

096457

3.52.16

COMPTROLLER GENERAL OF THE UNITED STATES

WASHINGTON, D.C. 20548

73-0452

115369

RECEIVED

BEST DOCUMENT AVAILABLE

SEP 1 1972



LM096457

Dear Mr. Chairman:

In response to a request dated May 3, 1972, from the Joint Leasing Committee, we have evaluated comments made by the Computer Leasing Association, Inc., about Government computer acquisition practices. The Association expressed concern about two recent Government actions, the

- 1. 93 -- Marine Corps purchase of two IBM 360/50 computers through the Department of Defense (DOD) automatic data processing (ADP) rental program without soliciting competitive bids and
- 2. 20 -- Army purchase of two IBM 360/50 computers. Only one was identified, a computer purchased directly from the International Business Machines Corporation (IBM) under a 5-year purchase plan and installed at the Army Security Agency.

Although it did not provide specific information, the Association believed that the Government could effect significant savings by acquiring computers under leasing arrangements with companies the Association represented.

To evaluate the Association's comments we interviewed DOD officials and reviewed pertinent DOD documents and files. We also visited several computer-leasing firms to determine the types of service they provide and the relative costs of leasing their systems.

MARINE CORPS ACQUISITION

According to Marine Corps officials, the two IBM 360/50 computers were purchased ~~without soliciting competition~~ for two reasons.

- The two computers, which had been leased by another Government agency, were released and became available under the DOD rental program at a convenient time for Marine Corps use.

~~701254~~

096457

- The purchase price for the used computers was considerably lower than the purchase price for two new IBM computers because of purchase credits accumulated under the other agency's leasing agreement and because of a further discount of \$544,000 offered by IBM.

The Marine Corps officials stated that they believed that under these circumstances the procurement action taken was prudent, even though competitive bids had not been obtained.

The Marine Corps plans to acquire five or six additional computers soon, to be used on the same system as the two computers already acquired. At that time the Marine Corps intends to consider all possible alternative sources and methods of acquisition, including leasing computers from firms such as those represented by the Association.

We do not concur with the Marine Corps that it was prudent to purchase these computers without obtaining competitive bids. However, since the Marine Corps has indicated that it plans to obtain competition on the forthcoming purchases of additional computers, it appears that appropriate procurement methods will be followed in the future.

ARMY ACQUISITION

We limited our inquiry regarding the Army's actions to the computer installed at the Army Security Agency and learned that:

- The computer was leased initially from IBM and installed in December 1970.
- In February 1972 the Army Security Agency and IBM entered into a 5-year lease-purchase agreement, under which leasing costs would be lower and the Government would have an option to purchase the equipment.
- Late in fiscal year 1972, the Army Security Agency solicited competitive bids from firms such as those represented by the Association to determine whether

B-115369

there was a more economical method and/or source for acquiring the type of computer required. No bids were received on this competitive solicitation.

Army officials advised us that, because no firms responded to the Army Security Agency's solicitation, the Army planned to solicit bids for the Army Security Agency's requirements as part of a larger competitive computer procurement. These officials were optimistic that bids would be obtained in the new solicitation--planned for about September 1972--because the larger number of computers involved could be more profitable to many leasing firms. Until action has been completed on the proposed solicitation, the Army Security Agency will continue to lease the computer from IBM.

Because firms such as those represented by the Association did not take advantage of an opportunity to bid on this requirement--and will soon have another opportunity to do so--we cannot comment at this time on the savings that may be realized.

ACQUISITION POLICIES

On October 30, 1965, the Congress enacted Public Law 89-306, providing the General Services Administration exclusive authority for procuring all general-purpose ADP equipment for use by Federal departments and agencies. This law, however, reserves to the individual agency the right to determine ADP requirements, develop specifications for computers, and select specific types and computer configurations to fulfill its data processing needs and to determine the use to be made of the computer systems. This law also states that ADP equipment suitable for efficient and effective use by Federal agencies shall be provided through purchase, lease, transfer of equipment from other Federal agencies, or otherwise.

Federal departments or agencies have many alternatives available to them in obtaining ADP systems, such as:

--Purchasing them from the equipment manufacturer.

BEST DOCUMENT AVAILABLE

- Renting them directly from the equipment manufacturer.
- Leasing them from a third-party vendor.
- Purchasing used equipment through the reutilization programs administered by the Federal Government.
- Purchasing used equipment from third-party vendors.
- Acquiring computer equipment through the reutilization program at no cost to the secondary agency.

We have issued many reports regarding Federal Government acquisition policies. The latest report, issued dealing with computer-leasing firms was entitled "Multiyear Leasing and Government-wide Purchasing of Automatic Data Processing Equipment Should Result in Significant Savings" (B-115369, Apr. 30, 1971). On page 38 of that report we recommended that the Director, Office of Management and Budget, and the Administrator of General Services "Consider all available supply sources in purchasing equipment and use competition to the maximum extent practicable."

During our present inquiry, we contacted officials of the Navy and the Department of Labor experienced in acquiring computers from computer-leasing firms, and these officials advised us that they were pleased with the computer systems and services provided by these firms. Generally, officials advised us that the main advantage of acquiring systems from leasing firms was cost savings. They said that "Experience has shown that third party sources can provide adequate service for lower costs." Their main objection was that leasing firms could not always have adequate supplies to meet Federal agency needs because leasing firms, as a general rule, do not have inventories of computer systems available to meet immediate computer needs.

We contacted several computer-leasing firms to determine the types of service they provide and the relative cost of leasing their systems. All firms we visited leased IBM System 360s, and officials advised us that their lease rates ranged

from about 75 percent to 90 percent of IBM's lease rates on 1-year contracts for similar equipment; multiyear contract rates are as low as 50 percent of IBM rates. Maintenance for the systems is provided by IBM or other service firms which have maintenance standards in accordance with IBM standards. We learned that leasing firms test their equipment before it is delivered to their customers to insure that it is in satisfactory condition.

The Assistant Secretary of Defense (Comptroller) issued a memorandum on June 13, 1972, concerning acquisition of ADP equipment from third-party leasing firms, stating that all DOD activities should consider computer leasing firms when acquiring equipment. This memorandum stated:

"It is recognized that the nature of the third party leasing market is such that the availability of equipment fluctuates by time and type. Therefore, to take advantage of potential savings through this means requires both advance planning and a responsive decision making process.

"Recently, the DOD has been subjected to criticism for not allowing third party lessors to compete during the purchase of reused equipment or when converting on-hand leased equipment to purchase. Your staffs should actively pursue the merits of third party sources for existing and future acquisition proposals."

We believe that the memorandum was needed and should help to promote consideration of all available sources.

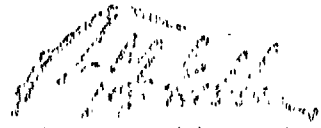
We hope these observations will be useful to you and to members of the Joint Economic Committee in considering the

BEST DOCUMENT AVAILABLE

B-115369

Computer Lessors Association's expression of concern about Government computer acquisition practices. Please advise us if we can be of further assistance.

Sincerely yours,


Arthur J. Altmeyer
Comptroller General
of the United States

The Honorable William Proxmire
Chairman, Joint Economic Committee T 700
Congress of the United States