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United States General Accounting Office
Washington, DC 20548

February 14, 2003

The Honorable Tom Davis
Chairman, Committee on Government Reform
House of Representatives

Subject: *Contracting for Information Technology Services*

Dear Mr. Chairman:

Federal agencies spend billions of dollars annually acquiring information technology (IT) services from thousands of contractors using a variety of contracting methods. IT services include computer and telecommunication services, as well as the testing, quality control, installation, and operation of computer equipment. You asked us to provide information on how federal spending on IT services has changed in recent years and how that spending currently is distributed among companies of various sizes. In particular, you asked that we include data on medium-size companies because some medium-size companies have expressed concern about the share of IT services spending they receive. We define medium-size companies as those with annual revenues from all sources between \$21 million and \$500 million.¹

In response to your request, we (1) identified trends in federal spending for IT services from fiscal years 1997 to 2001 and (2) determined the distribution of federal spending for IT services among small, medium-size, and large businesses in fiscal year 2001, the latest year for which such information was available.

Results in Brief

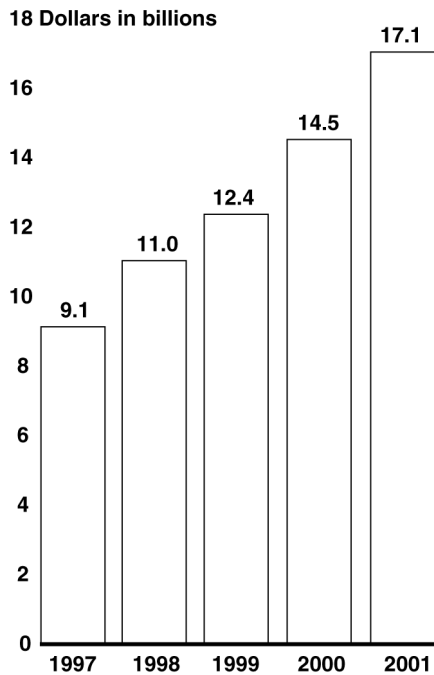
Federal spending on IT services almost doubled from fiscal years 1997 to 2001, increasing from \$9 billion to more than \$17 billion. While the Department of Defense (DOD) remained the single largest purchaser of IT services throughout the period, spending on IT services through the General Services Administration (GSA) greatly increased, mostly the result of spending by GSA's Federal Technology Service on behalf of other agencies. Spending on IT services through GSA's federal supply schedule program grew from about \$405 million to \$4.3 billion. The distribution of IT services spending in fiscal year 2001 was 14 percent to small businesses, 21 percent to medium-size businesses, and 62 percent to large businesses.

¹There is no formal definition of medium-size business. The Small Business Administration (SBA) establishes small business size standards by type of industry. SBA considers an IT services company small if the company has average annual receipts of up to \$21 million over its past 3 fiscal years. We used the \$21 million limit as the starting point to define medium-size firms. Industry representatives differed widely on an upper limit. We used \$500 million, which is approximately mid-point of the range of limits suggested by industry sources.

Spending for IT Services Has Increased, Largely through GSA Contracting Programs

Total spending for IT services increased by 87 percent from fiscal years 1997 through 2001. As shown in figure 1, spending on IT services grew from about \$9 billion to more than \$17 billion.

Figure 1: Total Spending for Information Technology Services, Fiscal Years 1997-2001



Source: Federal Procurement Data System.

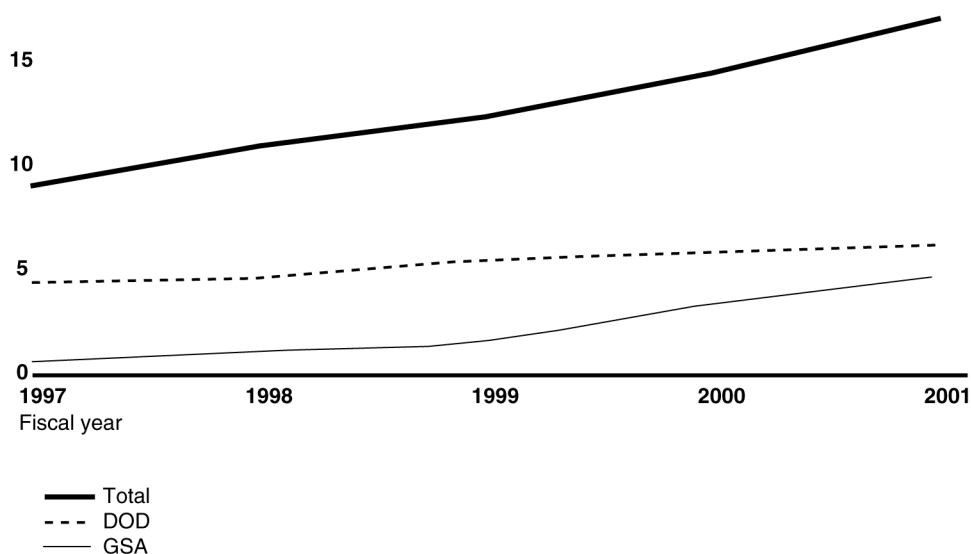
Note: Contract actions over \$25,000. In constant fiscal year 2001 dollars.

The Department of Defense, GSA, and other civilian agencies increased spending on IT services from fiscal years 1997 to 2001. DOD was the single largest purchaser of IT services throughout the period and increased its spending by about 41 percent.² Civilian agencies (other than GSA) increased spending on IT services by about 48 percent. Spending by GSA, especially spending on behalf of other agencies, increased tremendously, going up by about 790 percent. Changes in spending for IT services are depicted in figure 2.

²The figures for DOD and civilian agency spending includes spending by agencies using GSA federal supply schedules but excludes spending by GSA's Federal Technology Service on behalf of these agencies.

Figure 2: Spending on Information Technology Services by All Federal Agencies, DOD, and Through GSA Contracts, Fiscal Years 1997-2001

20 Dollars in billions



Source: Federal Procurement Data System.

Note: Contract actions over \$25,000. In constant fiscal year 2001 dollars.

GSA's share of federal spending (mainly on behalf of other agencies) increased from about 7 percent in fiscal year 1997 to 28 percent in fiscal year 2001, largely because of the tremendous growth in the use of GSA's Federal Technology Service. With funds provided by customer agencies (including DOD, in many cases), the Federal Technology Service provides a number of services, including assistance with defining agency IT requirements, placing orders with vendors, and overseeing transactions. The Federal Technology Service uses a variety of contracting vehicles. For example, it has a contract called Millennium, which is designed specifically for larger IT projects, and an IT services contract called Millennium Lite for smaller projects. Millennium Lite is designed to help small and medium-size businesses compete for orders. It has a maximum value of \$20 billion. Millennium Lite currently has 36 contractors, the majority of which met our definition of a medium-size business.³

Much of the spending by the Federal Technology Service, however, consists of orders placed against GSA's federal supply schedule contracts,⁴ which since 1996 have included IT services. Under its federal supply schedule program,⁵ GSA negotiates contracts with multiple vendors for a wide variety of mostly commercial products and services and permits agencies governmentwide to place orders under these contracts directly with the vendors. Orders for IT services placed by federal agencies against federal supply schedule contracts grew from about \$405 million to \$4.3 billion. (See figure 3.) Orders by the Federal Technology Service accounted for

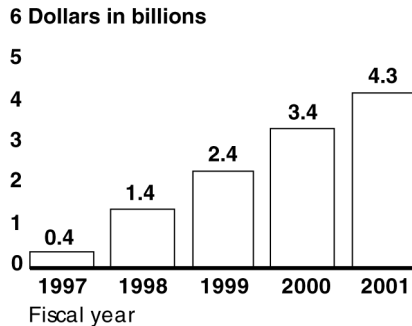
³The Millennium Lite Contract was first awarded in fiscal year 2000 to 43 contractors. According to the Federal Technology Service officials, some of the original contractors were acquired by other businesses.

⁴Orders placed by Federal Technology Service under GSA's federal supply schedule contracts are shown in the Federal Procurement Data System as spending by GSA.

⁵This program is administered by GSA's Federal Supply Service (FSS). Through its schedule contracts, FSS provides federal agencies with access to more than 4 million commonly used commercial supplies such as furniture, computers, tools and equipment, as well as a variety of services.

about 33 percent or \$1.4 billion of the federal supply schedule orders for IT services placed during fiscal year 2001.

Figure 3: Value of Orders for Information Technology Services Using GSA Federal Supply Schedule, Fiscal Years 1997-2001



Source: Federal Procurement Data System.

Note: Contract actions over \$25,000. In constant fiscal year 2001 dollars.

The federal supply schedule was a more important source of contract dollars for medium-size businesses compared to small or large businesses in fiscal year 2001. Medium-size businesses received about 39 percent of their contract dollars through the federal supply schedule, small businesses about 35 percent, and large businesses about 18 percent.

Most Firms Receiving Orders for IT Services are Small, but Large Firms Receive Most of the Dollars

During fiscal year 2001, federal agencies contracted with thousands of businesses to obtain a wide variety of IT services from small, medium-size, and large businesses. As shown in table 1, small businesses made up about 61 percent of the total number of businesses receiving orders for IT services and received about 14 percent, or \$2.3 billion, of the total amount spent.⁶ Medium-size businesses made up 18 percent of the firms and received about \$3.6 billion, or 21 percent of the total amount spent. Most of the medium-size businesses receiving orders were those with total revenues from all sources between \$21 million and \$100 million. Large businesses constituted about 8 percent of the IT services vendors, but received 62 percent, or \$10.5 billion, of total spending for IT services during fiscal year 2001.

⁶Under the Small Business Act, as amended, for a company to be considered to be a small business it must be independently owned and operated and not dominant in its field of operation. The Small Business Administration is responsible for further defining a small business and does this through the small business size standards, 13 C.F.R. §121.201.

Table 1: Distribution of Federal Spending for Information Technology Services, Fiscal Year 2001

	Business Size Category		
	Small	Medium	Large
Dollars Received	\$2,336,151,000	\$3,621,011,000	\$10,575,763,000
Percent ^a	14	21	62
Number of Companies	2,167	635	281
Percent ^a	61	18	8

Source: Federal Procurement Data System and Dun and Bradstreet Corporation.

^aWe were unable to determine the size of 492 businesses which represented 3 percent of total contract dollars for IT services.

Note: Contract actions over \$25,000.

As shown in table 2, ten large businesses accounted for about 41 percent of the total spending for IT services in fiscal year 2001.

Table 2: Companies Receiving the Largest Share of Federal Spending for Information Technology Services during Fiscal Year 2001

Company Name	Percentage of Dollars
1. American Management Systems, Inc.	9.7
2. Lockheed Martin Services	6.7
3. Science Applications International Corporation	5.8
4. Computer Sciences Corporation	3.7
5. Logicon Incorporated ^a	3.0
6. WorldCom Incorporated	2.8
7. Electronic Data Systems Corporation	2.5
8. Unisys Corporation	2.5
9. TRW Incorporated	2.3
10. General Dynamics Information System	2.3
Total	41.2

Source: Federal Procurement Data System and Dun and Bradstreet Corporation.

^aLogicon Incorporated is a subsidiary of the Northrop Grumman Corporation.

Note: Contract actions over \$25,000. Total may not add due to rounding.

Agency Comments

We solicited comments on a draft of this letter from the Small Business Administration (SBA), GSA, and DOD. GSA agreed with the information presented in the letter and offered technical comments, which we have incorporated where appropriate. SBA provided comments concerning our application of the small business size standard and how we defined small, medium-size, and large businesses. In response, we expanded our discussion of the data we used to determine the various size businesses for our analysis. DOD did not provide comments on this letter.

Scope and Methodology

To determine how federal spending on IT services changed from fiscal years 1997 through 2001, we analyzed contract data from the Federal Procurement Data System,⁷ the main repository of federal contracting information on these and other services. The system contains detailed information on contract actions over \$25,000, including services purchased by specific agencies, types of contracts, size of contract actions, and names and types of businesses providing the services. The product and service codes for IT services in our analysis included: D301-D399 for automated data processing (ADP) and Telecommunications Services; H-170, H270, H370, and H970 for quality control, testing, and inspection of ADP equipment; J070 for maintenance and repair of ADP equipment; K070 for modification of ADP equipment; L070 for technical representatives for ADP equipment; N070 for installation of ADP equipment; and U012 for ADP training. We did not independently test the reliability of the data from the Federal Procurement Data System. A recent audit by GSA, however, showed an average accuracy rate of about 96 percent in the Federal Procurement Data System. Data on contract actions under \$25,000 are contained in another database, but this database does not associate contract actions with product and service codes. Therefore, we could not analyze transactions under \$25,000. All contract dollars were adjusted for inflation, and represent constant fiscal year 2001 dollars.

To determine the amount of federal spending that goes to small, medium-size, and large businesses, we analyzed fiscal year 2001 contract data from the Federal Procurement Data System and company size and business relationship data from the Dun and Bradstreet Corporation for the same period. We did not independently determine the reliability of the data received from Dun and Bradstreet. Company size and business relationship data were available only for fiscal year 2001. In order to have a consistent source of data to categorize businesses by size, we used annual revenue data from Dun and Bradstreet. Although SBA considers an IT service company to be small if it has average annual receipts of up to \$21 million over the past 3 years, we used annual receipts just for fiscal year 2001, the only year for which such data were available.

⁷The Federal Procurement Data System collects procurement data from approximately 70 executive branch agencies. The U.S. Postal Service and the legislative and judicial branches are not required to report their procurement activities to the Federal Procurement Data System.

We used the \$21 million limit as the starting point to determine medium-size firms. Industry representatives differed widely on an upper limit. We used \$500 million, which is approximately mid-point of the range of limits suggested by industry sources.

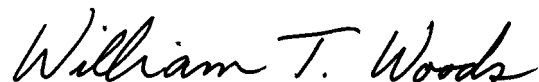
In conducting our analysis, we held discussions with SBA, GSA, and DOD officials, as well as representatives of industry associations. We conducted our review from May through December 2002, in accordance with generally accepted government auditing standards.

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As agreed with your office, unless you publicly announce its contents earlier, we will not distribute this letter until 30 days from its issue date. At that time, we will send copies to the ranking minority member, House Committee on Government Reform; the Secretary of Defense; the Administrator of General Services; and the Administrator of the Small Business Administration. We will also make copies available to others upon request, and the letter will be available free of charge at our Web site, www.gao.gov.

If you have any questions concerning this letter, please call me at (202) 512-8214. The major contributors to this letter were Julia Kennon, Suzanne Sterling, and Karen Zuckerstein.

Sincerely yours,

A handwritten signature in black ink that reads "William T. Woods". The signature is written in a cursive, flowing style.

William T. Woods
Director, Acquisition and Sourcing Management