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COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

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Dear Mr. Chairman:

In response to your letter of December 15, 1971, we reviewed the acquisition of an International Business Machines Corporation (IBM) 370/155 computer system by the Defense Communications Agency (DCA) for use by the Executive Office of the President. As requested, we reviewed (1) the basis on which the computer system had been justified, (2) the extent of competition obtained, (3) the respective costs of leasing and purchasing the system, and (4) the manner in which the lease was being funded.

We also reviewed some aspects of the acquisitions of two Radio Corporation of America (RCA) 70/45 computer systems and an IBM 370/145 computer system. We included these systems in our review because they were part of a project to automate the White House information-handling processes, communications facilities, and certain functions of the Office of Management and Budget (OMB), National Security Council, Domestic Council, and other offices in the White House.

JUSTIFICATION FOR THE IBM 370/155

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Our review showed that the need for the IBM 370/155 computer system evolved from an initial requirement to automate the White House information-handling processes and communications facilities serving the National Security Council. That automation was to be accomplished by acquiring two computer systems--one primary system to handle the communications function and a secondary system to provide backup capability and to handle data processing requirements. Before the computers were selected, the White House decided that it would be useful to include in the proposed systems the requirements of the Domestic Council, other offices within the White House, and the OMB. Prior to installation of the system, OMB had met its needs by using the computers of other agencies and of commercial data processing firms.

An executive panel, which consisted of representatives of the National Security Council, the Domestic Council, OMB,

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and DCA, studied the automation needs of the Executive Office. The panel concluded that two basic processing systems were needed: (1) an automated communication and message processing system to satisfy the President's and the National Security Council's communications needs and (2) a general-purpose processing system to serve the needs of OMB, the National Security Council, and the Domestic Council and to automate administrative functions of the White House.

The expanded requirement increased the number of needed computer systems from two to four. Subsequently, two RCA 70/45 systems were leased--one in December 1971 and another in January 1972--at a total annual rental of about \$661,000, to automate the communications facilities; an IBM 370/155 system was leased in July 1971, at an annual rental of about \$710,000, to process unclassified data primarily for OMB; and plans were initiated to lease an IBM 370/145 system in June 1972 to process classified data for the National Security Council. The last two computer systems make up the general-purpose processing system.

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According to planning documents, the RCA systems were needed to automate such communications functions as message accountability, message storage and retrieval, reinsertion of corrected messages, and preparation of message formats. The IBM systems were needed by (1) the National Security Council for indexing, storing, and retrieving reports, correspondence, and studies, (2) OMB for budget preparation and fiscal-related matters, and (3) the White House for administrative functions, such as payrolls and recordkeeping. The needs of the Domestic Council were not specifically identified at the time of our review.

Although we reviewed planning documents and requirements analyses and discussed the requirements with appropriate officials, the documents made available to us were not sufficiently comprehensive to compare the cost of automation with the expected benefits. Therefore we cannot conclusively state that the cost of automating the processing functions of the offices was justified. The project manager for the systems advised us that certain documents leading to the acquisition

decisions were privileged internal staff memorandums and working papers of the Executive Office of the President. The project manager would not release these documents. Nevertheless, on the basis of the information we did obtain, automation of the functions and operations involved probably was justified.

EXTENT OF COMPETITION OBTAINED

DCA, under the guidance of the project manager and OMB, has leased the three computer systems and plans to lease the IBM 370/145 directly through the Federal Supply Schedule contracts with the specified manufacturers, without affording other computer vendors an opportunity to compete. Competition is required by Government policy contained in OMB Circular A-54.

We found that OMB had waived the procedures prescribed in Circular A-54 for selecting computers and had permitted DCA to acquire the three computer systems on a sole-source basis. The primary justification for acquiring the IBM 370/155 in that manner was the need to install a computer system by July 1971, to insure that the target date for processing the President's fiscal year 1973 budget would be met. The July 1971 installation goal could not have been met because of the time required to follow competitive-bid procedures.

The legal basis for the sole-source acquisition of the IBM 370/155 was not cited in the justification and we were unable to determine this at OMB because the approving official had resigned his position. However, we have noted that Section 2304(a)(2) of title 10, United States Code, permits the waiving of formal advertising when the public exigency will not permit the delay associated with formal advertising, and that Section 2304(g) permits sole-source acquisition when time of delivery will not permit competitive negotiations. Nevertheless, the validity of the justification for the sole-source acquisition is questionable because OMB, in our opinion, could have used computer resources of other Government agencies and commercial firms to process the fiscal year 1973 budget, as it had for prior budgets.

We did not examine the validity of the sole-source acquisitions of the RCA 70/45s, since they were not the primary subject of our review.

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RESPECTIVE COSTS OF LEASING
AND PURCHASING THE SYSTEM

We made a lease-versus-purchase analysis of the IBM 370/155 system using July 1, 1972, as the potential purchase date. On that date the purchase price of the system would have been about \$2.26 million. Our analysis indicated that the cost savings through purchase of the system would range from \$913,000 to \$1,310,000 (residual value not considered) over a remaining economic life of 7 years, depending upon whether a 6-, 8-, or 10-percent present-value discount rate were used in the computation. (See table below.) The savings represent the amount that the present value of rental payments would exceed the purchase price plus the present value of maintenance payments. The break-even point shown in the table is the time in which the purchase cost would equal rental payments.

<u>Present value discount rate</u>	<u>Estimated break-even point from July 1, 1972</u>		<u>Cumulative savings after 7 years (000 omitted)</u>
	<u>Month</u>	<u>Period</u>	
6%	July 1975	3 years 1 month	\$1,310
8	September 1975	3 years 3 months	1,101
10	November 1975	3 years 5 months	913

The basic (single shift) annual rental of \$710,000, which included maintenance cost, was used for this analysis.

Purchase of the system would require an outlay of about \$2.88 million, of which \$616,000 would be required to maintain the equipment over its remaining economic life at an annual rate of about \$88,000. The continued leasing of the system would require an outlay of \$4.97 million over the remaining economic life, or about \$2.1 million more than the cost to purchase the system. The table below compares the annual outlay of funds required to lease and purchase the system.

Annual Cash Flow (not discounted)

<u>Fiscal year</u>	<u>Lease cost</u> (note a)	<u>Purchase cost</u> (note a)	<u>Additional outlay</u> <u>for leasing</u>
1973	\$ 709,500	\$2,351,962	-\$1,642,462
1974	709,500	87,984	621,516
1975	709,500	87,984	621,516
1976	709,500	87,984	621,516
1977	709,500	87,984	621,516
1978	709,500	87,984	621,516
1979	709,500	87,984	621,516
Total	<u>\$4,966,500</u>	<u>\$2,879,866</u>	<u>\$2,086,634</u>

^aIncludes annual maintenance cost.

DCA does not plan to purchase the system primarily because OMB cannot forecast a need for it beyond 3 years from the installation date.

FUNDING ARRANGEMENTS

DCA, through its field office--the White House Communications Agency--is responsible for providing telecommunications and related support to the President of the United States and to elements associated with the President. In addition, DCA has traditionally provided support to the President in the area of electronic information handling for national security. When the plan to improve the White House information-handling and communications facilities was made, DCA was tasked to provide the necessary resources.

DCA budgeted \$500,000 of operation and maintenance funds for fiscal year 1971, the first year of the project. That amount, subsequently increased to \$539,000 by reprogramming, was expended for project development.

For fiscal year 1972 DCA provided a total of \$1,973,000 of operation and maintenance funds, \$1,866,000 of which had been obligated as of January 1972. Of the latter amount, OMB reimbursed DCA \$460,000 for its use of the IBM 370/155.

DCA advised us that OMB intended to assume the entire annual rental of the IBM 370/155 after June 30, 1972.

We trust that this information is responsive to your needs. We did not request formal comments on this report from OMB and DCA; however, DCA reviewed portions of the report for security classification purposes.

We plan to make no further distribution of this report unless copies are specifically requested, and then we shall make distribution only after your agreement has been obtained or public announcement has been made by you concerning the contents of the report.

Sincerely yours,



Comptroller General
of the United States
Acting

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