

APPENDIX I-A

COMPTROLLER GENERAL OF THE UNITED STATES,
Washington, August 26, 1960.

Hon. JOHN LESINSKI,
*Chairman, Subcommittee on Census and Government Statistics, Committee on
Post Office and Civil Service, House of Representatives.*

DEAR MR. CHAIRMAN : During the hearing held by your subcommittee on June 5, 1959, on the use of automatic data-processing equipment in the Federal Government, representatives of the General Accounting Office and the Bureau of the Budget were requested to make a study of Federal agency policies with regard to lease versus purchase of automatic data-processing equipment.

A considerable amount of work has been done by our agencies on this study, working with representatives of other Government agencies and ADP equipment suppliers in an effort to ascertain the basis for present agency practices in acquiring the use of this kind of equipment. Since a significant amount of detailed analysis work remains to be done, we are submitting this interim progress report at this time to advise you of the status of the study and to summarize some of the information obtained.

INTERAGENCY ADP REPORT ON RENTAL VERSUS PURCHASE OF ADP EQUIPMENT

In April 1958, a task force of the interagency ADP committee completed a report entitled "Rental Versus Purchase Criteria for ADP and EAM Equipment." This report was widely circulated in the Federal Government and it has been extensively used as a reference document in connection with individual agency studies of the lease versus purchase problem.

BACKGROUND OF GOVERNMENT PRACTICE WITH REGARD TO LEASE VERSUS PURCHASE

Over the years, it has been the practice of Federal agencies to lease rather than to purchase punched card and electronic data-processing machines. As of the present time, most of the punched card and electronic equipment used in Government operations is on a lease basis. Numerous reasons have been advanced as justification for this practice. Chief among these reasons are the following :

1. Leased equipment can more easily be replaced by new, improved equipment, thereby encouraging the use of the most modern equipment.
2. Maintenance of the equipment is the supplier's responsibility, which carries with it the need for the suppliers' organization, rather than the Government, to retain a trained maintenance staff and to supply maintenance material and spare parts.
3. Modification and improvement of leased equipment can be more readily provided by the trained maintenance staff of the equipment supplier.
4. Systems and procedures help is more readily available from the equipment supplier if the equipment is being leased.
5. Leasing is a hedge against obsolescence.
6. Capital investment is not required.
7. The risk of major loss by fire or other disaster is avoided.
8. Leasing provides a hedge against failure of the system to operate as expected.
9. Leasing provides a hedge against changing missions and military or other requirements.

On the other hand, agencies that have purchased equipment outright contend that overall costs to the Government are lower, particularly when the equipment is used on a multiple-shift basis. Among the principal arguments that have been advanced in favor of purchasing ADP equipment are the following :

1. Overall costs to the Government are lower over a long period of time.
2. Data-processing systems that were installed 6 and 7 years ago are still in use and performing dependable service.
3. If the equipment ceases to be economically efficient for the original activity, the equipment might well be used in another Government activity.
4. If it is necessary to exchange equipment for any reason, the trade-in allowance can be applied to the purchase price of the new equipment.
5. Purchase prevents additional charges by the suppliers for multiple-shift usage.
6. There is no danger of being unable to renew a lease or having to pay a premium rental for renewal.