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UNITED STATES GENERAL ACCOUNTING OFFICE

WASHINGTON, D.C. 20548

March 2, 1971

CIVIL DIVISION



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Dear Mr. Abersfeller:

The General Accounting Office, in making its review of programs established under the provisions of Public Law 89-306, noted that effective January 1, 1971, the International Business Machines Corporation offered reductions of from 25 to 40 percent in the purchase prices of certain equipment--processing units for 360/20 and 360/44 systems, 2361 bulk core storage units, 2314-1 disk drives, and various features for the 360 processing units.

Using present value analysis, we estimate that by purchasing the 295 units of the aforementioned equipment in the Government's inventory of leased equipment as of June 30, 1970, for \$20 million (net cost at which the equipment is available), the Government could save up to \$15 million over a 3-year period and up to \$34 million over a 5-year period. Additional savings would accrue to the Government to the extent that (1) the equipment has been subject to extra-use rental charges, and (2) the equipment is used beyond the 5-year period.

Our analysis indicated that the equipment could be purchased at from 21 to 39 percent of its original cost, taking into account the January 1, 1971, price reductions and the maximum purchase-option credits offered under the terms of the International Business Machines Corporation Federal Supply Schedule contract. The average internal rate of return is 60 percent over a 5-year period, with rates as much as 156 percent. The payout periods are from 8 to 21 months. The rates of return and payout periods are more favorable than those for most of the equipment purchased by the Automatic Data Processing Fund.

We believe that the Government should take prompt action in order to realize maximum advantage from the price reductions. We recognize that time is needed to select equipment, adjust plans, and the like; however, in the absence of a notification to the International Business Machines Corporation of intent to purchase, the Government is continuing to pay rental at the rate of \$35,000 per day, or \$1 million a month (net of maintenance), for the 295 units. To further illustrate the need for prompt action, our present value analysis shows that a delay of 6 months in taking purchase action on the 295 units would reduce the potential savings by as much as \$5.6 million.

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We recommend, therefore, that the General Services Administration identify and arrange for the purchase of that equipment which would result in savings to the Government. In so doing, we suggest that the General Services Administration:

- obtain from agencies, possibly by telephone, information on current equipment retention plans and ensure that the plans are based on the reduced purchase prices available;
- consider potential secondary usage of the equipment in making purchase decisions;
- consider using the Automatic Data Processing Fund to the extent that monies are available when agencies do not have funds available to purchase equipment; and
- attempt to arrange with the International Business Machines Corporation for exchange of title in those cases where purchase credits on equipment to be released is greater than the purchase credits on equipment which is to be purchased.

We would appreciate having your comments on this matter. If you desire, we shall be pleased to meet with you or your representatives to discuss this matter.

Sincerely yours,



V. L. Hill
Assistant Director

Mr. H. A. Abersfeller, Commissioner
Federal Supply Service
General Services Administration