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# REPORT TO THE CONGRESS

## Multiyear Leasing And Government-Wide Purchasing Of Automatic Data Processing Equipment Should Result In Significant Savings

B-115369

*Federal Supply  
via*

BY THE COMPTROLLER GENERAL  
OF THE UNITED STATES

APRIL 30, 1971

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COMPTROLLER GENERAL OF THE UNITED STATES  
WASHINGTON D C 20548

B-115369

To the President of the Senate and the  
Speaker of the House of Representatives

This is our report entitled "Multiyear Leasing and Government-wide Purchasing of Automatic Data Processing Equipment Should Result in Significant Savings". Our review was made pursuant to the Budget and Accounting Act, 1921 (31 U.S.C. 53), and the Accounting and Auditing Act of 1950 (31 U.S.C. 67)

Copies of this report are being sent to the Director, Office of Management and Budget; the Administrator of General Services; and the heads of Federal departments and agencies.

A handwritten signature in cursive script that reads "James B. Stacks".

Comptroller General  
of the United States

D I G E S T

WHY THE REVIEW WAS MADE

The General Accounting Office (GAO) has reviewed the Government-wide program for acquiring automatic data processing (ADP) equipment because:

- There is continuing and widespread congressional interest.
- The Federal Government, largest user of ADP equipment in the world, has increased its inventory of computer systems from 531 in June 1960 to 5,277 in June 1970, when it owned ADP equipment which cost \$1.9 billion and rented equipment which would cost \$1.2 billion to purchase.
- Expenditures for the purchase and rental of equipment amounted to \$560 million in fiscal year 1969 and have been increasing annually.

The Congress enacted Public Law 89-306 (Brooks Bill), to provide for the establishment of a coordinated Government-wide program for the efficient and economical acquisition of general-purpose ADP equipment. The law made the Office of Management and Budget (OMB) responsible for fiscal and policy control and the General Services Administration (GSA) responsible for operations. To assist GSA in carrying out its responsibilities, the law directed that an ADP Fund be established.

FINDINGS AND CONCLUSIONS

Multiyear leases

ADP equipment may be purchased, rented for short terms (1 year or less), or leased for terms of more than 1 year under leases referred to as multiyear leases

There are many sources for acquiring ADP equipment, including system manufacturers, peripheral component manufacturers, and suppliers who do no manufacturing. The Government continues to obtain most of its equipment from system manufacturers under negotiated contracts through either purchases or short-term rentals. Almost all of the \$390 million that the Government spent to rent ADP equipment in fiscal year 1969 was for short-term rentals--generally the most costly acquisition method. (See p. 12.)

Despite the wide use of short-term rentals, the needs for equipment tend to be for more than 1 year. Of 42 systems rented on a short-term basis and returned to manufacturers in 1969, 29 had been rented for periods of at least 3 years. (See p. 14.)

Most manufacturers offer discounts under multiyear leases. Suppliers other than manufacturers have entered the same market, making competition possible. (See pp. 16 and 19.)

The rental of equipment under multiyear leases, as an alternative to short-term rentals, has become essential if the Government is to make maximum use of its limited funds for acquiring ADP equipment. In GAO's opinion, multiyear leasing is a more economical alternative than short-term rentals when equipment cannot be purchased. In many cases, however, agencies are barred by law from entering into multiyear leases because equipment acquisitions must be financed from 1-year funds which are available only during a specific fiscal year. (See p. 21.)

The ADP Fund administered by GSA appears to be the appropriate vehicle for the Government to use when agencies are barred from entering into multiyear leases. Unless GSA were given new authority, however, money would have to be obligated to cover total anticipated payments under the leases. Accordingly, before the ADP Fund could be used extensively to obtain the benefits of multiyear leasing, its capitalization would have to be increased substantially or GSA would have to be given authority to contract on a multiyear basis without obligating the total anticipated payments at the time of entering into the leases. (See p. 26.)

To obtain an indication of potential savings by entering into multiyear leases, GAO compared multiyear rates offered by manufacturers and other suppliers with short-term rental rates for 1,066 systems in the Government's inventory in June 1969. Included in this comparison were 430 systems for which multiyear leases were legally possible and 636 for which they were not.

The comparison indicated that the rental costs for the 430 systems might be reduced during the lease periods by as much as \$16 million under 3-year leases and by as much as \$28 million under 5-year leases. For the 636 systems, rental costs might be reduced during the lease periods by as much as \$54 million under 3-year leases and by as much as \$127 million under 5-year leases. (See p. 24.)

#### Government-wide purchasing

The Government is not making maximum use of its ADP equipment purchase funds, primarily because agencies continue to make purchase decisions on the basis of their individual funding capabilities and needs. Of \$169 million spent by the Government in fiscal year 1969 for ADP equipment purchases, \$166 million was spent by individual agencies and \$3 million was spent by GSA through the ADP Fund. Systematic analyses

were not made to determine the best buys from the Government-wide viewpoint. (See p. 29 )

If the ADP Fund is to be the central vehicle for the achievement of substantial economies through the development of the coordinated purchase program intended by Public Law 89-306, the fund's capitalization will have to be increased. OMB and GSA should present to the Congress plans showing the potential reduction in costs to be derived from various levels of spending through the ADP Fund for equipment purchases. It could be shown that appropriations for increasing the ADP Fund would be largely offset by decreases in agencies' funding for equipment purchases.

Also, the availability of equipment from numerous suppliers makes competition possible in purchasing equipment. An example of savings through purchase after competition was the action taken by one agency renting two ADP systems. It requested bids for the lease or purchase of similar equipment. One bid was received from the manufacturer and three from suppliers that did no manufacturing. Analysis of the bids indicated that purchase was the most economical choice. The purchase bids from the three suppliers were lower than the manufacturer's bid; the bid that was accepted was \$335,000 (34 percent) lower. (See p. 35.)

#### RECOMMENDATIONS OR SUGGESTIONS

A Government-wide effort is needed to make the maximum use of funds for acquiring ADP equipment.

##### Leasing

GSA should:

- By taking a more active role in contracting for ADP equipment, make sure that multiyear leases are used to the extent lawful and practicable.
- Require agencies to submit for GSA evaluation their decisions to acquire ADP equipment under short-term rentals.
- Ensure that competition is obtained in acquiring ADP equipment under multiyear leases.

Federal departments and agencies should make sure that.

- Maximum practicable use is made of multiyear leases.
- Competition is obtained in acquiring ADP equipment under multiyear leases.

Tear Sheet

Purchasing

OMB and GSA should:

- Request additional capital for the ADP Fund from the Congress, presenting specific plans for the expenditure of requested funds and describing the potential economies from various levels of spending.
- Use a Government-wide, best-buy approach on purchases. The analyses to identify best buys should include consideration of (1) both rented equipment and planned acquisitions and (2) potential redistribution of equipment.
- Consider all available supply sources in purchasing equipment and use competition to the maximum extent practicable.

AGENCY ACTIONS AND UNRESOLVED ISSUES

Leasing

GSA said that it had sent notices to agencies informing them of available multiyear lease plans and that it was the responsibility of each agency to act accordingly. (See p. 27.)

GAO's review indicated that agencies had not often acted on GSA's notices. (See p. 24.) In GAO's view, GSA's responsibility does not end with the issuance of the notices. GAO believes that GSA should assume a more active role by requiring agencies to submit for its evaluation their decisions to acquire ADP equipment under short-term rentals. (See p. 28.)

Purchasing

GSA submitted to OMB an amendment to its fiscal year 1971 budget requesting \$30 million to increase the ADP Fund. The supplemental appropriation bill, which included \$20 million for the ADP Fund, was enacted in January 1971. (See p. 30.) That was the first request to the Congress to increase the ADP Fund since an initial \$10 million was appropriated in 1967.

GSA agreed that a coordinated purchase program is essential if the Government is to make the best use of its ADP purchase funds. GSA stated that the Government's ADP equipment acquisitions could be made from one central fund with all agencies required to use the fund.

OMB agreed that the ADP Fund has not been fully developed but cited instances where progress has been made. (See pp. 49 and 53.)

OMB and GSA said that a Government-wide, best-buy list would be prepared for the purchase of ADP equipment. (See pp. 49 and 55.) These agencies cited several actions taken or planned to promote supply sources other than system manufacturers--mainly peripheral component manufacturers. (See pp. 49 and 53.)

MATTERS FOR CONSIDERATION BY THE CONGRESS

In many instances the Government cannot take advantage of substantial savings available through multiyear leasing of ADP equipment. The Congress may wish, therefore, to consider legislation authorizing GSA, through the ADP Fund, to contract on a multiyear basis without the necessity of obligating the total anticipated payments at the time of entering into the leases.

Use of the ADP Fund for multiyear leasing would not disturb agencies' traditional financial patterns. GSA could enter into multiyear leases. The ADP Fund would then be obligated for payments, at multiyear leasing rates, for 1-year periods. Agencies would, in turn, lease the equipment from GSA and reimburse the ADP Fund from their 1-year funds but still receive the multiyear leasing discounts.

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ABBREVIATIONS

ADP	automatic data processing
DOD	Department of Defense
GAO	General Accounting Office
GSA	General Services Administration
IBM	International Business Machines Corporation
OMB	Office of Management and Budget

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## CHAPTER 1

### INTRODUCTION

The Federal Government is the largest single user of automatic data processing equipment in the world. From June 30, 1960, to June 30, 1970, the number of systems in the Government's inventory increased from 531 to 5,277. Of the 5,277 systems, 3,372 were owned wholly or partially and 1,905 were rented. At June 30, 1970, the Government owned ADP equipment which cost \$1.9 billion and rented ADP equipment which would cost \$1.2 billion to purchase.

#### ADP EQUIPMENT ACQUISITION PRIOR TO ENACTMENT OF PUBLIC LAW 89-306

Several years before the enactment of Public Law 89-306, a need was recognized within the legislative and executive branches of Government for specialized and dynamic leadership in the management of ADP activities.<sup>1</sup> The need was particularly noted in connection with the acquisition of equipment.

The Government's ADP equipment was acquired in essentially the same manner as other personal property items. Each agency was responsible for the acquisition of its own equipment requirements subject to statutory, regulatory, and budgetary restrictions. Acquisition decisions were made largely on a decentralized basis--that is, from the viewpoint of an individual activity rather than from the viewpoint of the equipment's usefulness to other activities of the agency as well as to other agencies.

Three central-type agencies were involved, within their own spheres of interest, with the acquisition of the Government's ADP equipment. Descriptions of the activities of these agencies--the Office of Management and Budget, the

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<sup>1</sup>Between 1958 and 1965, the General Accounting Office submitted to the Congress five reports on comprehensive studies which illustrated and summarized improvements which could be made in the Government-wide coordination of certain aspects of ADP management, including acquisition. (See app. I.)



General Services Administration, and the Department of Commerce--follow.

### OMB activities

OMB issued policies and guidelines, inquired into ADP activities during its annual budget reviews, and sponsored interagency groups for the resolution of ADP management problems.

In 1961, OMB issued Circular A-54, entitled "Policies on Selection and Acquisition of Automatic Data Processing (ADP) Equipment," which discussed the

- desirability of selecting equipment on the basis of system specifications and overall costs,
- need for equal opportunity and appropriate consideration of all equipment manufacturers, and
- need for evaluations of acquisition alternatives, such as rent versus purchase.

In March 1965 the President approved and sent to the Congress an OMB report on the management of ADP in the Government. The report cited some of the more serious ADP management problems along with recommendations for their solution. These matters were considered by the Congress in the enactment of Public Law 89-306.

### GSA activities

GSA's role in acquiring ADP equipment was consonant with its general procurement and contracting responsibilities under the Federal Property and Administrative Services Act of 1949, as amended (40 U.S.C. 471). Under the act GSA is responsible for providing an efficient and economical system for the procurement of a wide variety of goods and services needed by agencies. The Federal Supply Service operates GSA's Government-wide procurement system which includes (1) a stores stock program, (2) a nonstores direct delivery program, and (3) a Federal Supply Schedule contract program.

Under the Schedule contract program, certain supplies are made available to agencies under indefinite-quantity contracts. The contracts are listed by commodity classifications in Schedules which are published in catalog form. Each Schedule sets forth for each contract the specific items that may be procured, the prices, and other contract terms and conditions essential for agencies to place orders directly with suppliers.

GSA's responsibility for acquiring ADP equipment, as defined by OMB, was limited to providing annual Schedule contracts for the rental, purchase, and maintenance of equipment. Until fiscal year 1965, the Department of Defense (DOD) and certain civilian agencies were permitted to contract for their own ADP requirements.

#### Department of Commerce activities

The National Bureau of Standards of the Department of Commerce provided advisory services to agencies regarding technical aspects of the selection and acquisition of ADP equipment. The Bureau also conducted research to improve equipment compatibility and recommended uniform Federal standards for equipment, techniques for use, and computer languages.

#### MAJOR PROVISIONS OF PUBLIC LAW 89-306

Public Law 89-306 provided the authority and specified organizational responsibilities for the purpose of improving the management of the Government's ADP activities. The legislation conferred Government-wide authorities and responsibilities on OMB, the Department of Commerce, and GSA that were consonant with their traditional functions.

OMB was to retain fiscal and policy control over all aspects of ADP management to the extent that any action of any agency under the authority of the law is subject to OMB's review and approval. OMB was not granted any operational responsibilities for the ADP management program.

The technical aspects of ADP management remained with the Department of Commerce which was to represent the Government in its standardization efforts and to coordinate the Government's ADP research efforts.

The law gave GSA the operational responsibility for coordinating a Government-wide ADP management program. An important aspect of the law was that it abrogated, for the acquisition of general-purpose ADP equipment, any exceptions to GSA's procurement authority under the 1949 act. Thus GSA was given exclusive authority to acquire all general-purpose ADP equipment for use by other agencies.

GSA was to "coordinate and provide for the economic and efficient purchase, lease, and maintenance of equipment by Federal agencies." To carry out this function, GSA was to administer an ADP Fund for the acquisition of agencies' equipment requirements. The agencies were to obtain annual appropriations from the Congress to reimburse the ADP Fund.

The law also provided for the establishment of a management information system of inventory and fiscal data. The legislative history indicated that the Congress and OMB needed current and reliable information to maintain policy and budgetary control over ADP expenditures. It also has indicated that such information is essential to GSA in its Government-wide coordination efforts to achieve optimum utilization of ADP resources and to ensure that the Government evaluates all acquisition alternatives so that equipment is acquired in the most economical manner practicable. OMB assigned GSA the responsibility for operating the information system.

The legislative history of Public Law 89-306 indicated that the ADP equipment acquisition program should involve

- improving the Government's bargaining position through volume acquisitions;
- basing rental-versus-purchase evaluations on the value of equipment to the Government as a whole rather than on its anticipated useful life to the initial user; and
- selecting equipment for purchase which, on a Government-wide basis, offers the greatest purchase advantage.

Thus, the acquisition program was to be coordinated by GSA, and the purchase and rental of both new and installed equipment was to be evaluated from a Government-wide viewpoint to ensure that available funds were used in the most economical manner.

The Congress directed that GSA's authority be exercised subject to direction by the President and to OMB's fiscal and policy control. The law stated that the authority conferred upon GSA should not be construed so as to interfere with agencies' determinations of their equipment requirements and uses. Cases of disagreement between GSA and agencies are subject to review and decision by OMB.

With recognition that the implementation of a Government-wide equipment acquisition program would be gradual, the Congress provided that GSA could delegate its procurement authority to agencies. Through the prudent use of this delegation authority, GSA could implement a more effective ADP management program on an orderly, step-by-step basis. It was intended that once an accurate and current management information system was established and the ADP Fund was operational, GSA would then begin to coordinate Government equipment acquisitions to achieve substantial savings.

FIRST STEPS TOWARD IMPLEMENTATION  
OF A GOVERNMENT-WIDE  
ADP EQUIPMENT ACQUISITION PROGRAM

BEST DOCUMENT AVAILABLE

OMB issued policy guidelines in May 1966 to establish the direction of GSA's efforts under Public Law 89-306. The guidelines established a basic premise that all major changes in existing practices should be based on careful evaluation of alternative courses of action and should be made only after close coordination with and full inclusion of the viewpoints of agencies using ADP equipment.

In addition, GSA was to use the ADP Fund to finance interagency use of equipment and related services. GSA was to explore the possibilities of using the ADP Fund to (1) obtain needed equipment at reduced costs and (2) finance procurements to take advantage of price reductions which involved time limitations inconsistent with agencies' normal funding cycles.

Also, GSA was to evaluate equipment acquisition procedures to determine areas wherein revised techniques and methods could achieve economies. GSA was to consider the

- appropriateness of continuing the use of Schedule contracts for the rental, purchase, and maintenance of equipment;
- possibility of procuring equipment and software (computer programs, etc.) as separate items; and
- possibility that additional procurement sources could be cultivated to serve as competitive alternatives to the exclusive procurement of equipment directly from manufacturers.

Finally, GSA was to assist agencies in negotiating ADP equipment procurements. OMB emphasized that GSA was to ensure that acquiring agencies make the equipment selections.

In June 1967, GSA assumed responsibility for the operation and maintenance of an ADP management information system which was developed by OMB and prescribed in April 1967 by OMB Circular A-83. The information system was developed around a master inventory of computers and related equipment. In addition to submitting annual equipment inventories, agencies are required to provide GSA with semi-annual reports of anticipated acquisitions and releases of equipment, reports of actual equipment acquisitions and releases, and histories of acquisitions which indicate contractor performance. GSA is responsible for the consolidation and processing of the data.

In November 1967 the Congress appropriated \$10 million as initial capitalization for the ADP Fund authorized by Public Law 89-306. The budget submission requesting the \$10 million stated that the ADP Fund would provide economies in the acquisition of ADP equipment and related services and that all costs, including depreciation and obsolescence, would be recovered. The submission stated further that decisions regarding equipment acquisitions would be based on overall Government benefits rather than on each agency's needs, desires, and abilities to finance acquisitions.

## CHAPTER 2

### MULTIYEAR LEASING OFFERS OPPORTUNITIES

#### FOR SIGNIFICANT COST REDUCTIONS

Almost exclusively the Government's rented ADP equipment has been contracted for on a short-term basis.<sup>1</sup> This method, under usual conditions, is the most costly method of equipment acquisition. Although rented on a short-term basis, the Government's rented equipment usually is used for various periods of time in excess of 1 year.

Most manufacturers and several nonmanufacturing suppliers offer discounts from short-term rental rates under multiyear leases. In some cases agencies may obtain equipment under multiyear leases. In many cases, however, agencies are precluded by law from entering into multiyear leases, because equipment acquisitions are financed with 1-year funds which are available for incurring obligations during a specific fiscal year. If the Government did use multiyear leases, when practicable, as an alternative to short-term rentals, significant cost reductions would be achieved.

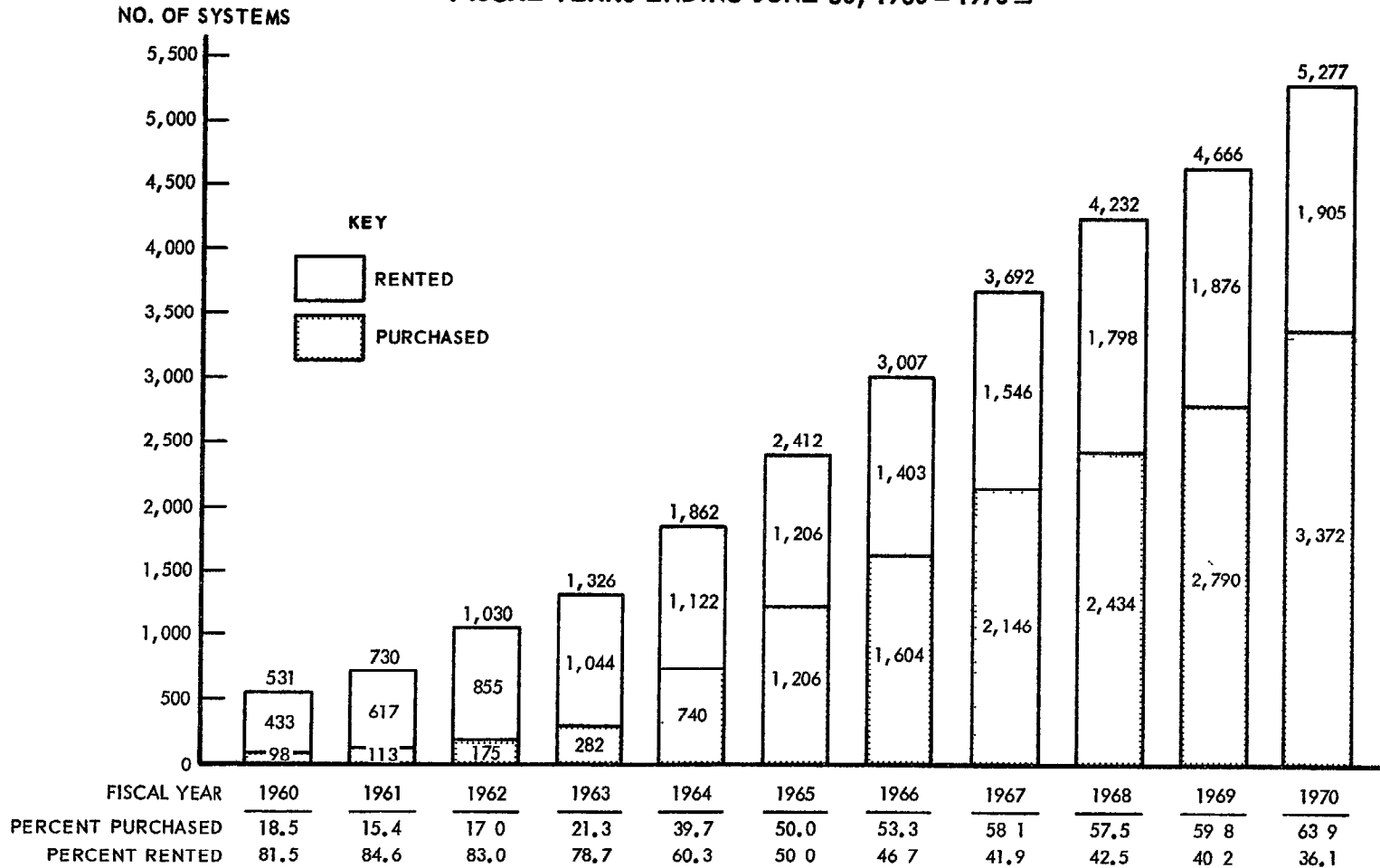
#### EXPENDITURES FOR SHORT-TERM RENTALS

Although the percentage of owned ADP systems in the Government's inventory has increased from 18 percent in fiscal year 1960 to 60 percent in fiscal year 1969 (see p. 13), the Government's expenditures for rentals of ADP equipment were significant and have been increasing annually. Expenditures for the rental of equipment under Schedule contracts for fiscal years 1966 through 1969 are shown on page 14.

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<sup>1</sup>Under the terms of GSA's Schedule contracts, agencies issue annual orders for the rental of ADP equipment which may be cancelled with 30-days' notice without penalty.

**NUMBER OF SYSTEMS PURCHASED AND RENTED  
FISCAL YEARS ENDING JUNE 30, 1960 - 1970 1/**



1/ Excluded are (1) analog computers, (2) computers built to special government design specifications, and (3) certain contractor-operated equipment

SOURCE "Inventory of Automatic Data Processing Equipment in the United States Government, Fiscal Year 1970," published by the General Services Administration

<u>Fiscal</u> <u>year</u>	Rental expenditures ( <u>millions</u> )
1966	\$235
1967	249
1968	277
1969	344

The above rental expenditures include cost of maintenance services but do not include expenditures for rentals outside of Schedule contracts. During fiscal year 1969 such expenditures were about \$46 million.

Almost exclusively, the Government rents its ADP equipment on a short-term basis. Only 54 of 1,876 rented<sup>1</sup> systems, as of June 30, 1969, were under multiyear leases.

DURATION OF PERIODS THAT ADP  
EQUIPMENT REMAINS RENTED

The rental periods for the Government's ADP equipment vary widely and are affected by such factors as budgetary, financial, and technical considerations. After equipment is installed and successfully operative, agencies tend to retain that equipment until requirements outstrip the equipment's capacities--usually a period in excess of 1 year.

Agencies reported to GSA that 42 systems which had been obtained on a short-term rental basis had been returned to manufacturers during calendar year 1969. Of these systems 29, or 69 percent, had been rented for periods exceeding 3 years and 13 had been rented less than 3 years. Of the 13 systems, nine were installed on an interim basis as part of planned programs which contemplated the installation of newer or larger equipment and the remaining four systems were installed for short periods of time in Government contractors' facilities. The retention periods for the 42 systems are shown in the following table.

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<sup>1</sup>The Government's inventory included an additional 580 systems which were partially leased and partially owned.



<u>Number of years rented</u>	<u>Number of systems</u>	<u>Percentage of total</u>
Less than 1	-	-
1 but less than 2	6	14
2 but less than 3	7	17
3 but less than 4	9	21
4 but less than 5	11	26
5 but less than 6	2	5
6 but less than 7	2	5
7 but less than 8	4	10
8 or more	<u>1</u>	<u>2</u>
Total	<u>42</u>	<u>100</u>

## MULTIYEAR LEASING FROM MANUFACTURERS

A consultant, hired by GSA to conduct a comprehensive study of the Government's ADP equipment acquisition practices, concluded in March 1967 that rental agreements of 1 year or less placed an economic constraint on the Government's acquisition process.

At the time of the study, three manufacturers offered to their commercial customers discounts from short-term rental rates under 3-year leases. The consultant estimated that the Government could save \$4 million annually if it were to enter into 3-year leases for its equipment which was then under short-term rental agreements with the three manufacturers.

The same three manufacturers and two others offered discounts under 5-year leases. Although recognizing that an agency with an anticipated usage of 5 years should generally purchase the equipment, the consultant estimated that the Government could save \$11 million annually if it were to enter into 5-year leases for its equipment which was then under short-term rental agreements with the five manufacturers.

In fiscal year 1961 the Schedule contract with one manufacturer, Burroughs Corporation, included a multiyear leasing plan for certain equipment. In fiscal years 1969 and 1970, six additional major manufacturers--Control Data Corporation; General Electric Company; Honeywell, Inc.; National Cash Register Company; RCA Corporation; and Univac Division of Sperry Rand Corporation--were awarded Schedule contracts which contained multiyear leasing plans. These plans were generally applicable to both new and installed equipment, but in some cases they did not cover the manufacturers' full lines of equipment.

To obtain an indication of the potential cost reductions available to the Government through the use of multiyear leases, we applied the seven manufacturers' multiyear lease rates--available under Schedule contracts or to non-Government customers--to their respective portions of the Government's inventory of 1,876 rented systems as of June 30, 1969. The inventory contained 1,138 systems under short-term

rentals from the seven manufacturers. Multiyear leases were offered for 871 of the 1,138 systems--623 covered by both 3- and 5-year leases, 205 covered only by 3-year leases, and 43 covered only by 5-year leases. No multiyear leases were offered for 267 systems.

Our analyses showed that, if 828 systems were under 3-year leases, costs could be reduced by as much as \$26 million over the periods of the leases. Similarly, if 666 systems were under 5-year leases, costs could be reduced by as much as \$70 million over the periods of the leases. Because of statutory limitations, which are discussed on page 21, some of the savings cannot be realized at this time. Also, because of continuous changes in the Government's ADP equipment inventory, a number of systems included in our analyses will not be retained for periods long enough for the Government to take advantage of available leasing discounts.

#### Financial risks

There are no financial risks involved in the Government's use of the multiyear leases offered by the seven manufacturers under the 1970 Schedule contracts.

The Schedule contract with one manufacturer provides for the Government to receive a discount from the short-term rental rates beginning in the first month of the lease. If the Government later chooses not to retain the equipment for the specified period, it is required to pay to the manufacturer an amount equal to the total discounts received from the beginning of the lease to the point of its termination. The Government, therefore, even if it terminates the agreement, is not obligated for payments exceeding what would have been paid if it had originally rented the equipment on a short-term basis.

Four Schedule contracts require the Government to pay the basic short-term rental rates until the end of the lease is either reached or approached, at which time the Government receives the benefits of multiyear leasing in the form of either (1) free use of the equipment for a number of months, (2) discounts for subsequent months during which the equipment is retained, or (3) lump-sum rebates. Under

these agreements, no penalty payments are required in the event of early termination.

The multiyear leases offered under the two remaining Schedule contracts provide for discounts from the short-term rates but do not require penalty payments in the event of early termination.

MULTIYEAR LEASING FROM  
NONMANUFACTURING SUPPLIERS

In recent years, nonmanufacturing suppliers have entered the ADP equipment market and offer multiyear leases for certain International Business Machines Corporation (IBM) equipment. These suppliers purchase both new and used IBM equipment and then lease the equipment under multiyear leases at discounts as much as 30 percent below IBM's short-term rental rates. IBM does not offer multiyear leases to either commercial customers or to the Government. A management research firm stated in a December 1967 study that nonmanufacturing suppliers offer discounts from IBM rates because of their willingness to gamble that the useful life of the equipment is longer than the period over which IBM has chosen to recover its costs and make a profit through short-term rentals.

To obtain an indication of the potential savings available to the Government through selective use of multiyear leasing from nonmanufacturing suppliers, we applied lease rates--offered by one of the leading nonmanufacturing suppliers for its 3-year and 5-year leases--to 195 of the 651 systems in the Government's inventory of equipment rented from IBM at June 30, 1969. The 195 systems are recent models of IBM equipment most commonly offered for leasing by nonmanufacturing suppliers.

If the Government were to lease the 195 systems from nonmanufacturing suppliers, it would reduce its rental costs by as much as \$44 million over 3-year lease periods. Under 5-year leases, cost reductions would total as much as \$85 million. Because of statutory limitations, which are discussed on page 21, some of the savings cannot be realized at this time. Also, because of continuous changes in the Government's ADP equipment inventory, a number of systems included in our analyses may not be retained for periods long enough for the Government to take advantage of available leasing discounts.

There are about 100 nonmanufacturing suppliers in the equipment leasing market. This large number of suppliers has made it possible for commercial lessees to take advantage of competitive factors which exist among the

nonmanufacturing suppliers and IBM and particularly among the suppliers themselves. The introduction of competitive sources of supply for the Government's requirements of goods and services has often resulted in substantial savings. Also, the use of competition (either formal advertising procedures or open solicitation of proposals, as appropriate) by the Government in acquiring IBM equipment under multi-year leases would appear desirable.

### Financial risks

Because the Government has seldom entered into multi-year leases with nonmanufacturing suppliers, the financial risks involved in early terminations are somewhat speculative. The multiyear leasing plans offered by these suppliers to their non-Government customers generally contain termination provisions which require the payment of penalties in the event of early termination. Trade publications indicate that the penalties vary from supplier to supplier and appear to be influenced by such factors as (1) the financial circumstances under which the supplier acquires the equipment and (2) the extent to which the termination clause is made a subject of negotiations.

RESTRICTIONS ON USE OF MULTIYEAR LEASES

In many cases agencies are precluded by law from entering into multiyear leases because payments for rented ADP equipment are made from 1-year appropriations which are available for incurring obligations only during a specified fiscal year. The governing laws provide, in part, that:

"No officer or employee of the United States shall make or authorize an expenditure from or create or authorize an obligation under any appropriation or fund in excess of the amount available therein; nor shall any such officer or employee involve the Government in any contract or other obligation, for the payment of money for any purpose, in advance of appropriations made for such purpose unless such contract or obligation is authorized by law." (31 U.S.C. 665)

\* \* \* \* \*

"No contract or purchase on behalf of the United States shall be made, unless the same is authorized by law or is under an appropriation adequate to its fulfillment, \*\*\*." (41 U.S.C. 11)

Of the 1,876 rented systems in the Government's inventory as of June 30, 1969, 54 systems were leased under multiyear (either 3-year or 5-year) contracts. The Government was obtaining discounts of about \$5 million over the periods of the contracts. The contracts under which 21 of these systems were leased were financed by an agency with 1-year funds. This agency is achieving cost reductions of \$181,000 over 3-year periods for the 21 systems--discounts of about 10 percent. Because the contracts are not authorized by law, however, we have advised the agency that, upon the expiration of the contract periods involved, the use of such contracts should be discontinued.

Occasionally the Congress has granted specific authority to depart from the limitations prescribed by law for the procurement of specified supplies and services. For example, an agency was granted authority to enter into certain

multiyear service contracts outside the continental United States and make payments with 1-year funds.

The Government's revolving funds, such as the ADP Fund, can generally enter into multiyear leases. The law, however, requires that obligations be established to cover anticipated payments for the entire periods of the leases.

GSA efforts to make multiyear leasing discounts available to agencies

In 1968, GSA took an important step to make multiyear leasing discounts available to agencies. The solicitation for the fiscal year 1969 Schedule contracts requested manufacturers to offer lease plans for 2-year and 3-year periods. GSA composed the proposed language of the multiyear plans with the purpose of allowing agencies using 1-year funds to legally make use of the plans.

Seven major manufacturers (names on p. 16) were awarded Schedule contracts which contained multiyear plans. The language of these plans varied and appeared to represent compromises between the multiyear plans requested by GSA and those offered by the manufacturers to their non-Government customers.

In July 1968, GSA submitted to the Comptroller General the multiyear plans offered by three manufacturers and requested an opinion as to whether agencies could make use of them with 1-year funds. The Comptroller General replied in January 1969 that only one of the plans contained language which would permit agencies to use 1-year funds without violating the law. This plan, which was offered by RCA, required the Government to approach completion of the full lease period in order to qualify for the discount. In discussing the Government's obligation under the plan, the Comptroller General stated that:

"\*\*\* Under this arrangement the Government would not be obligated to continue the rental beyond the fiscal year in which made, or beyond any succeeding fiscal year, unless or until a purchase order is issued expressly continuing such rental during the following fiscal year. In effect, the



company is proposing a one-year rental contract with option to renew."

In April 1969, GSA requested agencies not to refuse to enter into any multiyear leases solely on the grounds that such leases are barred by legal or fiscal considerations without GSA's prior concurrence. GSA advised the agencies that it might make use of the ADP Fund which, as previously mentioned, could legally be used for entering into multiyear leases.

During our review, we noted that agencies were renting several RCA systems on a short-term basis. It appeared to us that these systems should have been under multiyear leasing plans. In September 1969 we brought this matter to the attention of GSA officials and suggested that GSA take specific steps to ensure that the Government was taking maximum advantage of the multiyear leasing plans offered by RCA.

In October 1969, GSA issued a special notice to agencies informing them of the RCA multiyear leasing plans, their applicability, and the discounts available. GSA also sent letters to known users of RCA equipment, emphasizing the benefits of the plans and requesting notification of agencies' decisions on use of them. Three agencies subsequently took advantage of the plans for 26 RCA systems and reported cost avoidances of about \$2 million over periods ranging from 2 to 4 years.

GSA patterned the proposed language for multiyear plans under the fiscal year 1970 Schedule contracts after the language of the multiyear plans contained in RCA's 1969 Schedule contract. In addition to RCA, four major manufacturers--Burroughs Corporation, Control Data Corporation, General Electric Company, and the National Cash Register Company--agreed to multiyear plans for fiscal year 1970 contracts which allowed agencies to legally use 1-year funds.

GSA followed its normal practice of issuing notices to agencies pointing out the multiyear lease plans contained in the fiscal year 1970 Schedule contracts. Contrary to what was done in the case of the RCA contract in October 1969, however, GSA did not send letters to known users of the equipment of the additional four manufacturers emphasizing

the benefits of the plans and requesting notification of agencies' decisions on the use of the plans.

In June 1970 we discussed with a GSA official the use being made of the multiyear leasing plans offered for the first time by the four manufacturers in fiscal year 1970 Schedule contracts.<sup>1</sup> We were advised that GSA had not taken any specific action to promote use of the plans, other than the notices mentioned above. Further, GSA was not aware of any actions taken by agencies to make use of the multiyear plans. We obtained information from two of the four manufacturers in July and September 1970 which showed that no equipment had been ordered by agencies under the fiscal year 1970 Schedule contract plans and from the remaining two manufacturers in July 1970 which showed that 15 systems had been ordered under the fiscal year 1970 Schedule contract plans.

Our analyses showed that 430 systems<sup>2</sup> under short-term leases as of June 30, 1969, were covered by the 1970 multi-year plans offered by the five manufacturers--267 under 3- and 5-year plans, 143 under 3-year plans only, and 20 under 5-year plans only. If these 410 systems (267 and 143) were leased under 3-year plans, costs would be reduced by as much as \$16 million over the lease periods. If 287 systems (267 and 20) were leased under 5-year plans, costs would be reduced by as much as \$28 million over the lease periods.

Multiyear leases, however, cannot be entered into legally for an additional 636 systems--441 of the 1,138 systems on page 17 and the 195 systems on page 19. For the

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<sup>1</sup>The fiscal year 1970 Schedule contracts for the four manufacturers were approved by GSA on the following dates: Burroughs Corporation, December 3, 1969; Control Data Corporation, December 4, 1969; General Electric Company, March 9, 1970; and National Cash Register Company, February 4, 1970.

<sup>2</sup>These 430 systems are included in the 1,138 systems discussed on p. 17.

636 systems, rental costs might be reduced during the lease periods by as much as \$54 million under 3-year leases and as much as \$127 million under 5-year leases.

### CONCLUSIONS

Because of budgetary limitations, evaluation and use of multiyear leasing of ADP equipment takes on added importance as an alternative to short-term rental if the Government is to optimize the use of its equipment acquisition funds. In many cases agencies have determined that it would have been better to purchase equipment but have been forced to resort to short-term rentals because of a lack of funds. In our opinion, multiyear leasing would be a more economical alternative than the short-term rental agreements normally entered into when equipment cannot be purchased. The potential economies available through the selective use of multiyear leasing are substantial.

Another advantage of multiyear leasing is that the Government would encourage additional competitive supply sources--nonmanufacturing suppliers--which, to date, have remained largely untapped.

On the one hand, GSA's recent action to provide multiyear leasing plans, applicable to 430 systems in inventory at June 30, 1969, that can be entered into by agencies using 1-year funds represents an important step toward making multiyear leasing discounts available to the Government. We believe, however, that it is incumbent upon GSA to assume a more active role in the use of these plans as was done in the case of the RCA equipment in October 1969.

On the other hand, a large segment of the Government's rented ADP equipment--636 systems in inventory at June 30, 1969--remains outside the scope of the multiyear plans which can legally be entered into by agencies using 1-year funds. In our opinion, the implementation of a program under which the Government can take maximum advantage of multiyear leasing discounts offered in the ADP equipment market is contingent upon its ability to make firm contracts for periods in excess of 1 year.

We believe that the ADP Fund is the appropriate vehicle to use in making such contracts. The use of the ADP Fund for entering into multiyear leases for ADP equipment would serve to accomplish one of the primary objectives of its establishment under Public Law 89-306--that of promoting the economical acquisition of the Government's ADP equipment.

Because of the legal requirement that revolving funds must be obligated to cover anticipated payments for the full periods of contracts, the ADP Fund would require substantial additional capital if it were to be used extensively for entering into multiyear leases. We believe that, as an alternative to appropriating additional capital for the ADP Fund, specific legislative authority could be granted for the ADP Fund to contract on a multiyear basis without obligating monies to cover the full periods at the time of entering into the leases.

Use of the ADP Fund for multiyear leasing would not disturb agencies' traditional financial patterns. GSA could enter into multiyear leases. The ADP Fund would then be obligated for payments--at multiyear leasing rates--for 1-year periods. Agencies, in turn, would lease the equipment from GSA and would reimburse the ADP Fund from their 1-year funds but still would receive the multiyear leasing discounts.

If the Congress authorizes the ADP Fund to enter into multiyear leases along the lines discussed above, we believe that GSA and Federal departments and agencies should ensure that multiyear leasing becomes an effective acquisition alternative and is used to the maximum extent practicable in lieu of short-term rentals.

## RECOMMENDATION TO THE CONGRESS

In many instances the Government cannot take advantage of substantial savings available through multiyear leasing of ADP equipment. We recommend, therefore, that the Congress consider legislation authorizing GSA, through the ADP Fund, to contract on a multiyear basis without the necessity of obligating the total anticipated payments at the time of entering into the leases.

## RECOMMENDATIONS TO THE ADMINISTRATOR OF GENERAL SERVICES

We recommend that GSA:

- By taking a more active role in contracting for ADP equipment, make sure that multiyear leases are used to the extent lawful and practicable.
- Require agencies to submit for GSA evaluation their decisions to acquire ADP equipment under short-term rentals.
- Ensure that competition is obtained in acquiring ADP equipment under multiyear leases.

## RECOMMENDATIONS TO THE HEADS OF FEDERAL DEPARTMENTS AND AGENCIES

We recommend that Federal departments and agencies make sure that:

- Maximum practicable use is made of multiyear leases.
- Competition is obtained in acquiring ADP equipment under multiyear leases.

## GSA COMMENTS AND OUR EVALUATION

In a letter dated September 11, 1970 (see app. III), the Administrator of General Services advised us that notices had been sent to agencies advising them of the ADP equipment multiyear lease plans that were available and that, upon receipt of the notices, it was the responsibility of

each agency to act accordingly. Our review indicated that agencies had not, in many cases, acted on GSA's notices.

In our opinion, GSA's responsibility under Public Law 89-306 does not end with the issuance of notices advising agencies of the availability of multiyear leases. We believe not only that GSA should make agencies aware of the multiyear lease plans but also that GSA should assume a more active role by requiring agencies to submit for its evaluation their decisions to rent equipment under short-term rentals.

The Associate Director, OMB, in a letter dated November 18, 1970, did not offer comments on the issues raised in this report relating to multiyear leasing because, he stated, GSA was in a better position to respond to these issues (see app. IV).

## CHAPTER 3

### COORDINATED GOVERNMENT-WIDE APPROACH

#### TO PURCHASING NEEDED

In enacting Public Law 89-306, the Congress provided for a coordinated, Government-wide approach to the acquisition of ADP equipment. Our review has shown that the purchasing of the Government's ADP equipment is done in essentially the same manner as it was prior to the enactment of Public Law 89-306--at agency and subagency levels. Agencies control most of the available purchase funds and decide whether to purchase or rent equipment.

For example, Government expenditures for the purchase of ADP equipment were estimated at \$169 million during fiscal year 1969--\$166 million by individual agencies and \$3 million through the ADP Fund. We believe that the Government continues to lack the assurance that its purchase funds are being expended for those purchases which offer the greatest benefit to the Government as a whole.

In previous reports to the Congress, we have cited examples where equipment was purchased at the same time that similar equipment, the purchase of which would have been more advantageous to the Government, was retained on a rental basis. In these reports we pointed out that, without the establishment of a coordinated program for the purchase of equipment, the Government cannot optimize the use of available purchase funds. (See our reports entitled "Study of Financial Advantages of Purchasing Over Leasing of Electronic Data Processing Equipment in the Federal Government" and "Review of Problems Relating to Management and Administration of Electronic Data Processing in the Federal Government" which are listed in app. I of this report.)

#### CAPITALIZATION OF ADP FUND

In its fiscal year 1968 budget request to OMB, GSA proposed that the ADP Fund initially be capitalized at \$30 million. GSA stated that this amount would permit it, in its initial effort to develop a Government-wide program

for equipment acquisition, to purchase about 4 percent of the 1,400 systems then being rented by the Government. OMB reduced GSA's request to \$10 million, and the Congress appropriated that amount in November 1967. OMB advised us that the reduction had been made because Government-wide fiscal limitations had existed at the time. Because the ADP Fund represented a new budget item and plans for the expenditure of the funds were somewhat nebulous, it had been one of the first requests to be reduced.

GSA submitted a memorandum to OMB with its fiscal year 1969 budget request which included a 5-year plan for increased capitalization of the ADP Fund. GSA planned for annual appropriated increases of \$20 million to the ADP Fund through fiscal year 1973. According to the plan, the bulk of the appropriated capital--which would amount to \$110 million in fiscal year 1973--would be used to sustain what was projected to be a growing ADP equipment acquisition program.

In accordance with the plan, GSA requested \$20 million for the ADP Fund in its fiscal year 1969 budget request to OMB. This request was denied for the same reasons that the initial request was reduced in the previous year. GSA did not request any funds for the ADP Fund in its initial budget request to OMB for fiscal year 1970. GSA did request a \$30 million supplemental appropriation for the ADP Fund, however, which GSA stated was based on valid equipment requirements. This supplemental appropriation request was not submitted to the Congress.

GSA did not request funds in its initial budget request for fiscal year 1971 but amended the budget to include \$30 million for the ADP Fund. In November 1970, OMB advised us that the fiscal year 1971 supplemental appropriation request would include \$20 million for the ADP Fund. In the supplemental appropriation hearings, GSA presented examples of equipment purchases of \$18.1 million for two agencies that would result in savings of \$18.9 million to the Government. The supplemental appropriation bill, which included \$20 million for the ADP Fund, was enacted in January 1971.



## ACTIVITIES OF ADP FUND

The ADP Fund has been used primarily to finance GSA in-house ADP activities. In July 1968, GSA donated to the ADP Fund GSA-owned ADP equipment that had an estimated fair market value of \$9.7 million. The ADP Fund operates equipment and furnishes services to agencies, primarily to GSA which has provided about 85 percent of the ADP Fund's revenues. A comparative statement of the ADP Fund's financial condition at June 30, 1968, 1969, and 1970, is shown as appendix II.

### Equipment purchased by ADP Fund

As of January 31, 1971, GSA had negotiated with various agencies 10 lease agreements which were generally for periods of 5 years. GSA purchased from manufacturers the previously rented equipment and leased the equipment to the agencies at rates lower than those which would have been paid to the manufacturers. The purchases involved ADP Fund expenditures of \$9.2 million. On the basis of present value analysis, we estimate that the Government will realize savings of \$9 million over 5-year lease periods. The Government will realize additional savings if the equipment is used for more than 5 years by either the lessees or other agencies.

The 10 equipment purchases were considered economic buys by GSA. The purchases, however, were not based on systematic comparative analyses to determine the best buys from a Government-wide viewpoint.<sup>1</sup>

### GSA studies of rented equipment

GSA has made two special studies to identify potential economic buys of rented ADP equipment in the Government's

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<sup>1</sup>The term "economic buy" refers to equipment for which purchase is found to be the least costly acquisition alternative on the basis of analysis of economic data and agencies' retention plans. The term "best buys" refers to the optima of economic buys.

inventory. In June 1968 and in March 1969, GSA supplied listings of potential economic buys to three agencies and requested validation of its findings. In identifying equipment for its listings--which included a total of 62 potential economic buys--GSA considered only the anticipated usage by the current users of the equipment. Potential secondary usage by other agencies was not considered.

GSA estimated that the purchase of the 62 economic buys would require \$14 million. GSA advised the agencies that if they did not have funds to purchase the equipment, GSA would consider using the ADP Fund to finance the purchases and then would lease the equipment to the agencies at rates lower than those being paid.

GSA received no response from two of the agencies. DOD--which was renting 60 of the 62 potential economic buys--responded both in 1968 and 1969. DOD's 1968 response indicated that, although some of the recommended purchases were invalid because of inaccurate data used in GSA's analysis, it would consider usage of the ADP Fund for others. DOD stated in 1969 that it was making analyses of its rented equipment to identify economic buys for which funds would be sought through reprogramming or through budget requests.

Four of the 62 economic buys recommended by GSA were reported as having been purchased as of July 1969. The ADP Fund was not used to make any such purchases.

#### Management information system

The means to determine best buys on a Government-wide basis is the management information system. GSA has been unable to systematically make these determinations because the management information system was not providing timely, accurate, or sufficient information to make valid best-buy computations.

In June 1970 we made several suggestions to GSA for improving the reliability and usefulness of the information system. GSA advised us in September 1970 that our suggestions had been brought to the attention of two interagency groups that had been established to review and recommend

changes in the content and structure of the information system. GSA also informed us that issuance of a revised policy circular was planned.

We were subsequently advised by OMB and GSA that some improvements had been made to the management information system and that it was being improved further to provide the basic elements necessary to prepare a Government-wide, best-buy list.

We plan to review from time to time the progress made in improving the management information system.

OMB ACTIVITIES RELATING TO  
THE PURCHASE OF EQUIPMENT

As previously mentioned, in 1961 OMB issued Circular A-54 which pertained, in part, to the need for agencies to evaluate all available acquisition alternatives prior to entering into contracts for ADP equipment and provided general guidelines to agencies making these evaluations. OMB has on two occasions issued amendments to the circular which provided additional guidance to agencies making rent-versus-purchase evaluations.

In the most recent amendment to the circular in January 1969, OMB directed agencies to review certain rented equipment to determine whether the most economical means of acquisition were being used. OMB stated that the review should coincide with the submission of agencies' annual budget requests so that, if purchase was indicated and funds were not available, requests for funds could be made at the earliest possible date. OMB stated further that, when special purchase opportunities arose, efforts to secure necessary funds should be made by reprogramming existing funds or, failing in this, by requesting GSA to consider purchases through the ADP Fund.

In response to the amendment, DOD reviewed its rented equipment to identify that equipment which should be purchased if funds were available and compiled a listing of 60 systems, or parts of systems, recommended for purchase as of July 1, 1969. DOD estimated that the purchase of this equipment would require expenditures of \$46 million and that savings of \$47 million could be realized.

As of December 1969, the equipment included in DOD's listing was still being rented. We were informed by a DOD official in February 1970 that, because of a lack of funds, no purchases had been made. The official stated that funds were not available through reprogramming of existing procurement funds, that requests for appropriated procurement funds were not permitted by OMB because of ceilings placed on budget requests, and that the ADP Fund did not have sufficient funds to purchase the equipment.

OMB officials informed us that they did not require specific responses from agencies to the January 1969 circular amendment. They stated that, if the agencies required funds for purchases of specific equipment, the agencies were to request such funds through the normal budgetary procedures. They indicated that they were not aware of specific purchase requests resulting from the issuance of the amendment.

#### OPPORTUNITIES TO PURCHASE EQUIPMENT FROM NONMANUFACTURING SUPPLIERS

As discussed in chapter 2, nonmanufacturing suppliers offer ADP equipment for lease at rates lower than IBM's commercial rates. These suppliers are also, on occasion, willing to sell equipment--complete systems, and/or system components. In addition there are firms in the business of buying and selling IBM and other manufacturers' equipment.

The Government has not made extensive use of these supply sources. Most Government equipment purchases have been made directly from manufacturers either after periods of rental or as new acquisitions. Credits on rents paid, which are applied against the purchase price, have tended to reinforce the manufacturers' positions as the primary sources for purchased equipment.

The availability of additional equipment suppliers affords the Government opportunities, in certain instances, to obtain competition (either formal advertising procedures or open solicitation of proposals, as appropriate) in the purchase of equipment.

We noted, as an example, that, during fiscal year 1969, an agency which was renting two systems took action to reduce costs. Bids were requested for the lease or purchase of similar equipment. Four bids were received--three from nonmanufacturing suppliers and one from the manufacturer.

Analysis of the bids indicated that purchase was the most economic alternative. The purchase bids from the three nonmanufacturing suppliers were lower than the manufacturer's bid; the bid that was accepted was \$335,000 (34 percent) lower.

## CONCLUSIONS

Further positive action toward the implementation of a coordinated Government-wide ADP equipment purchase program appears to be essential if the Government is to optimize the use of its limited purchase funds. The Congress, in enacting Public Law 89-306, expressly provided for the implementation of such a program.

The ADP Fund appears to be the appropriate vehicle for the achievement of potential cost reductions through a coordinated Government-wide purchase program. The ADP Fund, however, cannot be extensively used for equipment purchases because of its relatively low capitalization. The establishment of an effective equipment purchasing program is, in our opinion, contingent upon the augmentation of the ADP Fund's capital through appropriations.

In requesting additional capital for the ADP Fund, GSA, in cooperation with OMB, should present to the Congress specific plans for the expenditures of requested funds. These plans should be based on analyses which show those purchases offering the greatest potential financial advantages from a Government-wide viewpoint, taking into consideration both planned acquisitions of new equipment and potential purchases of rented equipment.

Potential redistribution of equipment is generally not considered by GSA in making purchase decisions. Government-owned equipment no longer needed at one installation can, in many cases, be used at another installation to avoid new procurements or to replace rented equipment. For example, GSA reported that, during fiscal year 1969, excess Government-owned ADP equipment, which had cost \$68 million, was redistributed within the Government.

Some types and models of equipment offer greater potential for secondary and tertiary usage than other equipment. The Government, with its large inventory of various types and models of equipment, should be in a position to identify--on the basis of experience--that equipment which offers the best potential for redistribution. We believe that GSA should consider the redistribution potential of equipment in making best-buy determinations.

In addition to being based on a best-buy approach to purchasing, we believe that the plans presented to the Congress in support of requested capital for the ADP Fund should include a presentation of the potential economies associated with various levels of expenditures. The Congress would then be in a position to consider alternative levels of capitalization for the ADP Fund. Plans for the use of the ADP Fund should be formulated so as to demonstrate to the Congress the potential reduction in rental costs to be derived from various levels of spending through the ADP Fund for equipment purchases. The plans could demonstrate that the appropriated increases in the ADP Fund's capital could be largely offset by corresponding decreases in the amounts of funds appropriated to agencies for the purchase of equipment.

In summary, the ability of the Government to obtain the optimum results from its equipment purchase funds is contingent upon its ability to determine its potential best buys and then to make them on a timely basis, taking into consideration all available supply sources.

RECOMMENDATIONS TO THE DIRECTOR, OMB, AND  
TO THE ADMINISTRATOR OF GENERAL SERVICES

We recommend that OMB and GSA:

- Request additional capital for the ADP Fund from the Congress, presenting specific plans for the expenditure of requested funds and describing the potential economies from various levels of spending.
- Use a Government-wide, best-buy approach on purchases. The analyses to identify best buys should include consideration of (1) both rented equipment and planned acquisitions and (2) potential redistribution of equipment.
- Consider all available supply sources in purchasing equipment and use competition to the maximum extent practicable.

OMB AND GSA COMMENTS AND OUR EVALUATION

The Administrator stated that GSA requested a \$30 million supplemental appropriation for fiscal year 1970 and an amendment to GSA's fiscal year 1971 budget was submitted to OMB requesting \$30 million to augment the ADP Fund. He indicated that the request was based on valid equipment requirements. The Associate Director, OMB, stated that the 1971 supplemental appropriation request would include \$20 million for the ADP Fund. The supplemental appropriation bill, which included \$20 million for GSA's ADP Fund, was enacted in January 1971.

The Administrator of General Services agreed that a coordinated purchase program is essential if the Government is to optimize the use of its limited ADP purchase funds. He stated that the Government's ADP equipment acquisition monies could be contained in one central fund and all agencies could be required to use this fund for their requirements. The Associate Director, OMB, agreed that the ADP Fund has not been fully developed but did cite instances where progress had been made.



The Associate Director, OMB, and the Administrator of General Services stated that a Government-wide, best-buy list would be prepared for the purchase of ADP equipment. They stated that improvements to the management information system would make available the necessary data to make detailed lease-versus-purchase analyses and to prepare a best-buy list. They did not comment specifically, however, as to whether the analyses to identify best buys should include consideration of (1) both rented equipment and planned acquisition of equipment and (2) potential redistribution of equipment.

The Associate Director and the Administrator cited several instances where actions had been taken or were planned to promote supply sources other than system manufacturers--mainly peripheral component manufacturers. (See apps. III and IV.)

The Administrator stated that nonmanufacturing suppliers are not precluded from bidding on Government contracts and that, when ADP equipment is being initially acquired on the basis of specifications not oriented to specific makes or models, it is not always technically feasible for nonmanufacturing suppliers to make proposals.

We believe that, in those instances where installed rented equipment is to be purchased, the Government should not purchase the equipment from the supplier on a sole-source basis, as is done in most cases, but should open the proposed purchase to competition in order to give nonmanufacturing suppliers the opportunity to bid. We recognize that, when ADP equipment is being initially acquired, it is not always technically feasible for nonmanufacturing suppliers to make proposals. In those cases where the make and model of equipment is known, however, the purchase of equipment should be opened to competition rather than obtained directly from the manufacturer.

## CHAPTER 4

### INTERNAL AUDIT

We discussed with GSA internal auditors GSA's Government-wide ADP equipment acquisition program. The auditors advised us that they had not reviewed the program. We believe that internal audit reviews can be of assistance to the officials responsible for the management of the program, and, therefore, we proposed to GSA that the internal auditors direct their attention to this program.

#### GSA COMMENTS

The Administrator of General Services stated that the internal auditors had made a number of reviews of GSA's internal ADP activities. The Administrator stated that the internal auditors were working toward the development of sufficient resources to provide audit coverage of GSA's internal and Government-wide ADP responsibilities and that specific attention would be given to GSA's Government-wide ADP equipment acquisition program.

## CHAPTER 5

### SCOPE OF REVIEW

Our review was directed toward identifying specific problem areas within the Government's current ADP equipment acquisition program. We reviewed the legislative history of Public Law 89-306, OMB circulars and guidelines, GSA regulations and procedures, and selected agencies' procedures pertaining to the acquisition of equipment. We interviewed officials of OMB, GSA, and several civilian and defense agencies which procure and use ADP equipment, and we held discussions with representatives of the computer industry. We reviewed records in the selected agencies and examined documents supplied by industry representatives. The review was made primarily at the GSA Central Office and the headquarters offices of the selected agencies in the Washington, D.C., area.

In making estimates of Government expenditures for the rental and purchase of ADP equipment, we used data from GSA's management information system, manufacturers' reports of sales under GSA's Schedule contracts, and GSA procurement records. Certain data appeared questionable, and we believe that, in reality, the total expenditures for the acquisition of the Government's ADP equipment is unknown. The lack of sufficient current data regarding agencies' retention plans for individual equipment units precluded more precise estimates of potential savings available through the use of multiyear leasing.

Our review did not include an examination of the agencies' justifications for the acquisition of equipment or the uses being made of the equipment.

**APPENDIXES**

GENERAL ACCOUNTING OFFICE REPORTS  
ON STUDIES WHICH ILLUSTRATED AND SUMMARIZED  
IMPROVEMENTS WHICH COULD BE MADE IN THE  
GOVERNMENT-WIDE COORDINATION OF CERTAIN  
ASPECTS OF AUTOMATIC DATA PROCESSING MANAGEMENT

<u>Titles of reports to the Congress</u>	<u>Date issued</u>
Survey of Progress and Trend of Development and Use of Automatic Data Processing in Business and Management Control Systems of the Federal Government as of December 1957 (B-115369)	June 27, 1958
Review of Automatic Data Processing Developments in the Federal Government (B-115369)	Dec. 30, 1960
Study of Financial Advantages of Purchasing Over Leasing of Electronic Data Processing Equipment in the Federal Government (B-115369)	Mar. 6, 1963
Review of Problems Relating to Management and Administration of Electronic Data Processing in the Federal Government (B-115369)	Apr. 30, 1964
Management of Automatic Data Processing Facilities in the Federal Government (B-115369)	Aug. 31, 1965

## APPENDIX II

AUTOMATIC DATA PROCESSING FUND  
COMPARATIVE STATEMENT OF FINANCIAL CONDITION

	<u>As of June 30</u>		
	<u>1968</u>	<u>1969</u>	<u>1970</u>
	(000 omitted)		
<b>ASSETS</b>			
<b>CURRENT ASSETS.</b>			
Cash	\$ 9,196	\$10,646	\$10,348
Accounts receivable	54	376	397
Advances and work in process	-	194	15
Deferred charges and prepaid expenses	-	-	107
<b>Total current assets</b>	<u>9,250</u>	<u>11,216</u>	<u>10,867</u>
<b>EQUIPMENT AND IMPROVEMENTS,</b>			
Owned equipment leased to agencies	1,835	4,969	11,150
Less allowance for depreciation	<u>134</u>	<u>1,488</u>	<u>3,226</u>
	1,701	3,481	7,924
Equipment in Federal Data Processing Centers	11,690	11,906	12,516
Less allowance for depreciation	<u>2,960</u>	<u>4,500</u>	<u>6,536</u>
	8,730	7,406	5,980
Miscellaneous programs	-	95	628
Less allowance for depreciation	<u>-</u>	<u>3</u>	<u>45</u>
	-	92	583
<b>Total equipment and improvements</b>	<u>10,431</u>	<u>10,979</u>	<u>14,487</u>
<b>Total assets</b>	<u>\$19,681</u>	<u>\$22,195</u>	<u>\$25,354</u>
<b>LIABILITIES</b>			
Accounts payable	\$ -	\$ 1,235	\$ 3,182
Advances and deferred credits	<u>512</u>	<u>1,068</u>	<u>626</u>
<b>Total liabilities</b>	<u>512</u>	<u>2,303</u>	<u>3,808</u>
<b>INVESTMENT OF U.S. GOVERNMENT</b>			
Appropriated capital	10,000	10,000	10,000
Donated assets	9,679	10,239	8,785
Revaluation (equipment)	-	24	3,171
Allowance for unanticipated discontinuance of equipment	-	48	102
Provision for unamortized annual leave liability	-512	-434	-401
Retained earnings (note a)	<u>2</u>	<u>15</u>	<u>-111</u>
<b>Total investment of U.S. Government</b>	<u>19,169</u>	<u>19,892</u>	<u>21,546</u>
<b>Total liabilities and investment of U S. Government</b>	<u>\$19,681</u>	<u>\$22,195</u>	<u>\$25,354</u>

<sup>a</sup>Deposits of \$17,000 were made to Miscellaneous Receipts, U.S. Treasury, through June 30, 1970.

UNITED STATES OF AMERICA  
GENERAL SERVICES ADMINISTRATION  
WASHINGTON, D C 20405



SEP 11 1970

Honorable Elmer B. Staats  
Comptroller General of the  
United States  
General Accounting Office  
Washington, DC 20548

Dear Mr. Staats.

We have reviewed the draft report "Review of the Acquisition of General Purpose Automatic Data Processing Equipment by the Federal Government", as requested in your letter of June 29, 1970, and attached are our comments pertaining to this report.

Our comments are broken down by chapters for easy reference

Sincerely,

A handwritten signature in black ink, appearing to read "Robert L. Kunzig".

Robert L. Kunzig  
Administrator  
Enclosure

*Keep Freedom in Your Future With U S Savings Bonds*

# APPENDIX III

## CHAPTER 2

### MULTI-YEAR LEASING OFFERS OPPORTUNITIES FOR SIGNIFICANT COST REDUCTIONS

[ See GAO note, p. 51.]

As stated in the report, GSA took specific action highlighting the availability of RCA's extended rental plan in FY 70 by sending letters to agencies who were leasing RCA equipment. However, the report is incorrect when it stated that GSA did not take any further action on promoting use of other contractors' extended rental plans. GSA did in fact issue a special notice to ordering offices indicating each contract award which contained not only extended rental plans, but prompt payment discounts as well. Upon receipt of this notice, highlighting these areas, it is a responsibility of each agency to act accordingly. Further, upon receipt of the Comptroller General Decision, B 164908, dated January 31, 1969, in response to our request of July 22, 1968, relating to multi-year leasing, GSA sent a letter to all agencies on April 4, 1969. Agencies were requested not to refuse to enter into any long-term lease plan or installment purchase plans solely on the grounds that such a plan is barred by legal or fiscal consideration without prior consultation with and concurrence of GSA since GSA may decide to make use of the ADP Revolving Fund. Use of the ADP Fund for such transactions is not barred by the Comptroller General Decision. In addition, the content of this letter was incorporated in a Federal Procurement Management Regulation (Section 101-32.403-4).



## CHAPTER 3

COORDINATED GOVERNMENT-WIDE APPROACH TO PURCHASING NEEDED

This section of the report needs to reflect additional actions taken by GSA. The report states that "GSA requested no additional money for the Fund in its budget request to Bureau of the Budget (BOB) for FY 70 and FY 71, because of continuing fiscal limitations and because the need for additional capital could not be reasonably demonstrated " It is true that GSA's original FY 70 and FY 71 budget request did not include additional monies for the ADP Fund. However, the report should reflect that GSA requested a \$30 million supplemental appropriation for FY 70 and amended their FY 71 budget to the same amount. A justification was included based on valid equipment requirements for ADP Fund considerations totaling \$22.5 million and estimated equipment requirements of \$7.5 million.

We agree with the conclusion that a coordinated Government-wide purchase program is essential if the Government is to optimize the use of its limited purchase funds. To support this program ADPE monies could be contained in one central fund and all agencies would be required to use this fund for their ADPE requirements. To further support this Government-wide program, GSA, in conjunction with Office of Management and Budget (OMB) and Government agencies, is revising the Management Information System (MIS). The revised MIS will contain the basic reporting elements necessary to make detailed lease versus purchase analysis, and to prepare a Government-wide "Best Buy" List. To fully implement this concept, consideration must also be given to the substantial manpower resources required to review all procurement requests, and to perform a detailed analysis of each request.

The conclusion that "equipment purchases from nonmanufacturing suppliers has not been fully explored by the Government", and that "the admittance of additional supply sources for the Government's equipment requirements would offer opportunities for the use of competitive contracting procedures for obtaining lower prices" is not completely accurate. Nonmanufacturing suppliers are not precluded from bidding on Government contracts. However, it must be recognized that in those cases that computer systems are being acquired based upon data systems specifications not oriented to specific makes or models it is not always technically or economically feasible for nonmanufacturing suppliers (other than original equipment manufacturers)

## APPENDIX III

to propose. We are studying the entire area to determine the technical and economical feasibility of a new method of procurement. To reach valid conclusions regarding this matter, we determined to operationally test this method of procurement and make comparisons with the currently used procurement techniques. We, therefore, constructed a Request for Proposal which was issued on May 1, 1970, and a competitive procurement is now underway for the purpose of acquiring a computer system which will permit competitive offers by independent peripheral manufacturers and others during initial system acquisition.

In addition, there have been numerous actions taken to create and provide for supply sources other than original equipment manufacturers. Some examples follow.

1. In the area of independent peripheral procurements, we have continued to provide opportunity for the smaller manufacturers of ADP peripheral and accessorial equipments to furnish part of the Government's requirements.

During FY 70 we made additional progress in awarding Federal Supply Schedule (FSS) contracts to independent manufacturers of peripheral and accessorial equipments used with Automatic Data Processing Equipment (ADPE). During FY 70 we had a total of 71 such contracts with an estimated annual volume of \$12 million, as compared to 42 in the previous fiscal year with a volume of \$10.7 million. Among these were contracts with four manufacturers and suppliers of plug-to-plug compatible tape and disk drives and six independent suppliers of disk packs at prices lower than available from computer manufacturers.

2. We now have FSS contracts for disk packs at considerably lower prices than those offered by computer manufacturers. These contracts were issued pending the development of a Federal Specification and a Qualified Products List (QPL) for six high disk packs to permit competitive procurements for future use requirements.

It is felt that the use of the specification and qualification testing will provide a better quality product at lower prices. We have required the agencies to determine and report to GSA their replacement and additional FY 71 requirements. We have prepared and issued an appropriate solicitation for this Government-wide requirement. We plan to do the same thing for eleven high disk packs as soon as we complete work on the development of a Federal Specification.

3. In August of 1969 we sent a letter to the several agencies pointing out the recommendations contained in the Comptroller General's report to the Congress on a "Study of the Acquisition of Peripheral Equipment for use with Automatic Data Processing Equipment" - June 24, 1969, and offered GSA assistance in putting recommendations into effect pending issuance of more specific policies by Office of Management and Budget and GSA. We delegated procurement authority to the Veterans Administration to competitively procure plug-to-plug compatible replacements for 75 original computer manufacturer tape drives. This action has been completed with a reported savings of \$300,000 annually. We also delegated procurement authority to Defense Supply Agency for replacement of 57 tape drives. This action has been completed with a reported savings of \$220,000 annually.

4. We implemented Bureau of the Budget Bulletin No. 70-9, subject, "Acquisition of Peripheral Components for Installed ADP Systems," by identifying 2,876 such units, which if determined by the using agencies to be replaceable, would at least equal the \$5.0 million annual cost reduction estimated by the Comptroller General in his report to the Congress on this subject No. B-115369, dated June 24, 1969.

GAO note: Deleted comments relate to matters which were discussed in the draft report but omitted from the final report.

## APPENDIX III

### CHAPTER 5

#### INTERNAL AUDIT

Chapter 5 of the GAO draft report recommends that the GSA internal auditors be given the training necessary to review GSA's ADP equipment acquisition program, and that the internal auditors direct attention to this program. The GSA Internal Audits Division has the training necessary for such work. A misunderstanding on this point apparently arose during our discussion with GAO of the limitations any audit staff faces in relation to its total audit workload.

The Office of Audits and Compliance is constantly working toward development of sufficient resources to provide audit coverage of the GSA internal ADP systems as well as GSA's Government-wide responsibilities under the Brooks Bill. This requires not only appropriate training - 51 of the 90 internal auditors have received ADP training - but also the programming of available staff resources to provide necessary audit coverage for the many significant and diversified activities throughout all of GSA. ADP activities have received a share of these resources.

In response to a Federal Supply Service request, the GSA Internal Audits Division provided assistance and advisory service in the evaluation and selection of ADP equipment for the St. Louis Federal Data Processing Center. In addition, a comprehensive internal audit report was issued last year on the appraisal of ADP applications used in the Federal Supply System.

In matters of Government-wide ADP application, Internal Audits has recently issued special reports on GSA's ADP in-house maintenance test program and on the Remote Access Multi-User System project through which GSA is providing interactive ADP time-sharing to Federal agencies nationwide.

Further, audits have been scheduled this fiscal year to cover other ADP-related areas. In accordance with the GAO recommendation, the internal auditors will also direct specific attention to the GSA ADP equipment acquisition program.

EXECUTIVE OFFICE OF THE PRESIDENT  
OFFICE OF MANAGEMENT AND BUDGET  
WASHINGTON, D.C. 20503

Mr. V. L. Hill  
Assistant Director  
Civil Division  
United States General  
Accounting Office  
Washington, D.C. 20548

NOV 18 1970

Dear Mr. Hill:

We have reviewed your draft report entitled "Review of the Acquisition of General Purpose Automatic Data Processing Equipment by the Federal Government" and have the following comments:

1. Your proposed finding that "Little progress has been made toward implementing a coordinated Government-wide ADP equipment acquisition program as envisioned by the Congress in 1965." appears to disregard the substantial advancements that have been made toward the "single-purchaser" concept as the result of actions such as the following:

a. A maximum order limitation has been placed on the equipment that can be acquired by agencies without GSA's review for centralized purchase action or a delegation of procurement authority.

b. Multiple procurements handled on a centralized basis resulted in a cost saving during FY 1970 over Federal Supply Schedule or commercial prices of \$20,000,000.

c. the Government-wide program for replacement of punch card equipment being leased from IBM with equipment provided at lower cost by third party suppliers.

d. the Government-wide program prescribed by OMB Bulletin 70-9 to acquire lower cost compatible peripheral equipment to replace existing "systems supplier equipment" at actual savings estimated to be at least \$4.4 million. GSA has delegated the procurement to Veterans Administration and the Navy Department and has an RFP for all other agencies now out for bids. Further, GSA is currently testing the feasibility and results of procuring computer systems under conditions in which independent suppliers can offer proposals on all or any part of the system.

## APPENDIX IV

e. Steps have been initiated to coordinate the Federal software requirements and consolidate the acquisition of widely used common software packages. Some such general purpose packages have been placed on Federal Supply Schedules. GSA is taking action to acquire a "system/equipment simulator package" to replace the variety of such packages currently in use. Experience gained in this pilot project will provide a base for future practice in this relatively new technological procurement area.

f. The ADP Fund has been used to take advantage of rental credits accrued on equipment being phased out of one agency to meet the requirements of another agency.

g. Procurement and testing (through a magnetic testing laboratory established by GSA/NBS) of all magnetic tapes have been centralized. Similar consideration is being given to the procurement of magnetic disks.

h. The competitive procurement policies for ADP have resulted in a shift in the percentage of Government equipment acquired from the dominant supplier from 61 percent in 1964 to 26.5 percent in 1970.

GAO note: Deleted comments relate to matters which were discussed in the draft report but omitted from the final report.

3. Your observation that the Government's ADP management information system "has not been sufficiently developed and refined to serve as an effective tool for ensuring that available equipment acquisition monies are properly channeled to achieve optimum economies" is not treated with in specific terms since the draft report says that "we are reviewing the information system as a separate subject." However, we would agree that the performance of the management information system has been generally unsatisfactory for certain aspects of the management of the Federal ADP program. Recognizing this, a concerted drive was started early this year by OMB and GSA which has resulted in the following:

a. The inventory files as of June 30, 1970, were validated by August 5, and the published document released by the Public Printer on August 28, about eight months earlier than prior years.

b. The inventory data is, for the first time, sufficiently timely to use specialized outputs in the budget review process. Particular emphasis this year is being paid in the budget review process to a review of the continuation of rentals where purchase or alternative techniques of rental, such as multi-year leases, is in order.

c. The system has been the basis for determining requirements for and implementing both the Government-wide peripheral equipment replacement program and the punch card equipment replacement program mentioned in paragraph 1 above.

d. Task forces have been working to further improve the timeliness and content of the system. Emphasis is being given to the development of data that will (a) provide a technical profile of the Federal ADP inventory (programming languages, software packages, data management systems, etc.), and (b) identify the inventory and related costs according to Government functions being served.

e. Now that the inventory data is current, it provides GSA with a basis for analyzing alternative procurement opportunities in considering the use of the ADP Fund.

f. The agency forecast of gains and losses contained in the management information system, as modified by the actions taken by OMB in the budget review process, will provide the basis for GSA to develop a procurement profile for the coming fiscal year. This action can be further

## APPENDIX IV

adjusted by appropriation actions and then used to plan and coordinate the procurement actions for the fiscal year. In this manner the "single-purchaser" concept will be further enhanced.

4. Your observation that the ADP Fund has not been fully developed is accurate. The Fund, with an initial capital investment of \$10,000,000 in 1967, has been augmented by the transfer of assets of the Federal Data Processing Service Centers and is in the process of a further augmentation by the inclusion of \$20,000,000 in the 1971 Supplemental Appropriation request. The Fund has been used to purchase equipment where Government-wide benefits were demonstrable and to take advantage of opportunities which were not possible under the regular appropriations process

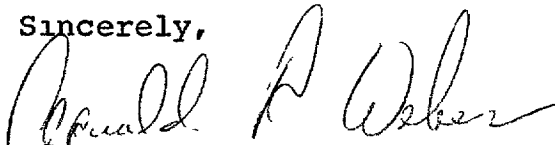
The opportunities for further use of the Fund have been enhanced by the improvements in the management information system indicated in paragraph 3. Not only has the system been used in this year's budget review, but it now can be used in agency planning and in GSA to evaluate current procurement options and estimate future Fund opportunities.

Even though the ADP Fund has not been "fully developed," it should be noted that substantial progress has been made in achieving the objectives of the Fund, namely advancement of the single-purchaser concept as described in the earlier paragraphs of this letter, and increased purchasing of computers as evidenced by the fact that the percentage of owned computers in the Government inventory has increased from 39 percent in FY 1964 to 64 percent in FY 1970.

We have not offered any comments on the specific issues raised in the report or on the use of multi-year leasing since GSA is in a better position to respond to these issues.

The management of ADP is a complex task due in large measure to the relative youth of the technology, the dynamic nature of its evolution, and the interaction of the technology and its application. We believe that the Federal Government has and is making progress in its management.

Sincerely,



Arnold R. Weber  
Associate Director



PRINCIPAL OFFICIALS OF  
THE OFFICE OF MANAGEMENT AND BUDGET  
AND THE GENERAL SERVICES ADMINISTRATION  
RESPONSIBLE FOR THE ADMINISTRATION OF ACTIVITIES  
DISCUSSED IN THIS REPORT

	Tenure of office	
	From	To
<u>OFFICE OF MANAGEMENT AND BUDGET</u> (note a)		
DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET:		
George P. Shultz	July 1970	Present
DIRECTOR, BUREAU OF THE BUDGET (note a):		
Robert P. Mayo	Jan. 1969	June 1970
Charles J. Zwick	Jan. 1968	Jan. 1969
Charles L. Schultze	June 1965	Jan. 1968
<u>GENERAL SERVICES ADMINISTRATION</u>		
ADMINISTRATOR OF GENERAL SERVICES:		
Robert L. Kunzig	Mar. 1969	Present
Lawson B. Knott, Jr.	Nov. 1964	Feb. 1969
COMMISSIONER, FEDERAL SUPPLY SERVICE:		
H. A. Abersfeller	Mar. 1970	Present
Lewis E. Spangler (acting)	Dec. 1969	Mar. 1970

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<sup>a</sup>Under the President's Reorganization Plan 2 effective July 1, 1970, the Bureau of the Budget was incorporated into the newly established Office of Management and Budget.

Tenure of officeFrom                      ToGENERAL SERVICES ADMINISTRATION (continued)COMMISSIONER, FEDERAL SUPPLY SER-  
VICE:

Arthur F. Sampson	June 1969	Dec. 1969
Lewis E. Spangler (acting)	May 1969	June 1969
H. A. Abersfeller	May 1964	May 1969