



UNITED STATES GENERAL ACCOUNTING OFFICE

WASHINGTON, D.C. 20548

LOGISTICS AND COMMUNICATIONS
DIVISION

June 2, 1976

B-115369

Lt. General Lew Allen, Jr.
Director, National Security Agency
Fort George G. Meade, Maryland 20755

Dear General Allen:

We have reviewed certain of the methods of acquiring automatic data processing (ADP) equipment at the National Security Agency. Our review included several major ADP configurations, of which some were owned and some were leased, with a value in the tens of millions of dollars. We have noted two areas that have potential for substantial dollar savings in the leasing of certain ADP equipment and are recommending actions by the Agency with respect to these areas.

As you know, section 236 of the Legislative Reorganization Act of 1970 requires the head of a Federal agency to submit a written statement on actions taken on our recommendations to the House and Senate Committees on Government Operations not later than 60 days after the date of the report and to the House and Senate Committees on Appropriations with the Agency's first request for appropriations made more than 60 days after the date of the report.

FULL PAYOUT LEASE OF FOUR
IBM 370/168 COMPUTERS

During the period October 1, 1974, through February 15, 1975, four International Business Machines (IBM) Corporation 370/168 computers were installed at the Agency's complex. This resulted from the upgrading of the four IBM 370/165's. These four computers are being leased from the IBM Corporation under their Term Lease Plan at an annual cost of over \$3 million, excluding maintenance costs. Although purchasing is generally more economical than leasing, we have been told that the purchasing of these equipments was not feasible because the Agency projects the use of computers at only 4 years. We also understand that an inquiry by the Agency for procurement funds from the ADP Revolving Fund of the General Services Administration resulted in a negative response. We believe that, if purchase is not feasible, the Agency can still reduce

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lease costs, at this time, by acquiring the four IBM 370/168 computers under a full payout lease from a commercial leasing firm or from the manufacturer. Due to the advanced technological state of these computers, a very high probability exists that there will be a secondary user available within the Government, when the Agency determines that the use of these computers is no longer required.

In recent years, non-manufacturing suppliers have entered the ADP equipment market and offer a number of economical methods for the acquisition of ADP equipment. These suppliers purchase both new and used ADP equipment and then lease back the equipment either under multi-year leases or full payout plans. Under a full payout plan the Agency would acquire title to the equipment at the end of the period, usually five or six years. The availability of these additional suppliers for ADP equipment allows the Agency to obtain competition (either through formal advertising procedures or open solicitation of proposals, as appropriate) in the purchase and/or lease of ADP equipment.

At the present time, the four IBM 370/168 computers are being leased under a multi-year type plan from the IBM Corporation. We recognize that this is resulting in substantial savings compared with short term rentals. However, based on information obtained from a commercial leasing firm, additional savings in the instant case are now possible on present lease costs, under a full payout plan as shown below:

Four IBM 370/168 Computers

Annual Cost to Lease From IBM <u>(Note a)</u>	Annual Cost to Lease From a Leasing Firm <u>(Note b)</u>	<u>Annual Potential Savings (Note c)</u>
\$3,131,055	\$2,948,784	\$172,271

- a/ Costs are based on the rates for equipment rental, excluding maintenance, cited in the fiscal year 1975 Authorized ADP Schedule Price List Contract GS-00C-0422, between IBM and GSA, under which the NSA contract was negotiated. Maintenance costs would be the same for either source.
- b/ Costs are based on information obtained from a commercial leasing firm under a six year full payout plan, and do not include maintenance.
- c/ The annual savings will increase to over \$3 million at the expiration of the full payout plan.

PLUG TO PLUG COMPATIBLE
ADP COMPONENTS

Another potential area for savings is the leasing of peripheral ADP equipment components, such as tape drives, printers, mass storage devices, from other than the computer manufacturer. Certain manufacturers of independent peripheral equipment have emphasized the development and marketing of equivalent plug-to-plug compatible components at prices which can result in considerable savings to computer users. These components are plug-to-plug compatible in the sense that the computer system manufacturer's component can be unplugged from the computer and immediately replaced with the independent manufacturer's component. Both components function in the same or similar manner and the computer performs just as though the computer system manufacturer's component is still being utilized. No changes to the computer programming system are necessary.

During our review it was noted that the IBM computer systems at the Agency used only IBM peripheral equipment even though plug-to-plug compatible equipment is available. At the present time about 7 disc storage and storage control units are being leased from the IBM Corporation at an annual cost of about \$1.25 million. Based upon information provided to us informally by an independent peripheral supplier, it appears that savings of at least 30 percent could be realized by competitively soliciting other manufacturers of these devices. This would result in an annual savings of about \$400,000.

These areas of potential savings and their feasibility were discussed with Agency management and operations staff officials who provide the support for Agency computer activities.

CONCLUSION AND RECOMMENDATION

We believe that significant savings can be realized under lease/purchase plans and by acquiring plug-to-plug compatible components, recognizing the ease with which such equipments can be installed. We recommend that you investigate the feasibility of competitive solicitations of computers under the above arrangements and also acquisition of components from alternate sources of supply.

We are sending copies of this report to the Chairmen, House and Senate Committees on Appropriations, Government Operations and Armed Services; to the Secretary of Defense, and to the Administrator of General Services.

Sincerely yours,

A handwritten signature in cursive script that reads "Fred J. Shafer". The signature is written in dark ink and is positioned above the typed name.

Fred J. Shafer
Director