udit



**R**eport

COMPUTER EQUIPMENT ACQUISITIONS FOR THE DEFENSE  
INFORMATION SYSTEMS AGENCY MEGACENTERS

Report Number 99-220

July 21, 1999

Office of the Inspector General  
Department of Defense

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### **Acronym**

DISA

Defense Information Systems Agency



INSPECTOR GENERAL  
DEPARTMENT OF DEFENSE  
400 ARMY NAVY DRIVE  
ARLINGTON, VIRGINIA 22202

July 21, 1999

MEMORANDUM FOR ASSISTANT SECRETARY OF DEFENSE (COMMAND,  
CONTROL, COMMUNICATIONS, AND  
INTELLIGENCE)  
DIRECTOR, DEFENSE INFORMATION SYSTEMS  
AGENCY

SUBJECT: Audit Report on Computer Equipment Acquisitions for the Defense  
Information Systems Agency Megacenters (Report No. 99-220)

We are providing this report for information and use. This audit was requested by Congressman Bob Stump. Because this report contains no findings or recommendations, no written comments were required, and none were received.

We appreciate the courtesies extended to the audit staff. Questions on the audit should be directed to Mr. Joseph Doyle at (703) 604-9348 (DSN 664-9348) or Ms. Myra Frank, at (703) 604-9225 (DSN 664-9225). See Appendix B for the report distribution. Audit team members are listed on the inside back cover.

*David K. Steensma*

David K. Steensma  
Deputy Assistant Inspector General  
for Auditing

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## Office of the Inspector General, DoD

Report No. 99-220  
(Project No. 9CK-5035)

July 21, 1999

### Computer Equipment Acquisitions for the Defense Information Systems Agency Megacenters

#### Executive Summary

**Introduction.** This audit was requested by Congressman Bob Stump, on behalf of a constituent who alleged that the Defense Information Systems Agency (DISA) unnecessarily purchased new mainframe computers for its Megacenters. DISA Megacenters provide DoD-wide information processing services. The allegations stated that the prime contractor misled the Government into purchasing new computer equipment rather than upgrading existing equipment. The constituent also alleged that DISA offered his company a contract to maintain existing computer equipment under false pretenses, knowing that DISA planned to replace the equipment.

**Objectives.** The audit objectives were to evaluate the information used by DISA to determine its computer equipment needs and to determine whether DISA complied with applicable acquisition regulations when acquiring computer equipment. Specifically, we focused on the DISA decision to buy new computer hardware rather than upgrading the existing computer equipment for its Megacenters. We also reviewed the management control program associated with the audit objectives. See Appendix A for a discussion of the scope and methodology.

**Results.** We did not substantiate the allegations. DISA acquired new mainframe computer equipment for its Megacenters in accordance with applicable acquisition regulations. DISA appropriately based its decision to purchase new Clearpath enterprise servers rather than upgrade existing mainframes primarily on cost. We found no evidence that DISA offered the complainant a hardware maintenance contract for existing equipment under false pretenses, knowing that DISA planned to immediately replace the equipment. Management controls were adequate as they applied to the audit objectives. See Appendix A for details of the review of the management control program.

**Management Comments.** We provided a draft of this report on June 15, 1999. Because this report contains no findings or recommendations, no written comments were required, and none were received. Therefore, we are publishing this report in final form.



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## Background

**Introduction.** This audit was requested by Congressman Bob Stump, on behalf of a constituent who alleged that the Defense Information Systems Agency (DISA) unnecessarily purchased 24 Unisys Clearpath mainframe computers for its Megacenters. Specifically, the allegations stated that Unisys misled the Government into purchasing new computer equipment rather than upgrading existing equipment. The constituent alleged that DISA could have received the same result at a significantly lower price by upgrading some of its existing equipment. The constituent also alleged that DISA offered his company a contract to maintain existing computer equipment under false pretenses, knowing that the agency planned to replace the equipment.

**Unisys Mainframe Inventory at Megacenters.** DISA Megacenters provide DoD-wide information processing services on Unisys mainframes. As of September 1997, the DISA mainframe inventory included 72 Unisys 2200 series mainframes, 70 percent of which used obsolete technology that resulted in high operations and maintenance costs. To reduce costs, DISA planned to consolidate the existing mainframe workload and, at a minimum, replace the obsolete mainframes. DISA also considered replacing the entire mainframe inventory.

**Acquisition Strategy.** The DISA acquisition strategy for replacing the obsolete mainframes called for hardware with modern technology, lower operations and maintenance cost, and an open systems environment. DISA limited the acquisition to Unisys mainframes because all DISA customers ran applications that required Unisys proprietary operating systems. The strategy required that replacement hardware be installed in conjunction with the planned consolidation of DISA information processing centers to six Megacenters. (The Megacenter consolidation was part of the DoD overall plan to reduce the Defense infrastructure.)

**Unisys Clearpath.** DISA determined that Unisys Clearpath servers met the replacement criteria. Clearpath offered modern technology and, because it could run Unisys proprietary as well as unrestricted operating systems, Clearpath also offered a bridge to an open systems environment. DISA ultimately determined that replacing the entire mainframe inventory was the best alternative. In July 1998, DISA awarded a contract to replace all 72 mainframes with 24 Clearpath servers. The total cost of the Clearpath equipment and related software was \$160 million. As of February 23, 1999, all Clearpaths were delivered.

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## Objectives

The audit objectives were to evaluate the information used by DISA to determine its computer equipment needs, and to determine whether DISA complied with applicable acquisition regulations when acquiring computer equipment. Specifically, we focused on the DISA decision to buy new computer equipment rather than upgrade existing equipment for its Megacenters. We also reviewed the management control program associated with the audit objectives. See Appendix A for a discussion of the audit scope and methodology and the review of the management control program.

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## Computer Equipment Acquisitions for the Defense Megacenters

This report addresses allegations that DISA unnecessarily purchased new mainframe computers for its Megacenters. Specifically, the report addresses allegations that the prime contractor misled the Government into purchasing new computer equipment rather than upgrading existing equipment. The constituent also alleged that DISA offered the constituent's company a contract to maintain existing computer equipment under false pretenses, knowing that DISA planned to replace the equipment. The allegations were not substantiated.

**Allegation.** The prime contractor misled DISA into unnecessarily purchasing new mainframe computers rather than upgrading existing mainframes.

**Background.** Of 72 Unisys 2200 series mainframes at DISA Megacenters, 21 were 2200/500 models that were not obsolete and could be upgraded to Clearpath.

**Results.** The allegation was not substantiated. The DISA decision to purchase new Clearpath enterprise servers rather than upgrade existing 2200/500 mainframes was based primarily on cost. DISA personnel responsible for cost estimates used in the Clearpath economic analysis stated that DISA never seriously considered upgrading the 2200/500 mainframes because they believed that doing so would not be cost-effective. Although DISA did not document a comparison of the cost to buy versus upgrade, they maintained that significant price increases associated with software license renewal on existing mainframes prevented the upgrade from becoming a viable option. Under the prior hardware and software support contract, DISA paid no licensing fee for use of Unisys software.

To verify DISA claims, we identified 5 of the 24 new Clearpath configurations having workload and performance requirements that could have been performed on upgraded 2200/500s. We compared, over a 5-year period, the cost of the five new Clearpaths to the cost of the upgraded 2200/500s that could have been upgraded instead of purchasing the new Clearpaths. The comparison showed additional costs of \$4.1 million to upgrade existing 2200/500s rather than purchase five new Clearpaths. Specifically, our analysis showed savings of \$441,000 to upgrade rather than purchase 1 of the 5 Clearpaths and a cost of \$4.5 million to upgrade rather than purchase the remaining four Clearpath configurations.

**Allegation.** DISA offered the constituent's company a contract to maintain existing computer equipment under false pretenses, knowing that DISA planned to immediately replace the equipment.

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**Background.** Air Force contract F01620-91-D-0003, which covered software licenses, software and hardware maintenance, and other support services for most of the DISA Unisys workload, expired on December 31, 1997, for software licenses and maintenance; and on March 30, 1998, for equipment maintenance. To obtain continuing support on existing mainframes after the contracts expired, DISA awarded indefinite-delivery, indefinite-quantity contracts to Unisys on December 30, 1997, for software licenses and maintenance; and to the complainant on March 13, 1998, for equipment maintenance.

**Results.** The allegation was not substantiated. We did not find evidence to support the allegation that DISA awarded a hardware maintenance contract to the complainant under false pretenses. When the hardware maintenance contract was awarded on March 13, 1998, DISA did not have an approved acquisition plan. Although DISA capacity managers believed that replacing the entire inventory with new Clearpaths was the best alternative, the DISA February 20, 1998, economic analysis also included an alternative to replace the obsolete portion of the Unisys 2200 series inventory with additional 2200/500s. The acquisition plan to replace all 72 existing mainframes with 24 Clearpath servers was not approved until the end of May 1998, 2 months after DISA awarded the hardware maintenance contract.

Absent a final decision, DISA took appropriate steps to support the existing mainframes and to protect the Government's interest until an acquisition plan and applicable funding were approved. DISA awarded the complainant, an indefinite-delivery, indefinite-quantity hardware maintenance contract with a \$50 million ceiling and a \$100,000 minimum. Federal Acquisition Regulation Part 16.504, "Indefinite-quantity contracts," allows the Government to use an indefinite-quantity contract when it cannot predetermine, above a stated minimum, the precise quantities of supplies or services that will be required during the stated contract period, and it is not advisable for the Government to commit itself to more than a minimum quantity. DISA also included the standard "discontinuance clause" in the contract. The clause allows the Government to cancel at any time prior to the expiration of the delivery order by providing the contractor 30-day advanced written notice. As of April 1, 1999, the constituent had billed \$8.5 million for maintenance services rendered under the contract.

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## Appendix A. Audit Process

### Scope

**Work Performed.** We reviewed the economic analysis, acquisition plans, and contract preaward documents related to the DISA purchase of 24 Clearpath servers under contract DCA200-98-F-0723, awarded July 17, 1998. In our cost comparison of new Clearpaths versus upgraded 2200/500s, we used prices negotiated on the Clearpath acquisition and on support contracts, DCA200-98-D-0019 and DCA200-98-D-0024, for existing 2200/500s. We reviewed contracting policies and procedures DISA used to award FY1998 support contracts for existing Unisys 2200 series mainframes. We interviewed DISA contracting and capacity management personnel involved in support and acquisition contracts for Unisys 2200 series and Clearpath equipment. We also interviewed the complainant.

**DoD-wide Corporate Level Government Performance and Results Act Goals.** In response to the Government Performance and Results Act, DoD established 6 DoD-Wide corporate-level performance objectives and 14 goals for meeting the objectives. This report pertains to achievement of the following objective and goal.

**Objective:** Fundamentally reengineer the Department and achieve a 21<sup>st</sup> century infrastructure. **Goal:** Reduce costs while maintaining required military capabilities across all DoD mission areas. (DoD-6)

**DoD Functional Area Reform Goals.** Most major DoD functional areas have also established performance improvement reform objectives and goals. This report pertains to achievement of the following functional area objectives and goals.

- **Information Technology Management Functional Area.**  
**Objective:** Provide services that satisfy customer information needs.  
**Goal:** Build architecture and performance infrastructures. (ITM 2.1)
- **Information Technology Management Functional Area.**  
**Objective:** Provide services that satisfy customer information needs.  
**Goal:** Modernize and integrate DoD information infrastructure. (ITM 2.2)
- **Information Technology Management Functional Area.**  
**Objective:** Provide services that satisfy customer information needs.  
**Goal:** Upgrade technology base. (ITM-2.3)

**General Accounting Office High-Risk Area.** The General Accounting Office has identified several high risk areas in the Department of Defense. This report provides coverage of the Information Management and Technology high risk area.

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## Methodology

To determine the basis for the DISA decision to buy new computer hardware rather than upgrade existing computer mainframes, we reviewed the economic analysis, acquisition plan, and other preaward documents related to the DISA acquisition of the Unisys Clearpath mainframes. Specifically, we identified new Clearpath configurations with performance and workload requirements that could have been performed on upgraded 2200/500s. To determine whether upgrading the 2200/500s would have been cost-effective, we compared the price of each Clearpath configuration identified to the price of the upgraded 2200/500s that would have been used in place of the new Clearpaths. To determine whether DISA awarded the complainant a contract to maintain existing Unisys mainframe computers under false pretenses, we reviewed the contracting procedures DISA used to award the contract. We also reviewed Clearpath contract pre-award documents and related correspondence to determine when the acquisition was approved.

**Use of Technical Assistance.** We obtained assistance from engineers in the Technical Assessment Division, Office of the Inspector General, DoD, and at the Defense Technical Information Center to determine whether the Unisys 2200/500 series mainframe was upgradeable to Clearpath.

**Audit Type, Dates, and Standard.** We performed this economy and efficiency audit from January 1999 through May 1999 in accordance with auditing standards issued by the Comptroller General of the United States, as implemented by the Inspector General, DoD. Accordingly, we included tests of management controls considered necessary. We did not use computer-processed data to perform this audit.

**Contacts During the Audit.** We visited or contacted individuals and organizations within DISA and the complainant. Further details are available upon request.

## Management Control Program

DoD Directive 5010.38, "Management Control Program," August 26, 1996, requires DoD organizations to implement a comprehensive system of management controls to provide reasonable assurance that programs are operating as intended, and to evaluate the adequacy of the controls.

**Scope of Review of the Management Control Program.** We reviewed management controls over computer equipment acquisitions at DISA. Specifically, we reviewed management controls over contract preparation and review at the Defense Information Technology Contracting Command for FY 1998. We also reviewed management controls for configuration management at the DISA Support Activity for FY 1997 and FY 1998. Because we did not identify a material management control weakness, we did not assess management's self-evaluation.

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**Adequacy of Management Controls.** DISA management controls were adequate in that we identified no material management control weaknesses.

### **Summary of Prior Coverage**

There have been no prior reviews or audits of this subject in the last 5 years.

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## **Appendix B. Report Distribution**

### **Office of the Secretary of Defense**

Under Secretary of Defense (Comptroller)  
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Deputy Comptroller (Program/Budget)  
Assistant Secretary of Defense (Command, Control, Communications, and Intelligence)  
Director, Defense Logistics Studies Information Exchange

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Auditor General, Department of the Army

### **Department of the Navy**

Assistant Secretary of the Navy (Financial Management and Comptroller)  
Auditor General, Department of the Navy

### **Department of the Air Force**

Assistant Secretary of the Air Force (Financial Management and Comptroller)  
Auditor General, Department of the Air Force

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Inspector General, Defense Information Systems Agency  
Director, Defense Logistics Agency  
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Inspector General, National Security Agency  
Inspector General, Defense Intelligence Agency

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Office of Management and Budget  
General Accounting Office  
National Security and International Affairs Division  
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## **Congressional Committees and Subcommittees, Chairman and Ranking Minority Member**

Senate Committee on Appropriations  
Senate Subcommittee on Defense, Committee on Appropriations  
Senate Committee on Armed Services  
Senate Committee on Governmental Affairs  
House Committee on Appropriations  
House Subcommittee on Defense, Committee on Appropriations  
House Committee on Armed Services  
House Committee on Government Reform  
House Subcommittee on Government Management, Information, and Technology,  
Committee on Government Reform  
House Subcommittee on National Security, Veterans Affairs, and International  
Relations, Committee on Government Reform

Honorable Bob Stump, U.S. House of Representatives



## **Audit Team Members**

The Contract Management Directorate, Office of the Assistant Inspector General for Auditing, DoD, prepared this report.

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