This kind of management action should help to significantly reduce the Government's overall data-processing costs.

FAILURE TO TAKE PROMPT ADVANTAGE OF REDUCED SALES PRICES

During our study we noted a number of instances where savings could apparently have been realized if prompt action had been taken to purchase installed data-processing equipment at reduced sales prices offered by the manufacturers. In these instances, the possible savings are based on considering the action from the standpoint of advantage to the Government overall and not from the standpoint solely of the individual using agencies.

IBM MODEL 704 SYSTEMS

On September 19, 1960, the International Business Machines Corp., announced that it would sell certain components of IBM 704 systems at 30 percent of the original price. This significant reduction in purchase price was not accompanied by a corresponding reduction in the rental charges for the particular components. According to the Bureau of the Budget inventory as of June, 30, 1960, the Government had on hand 30 IBM 704 systems of which 4 had been purchased and 26 were leased. Had prompt action been taken by using agencies to purchase such equipment, the possible savings to the Government would have been relatively significant. Following are some examples:

Federal Aviation Agency

The Federal Aviation Agency in December 1959, leased an IBM 704 system for use at Oklahoma City, Okla., for use in the control of aircraft in flight and in the flight inspection of ground navigational aids. Under the discounted pricing policy, components of this system renting for $23,400 per month and originally priced at $1,116,800 became available for purchase for $335,000. The Agency decided not to buy this system, however.

Had these components been purchased in December 1960, the Government would have saved $87,500 through June 1962, and would be adding to these savings at the rate of $21,800 for each month of use after that date. These estimates of savings take into consideration the cost of maintaining purchased equipment under a manufacturer's maintenance service contract.

In this case, if the Federal Aviation Agency had purchased rather than continued to lease the components subject to the discount prices, it would have saved $349,000 through June 1963, the anticipated replacement date. At that time, the Government would own the equipment and could relocate it in a less critical area in place of other leased equipment and this procedure would create additional monthly savings to the extent that the rental of the replaced equipment would exceed the cost of maintaining the Government-owned equipment.

Atomic Energy Commission

The Atomic Energy Commission leased an IBM 704 system for use in research and development work at the Argonne National Laboratory in Argonne, Ill. The equipment was installed in November 1957, at a monthly rental of $47,340. If the system had been purchased originally rather than leased, it would have cost approximately $2 million.

On March 1, 1961, 5 months after IBM offered to sell the system at the discounted purchase price, the Atomic Energy Commission purchased certain components of the system for $598,000 for which it had been paying monthly rentals of $41,290. Had this equipment been purchased in October 1960, when it was first offered for sale at the discounted price, the Government would have saved over $200,000 (5 months' rental charges at $41,290 less estimated maintenance costs).

In this case, the agency attributed the delay in purchasing to fund limitations but has stated that it will give special attention to future situations where delays may cause the incurrence of otherwise avoidable expenditures of Government funds.[3]

[3] This transaction is also described in our report to the Congress on "Review of Selected Automatic Data-Processing Activities Under Atomic Energy Commission Cost-Type Contracts With University of Chicago and Midwestern Universities Research Association" (B-146763, Feb. 7, 1963).