



Office of Inspector General

January 13, 2005
Report No. 05-002

Price Reduction on Laptop Computers

AUDIT REPORT





Price Reduction On Laptop Computers

Results of Audit

Purpose of Audit

In December 2003, the FDIC's Division of Administration (DOA) issued a purchase order to iGov.com (iGov) for 3,500 International Business Machines Corporation (IBM) laptop computers at a unit price of \$2,328. From February through June 2004, the FDIC issued several modifications to the purchase order, increasing the total quantity to 3,769. All of the computers were purchased at the same unit price, for a total purchase price of \$8,774,232.

The computers were purchased through the Department of the Army's blanket purchase agreement (BPA) with iGov. The BPA agreement incorporated the terms and conditions of iGov's General Services Administration Federal Supply Schedule (FSS) Contract and IBM's GSA FSS Contract.

The objective of the audit was to determine whether the FDIC received the appropriate price on the computers.

The FDIC purchased 3,769 IBM laptop computers through iGov at prices that were not based on the current IBM FSS prices. IBM's FSS contract specified that if IBM's established price decreased, the government was to have the benefit of the lower price as of either the date of order or the date of shipment. iGov did not ensure that prices charged to the FDIC reflected additional reductions to IBM's FSS prices. As a result, based on IBM's advertised prices as of the shipping date, the FDIC overpaid \$1,967,863 for the laptop computers.

Recommendations and Management Response

We recommended that the Director, DOA, pursue recovery of \$1,967,863 from iGov based on IBM Thinkpad laptop computer prices that should have been charged according to iGov's BPA and FSS contract provisions.

DOA concurred with the recommendation. DOA stated that neither the Acquisition Services Branch nor the FDIC's Division of Information Resources Management had been informed by iGov of any unit price reductions offered by IBM. DOA will issue a demand letter by January 31, 2005.

We plan to report the \$1,967,863 as questioned costs in our *Semiannual Report to the Congress*.

Calculation of Overcharges

iGov Shipping Date	Units Shipped	OIG Calculated Unit Price	FDIC Unit Price Paid	Unit Price Difference	Questioned Cost
12/11/03	200	\$1,893	\$2,328	\$435	\$87,000
03/17/04 to 04/15/04	3,300	\$1,801	\$2,328	\$527	1,739,100
03/17/04 to 04/15/04	83	\$1,801	\$2,328	\$527	43,741
06/29/04	68	\$1,801	\$2,328	\$527	35,836
07/09/04	118	\$1,801	\$2,328	\$527	62,186
Totals	3,769				\$1,967,863

Each Depositor Insured to \$100,000





DATE: January 13, 2005

MEMORANDUM TO: Arleas Upton Kea, Director
Division of Administration

FROM: Russell A. Rau [Electronically produced version; original signed by Russell A. Rau]
Assistant Inspector General for Audits

SUBJECT: *Price Reduction on Laptop Computers*
(Report No. 05-002)

The Federal Deposit Insurance Corporation (FDIC) Office of Inspector General (OIG) has completed an audit of the FDIC's 2003 purchase of 3,769 laptop computers. The objective of the audit was to determine whether the FDIC received the appropriate price on the computers. Details on our objective, scope, and methodology are presented in Appendix I.

Background

On December 10, 2003, the FDIC's Division of Administration (DOA) issued a purchase order to iGov.com (iGov)¹ for 3,500 International Business Machines Corporation (IBM) Thinkpad T41 Model 23739FU laptop computers at a price of \$2,328 per computer. Subsequently, the FDIC issued several modifications to the purchase order, increasing the quantity from 3,500 to 3,769 computers at the same unit price, for a total purchase price of \$8,774,232. The computers were purchased through iGov's blanket purchase agreement (BPA),² DAAB15-01-A-1007, with the U.S. Department of the Army's Communications-Electronics Command Acquisition Center-Washington.

The Army entered into the BPA with iGov for commercial-off-the-shelf information technology hardware, software, peripherals, and services in support of the Army's and other federal agencies' missions.³ The BPA incorporated the terms and conditions of iGov's General Services Administration⁴ (GSA) Federal Supply Schedule (FSS) Contract GS-35F-4411G and IBM's GSA FSS Contract GS-35F-4984H. Detailed BPA pricing criteria are included in Appendix II. Through BPAs with GSA FSS contractors, the

¹ iGov is an information technology contractor and a small business based in McLean, Virginia. The contractor holds several government-wide acquisition contracts, including a General Services Administration information technology schedule contract.

² A BPA is a simplified ordering instrument established between the federal government and a contractor to fulfill anticipated repetitive needs for goods through accounts with qualified sources of supply.

³ This BPA is available for use by the Army and all other Department of Defense agencies. Federal civilian agencies and departments may request to use this BPA.

⁴ GSA provides products and services to support the work of the government throughout the country by negotiating contracts with the private sector for about \$40 billion of goods and services annually.

government takes advantage of volume discounts and expedited ordering and satisfies the customers' requirements within the terms and conditions of the FSS.

An FSS, also known as a multiple award schedule (MAS), lists the contractors that have been awarded a contract by GSA and can be used by all federal agencies. GSA determines the prices to be fair and reasonable and awards competitive contracts to those companies who give federal agencies the same or better discounts than they give their best commercial customers.

RESULTS OF AUDIT

The FDIC purchased laptop computers through iGov based on an iGov price quote that did not reflect current IBM prices. As a result, iGov overcharged the FDIC by \$1,967,863. We recommended and management has agreed to pursue recovery of these funds from iGov. We will include the \$1,967,863 as questioned costs in our *Semiannual Report to the Congress*.

PRICE REDUCTIONS ON LAPTOP COMPUTERS

The FDIC purchased 3,769 IBM Thinkpad T41 Model 23739FU laptop computers through iGov at prices that were not based on the current IBM FSS prices. Prior to shipping the laptops to the FDIC, iGov did not ensure that prices charged to the FDIC reflected additional reductions to IBM's FSS prices. As a result, based on IBM's advertised prices as of the shipping date, the FDIC overpaid \$1,967,863 for the laptops.

Blanket Purchase Agreement Pricing Criteria

The BPA between iGov and the Army requires iGov to give an immediate price decrease (maintaining the same discount percentage) to agencies whenever FSS contract prices decrease. The BPA requires iGov and IBM to notify the Army immediately when prices are reduced and to update IBM's Web page to reflect the reduced price. IBM's FSS contract (which was incorporated into the iGov BPA) specifies that if IBM's established price for a machine decreases, the government is to have the benefit of the lower price as of either the date of order or the date of shipment. See Appendix II for detailed pricing criteria.

iGov Blanket Purchase Agreement Price Quotations

On November 19, 2003, iGov quoted the FDIC a unit price of \$2,328 for 3,500 laptop computers. The price quotation was based on iGov's BPA, which included a 13-percent BPA discount per unit from IBM's FSS price. iGov offered the FDIC an additional

5-percent discount per unit, thus making the BPA discount price 18 percent⁵ below IBM's FSS price of \$2,821 per unit.

IBM Announced Price Reductions

On November 13, 2003 and March 9, 2004, IBM announced price reductions that iGov did not pass on to the FDIC, beginning with the November 19, 2003, price quotation and on subsequent purchase orders and modifications. Based on shipping dates from iGov to the FDIC, we calculated the amount overcharged as shown in detail in the table that follows.

Calculation of Overcharges

Description	Date of Order	Date of IBM Price Reduction	Ship Date (iGov to the FDIC ^a)	Units Shipped	GSA Unit Price ^b	Calculated Unit Price (IBM Price Reduction + 18% Negotiated Discount) ^c	FDIC Unit Price Paid ^c	Unit Price Difference (FDIC Unit Price Paid less Calculated Unit Price)	Questioned (Unit Price Difference x Units Shipped)
Purchase Order	12/10/03	11/13/03	12/11/03	200	\$2,309	\$1,893	\$2,328	\$435	\$87,000
		03/09/04	03/17/04 to 04/15/04	3,300	\$2,196	\$1,801	\$2,328	\$527	1,739,100
Contract Modification No. 1	02/26/04	03/09/04	03/17/04 to 04/15/04	83	\$2,196	\$1,801	\$2,328	\$527	43,741
Contract Modification No. 3 ^d	05/06/04	03/09/04	06/29/04	68	\$2,196	\$1,801	\$2,328	\$527	35,836
Contract Modification No. 4	06/01/04	03/09/04	07/09/04	118	\$2,196	\$1,801	\$2,328	\$527	62,186
Totals				3,769					\$1,967,863

Source: OIG analysis of IBM FSS price changes and unit prices the FDIC paid.

^aWe were unable to obtain IBM's shipping dates to iGov.

^bThe GSA unit price is the IBM FSS price as of the shipment date from iGov to the FDIC.

^cWe calculated the unit price by reducing the GSA unit price as of each shipping date (based on IBM's FSS contract clause that assured the government the lower price as of either the date of order or date of shipment) by 18 percent in accordance with the terms of the BPA.

^dContract Modification No. 2 is not shown because it pertained to peripheral equipment and not laptops.

In each case, the price reduction had occurred before the shipment dates. Thus, the FDIC was overcharged by \$1,967,863 because iGov did not comply with BPA provisions

⁵ In DOA's *Selection Recommendation Report for Award of a Contract*, dated December 4, 2003, the discount was reported as 18 percent. The 18 percent was based on an oral representation from iGov. The actual discount received was 17.5 percent.

related to FSS price reductions. Specifically, iGov did not ensure that prices charged to the FDIC reflected reductions to IBM's FSS price. As a result, the FDIC did not receive the benefit of a price reduction that had taken place on November 13, 2003 – 6 days prior to iGov's November 19, 2003 price quote and almost 1 month before IBM's initial shipment of 200 computers on December 11, 2003. Additionally, IBM announced a second price decrease on March 9, 2004, which was prior to the shipment of the remaining computers. Still, iGov did not reduce the price of the laptops to the FDIC.

DOA Management's Proposed Action

We met with DOA representatives on November 19, 2004. DOA management agreed to open discussions with iGov and GSA with the expectation of obtaining a refund.

Recommendation

We recommend that the Director, DOA, pursue recovery of \$1,967,863 from iGov based on IBM Thinkpad laptop computer prices that should have been charged according to iGov's BPA and FSS contract provisions.

CORPORATION COMMENTS AND OIG EVALUATION

On January 7, 2005, the Director, DOA, provided a written response to the draft report. The response is presented in its entirety in Appendix III. DOA concurred with the recommendation. DOA stated that neither its Acquisition Services Branch nor the FDIC's Division of Information Resources Management had been informed by iGov of any unit price reductions offered by IBM. DOA has agreed to issue a demand letter by January 31, 2005.

DOA's planned corrective action is responsive. The recommendation is resolved but will remain undispositioned and open until we have determined that agreed-to corrective action has been completed and is effective. Appendix IV contains a summary of management's response to our recommendation.

OBJECTIVE, SCOPE, AND METHODOLOGY

The objective of the audit was to determine whether the FDIC received the appropriate price on its purchase of laptop computers. We performed our audit from November 16, 2004, through December 10, 2004 in accordance with generally accepted government auditing standards.

This audit resulted from the laptop purchase coming to our attention during an ongoing audit of *FDIC's Contract Solicitation and Evaluation Process* (Assignment No. 2004-065). Therefore, we limited our procedures to determining (1) contract provisions in iGov's BPA contract, (2) IBM's FSS contract provisions and prices from November 2003 through November 2004, (3) shipping dates and unit prices paid on the FDIC's purchase orders, (4) prices the FDIC should have paid for laptops in accordance with iGov's BPA based on shipping dates to the FDIC, and (5) whether there were any overcharges.

To determine iGov's BPA provisions, we reviewed the BPA contained in the FDIC's contract file. We also researched changes to iGov's BPA posted on the Internet.

We contacted IBM to determine its FSS prices from November 2003 to November 2004. We identified the date and reduced price for each change in IBM's FSS prices. We also researched changes in IBM's FSS contract terms and conditions as posted on IBM's Web page.

We determined the date and quantity of computers the FDIC ordered in its original purchase orders and in modifications 1, 3, and 4. We then compared the prices the FDIC paid to the prices it should have paid based on IBM's reductions to its FSS price for the computer model purchased.

We did not attempt to determine why iGov did not charge the FDIC the current price, whether IBM failed to notify iGov of its price reductions, or if iGov had been notified of IBM's price reductions but did not reduce the unit price to the FDIC. In addition, we did not perform procedures to assess the FDIC's internal controls related to this acquisition.

BLANKET PURCHASE AGREEMENT PRICING CRITERIA

Section 2.0 of iGov's BPA states:

All orders placed against this BPA are subject to the terms and conditions of the FSS contract. The terms and conditions included in this BPA apply to all purchases made pursuant to it. In the event of an inconsistency between the provisions of the BPA and the FSS contract, the provisions of the FSS contract will take precedence.

Part C-1 of iGov's BPA contract states:

Any decrease in the FSS contract price shall result in immediate commensurate decreases in the BPA prices. For example, if the BPA price for an item is 75% of the FSS contract price and the FSS contract price decreased, the BPA price will decrease so that its new price remains 75% of the new FSS contract price. Prices may be voluntarily reduced at any time. CECOM AC-W and SCP shall be notified immediately via e-mail whenever price reductions occur. New price reductions shall be published on the contractor's Web page and provided electronically to CECOM AC-W and SCP.

The BPA also states that the agreement is under the terms and conditions of iGov's GSA FSS contract GS-35F-4411G, IBM's GSA FSS contract GS-35F-4984H, and other contractors' FSS contracts.

Section 3.6 of IBM's FSS contract states:

The price for a Machine or model conversion is the price shown in this Price List or as otherwise provided in a price quote from IBM to the Government (if an order is received during the specified validity period of the price quote). If IBM's established price for a Machine or model conversion has decreased, the Government shall have the benefit of the lower price as of the date of order receipt or the date of shipment. The Government will be invoiced for products upon shipment. In the event that the Government is of the opinion that any charges or credits on an invoice are not billed properly, every effort should be made to promptly pay the portion of the invoice not in question and give detailed written notice to IBM concerning the items in question.

CORPORATION COMMENTS



Federal Deposit Insurance Corporation
1730 Pennsylvania Avenue NW, Washington, D.C. 20429-9990

Division of Administration

January 7, 2005

TO: Stephen M. Beard
Deputy Assistant Inspector General for Audits

FROM: Arleas Upton Kea, Director [Electronically produced version;
Division of Administration original signed by Arleas Upton Kea]

SUBJECT: Draft Report Entitled, *Price Reduction on Laptop Computers*
(Assignment No. 2005-012)

The Division of Administration (DOA) has completed its review of the subject Office of Inspector General (OIG) report. We have evaluated the report recommendation and this memorandum provides our "Management Response" that includes an expected completion date.

MANAGEMENT RESPONSE

OIG Recommendation: The OIG recommends that the Director, DOA pursue recovery of \$1,967,863 from iGov.com (iGov) based on IBM Thinkpad laptop computer prices that should have been charged according to iGov's Blanket Purchase Agreement and the Federal Supply Schedule contract provisions.

DOA Response: DOA concurs with the recommendation. At the time of purchase order award and each applicable purchase order modification, the Acquisition Services Branch (ASB) and the Division of Information Resources Management (DIRM) were never informed by iGov of any unit price reduction(s) offered by IBM. It appears from the analysis conducted by the OIG, the unit price reduction should have been passed on to the FDIC along with the same discount provided originally with the award. A demand letter will be issued by January 31, 2005.

If you have any questions, please contact Deena Weatherly, Chief, Infrastructure Contracting Unit, on (202) 942-3218.

cc: Rus Pittman, DIRM
James H. Angel Jr., OERM
Dave McDermott, DOA ASB

MANAGEMENT RESPONSE TO RECOMMENDATIONS

This table presents the management response on the recommendation in our report and the status of the recommendation as of the date of report issuance.

Corrective Action: Taken or Planned/Status	Expected Completion Date	Monetary Benefits	Resolved:^a Yes or No	Dispositioned:^b Yes or No	Open or Closed^c
DOA will prepare a demand letter requesting a refund from iGov.	January 31, 2005	\$1,967,863	Yes	No	Open

^a Resolved – (1) Management concurs with the recommendation, and the planned corrective action is consistent with the recommendation.
 (2) Management does not concur with the recommendation, but planned alternative action is acceptable to the OIG.
 (3) Management agrees to the OIG monetary benefits, or a different amount, or no (\$0) amount. Monetary benefits are considered resolved as long as management provides an amount.

^b Dispositioned – The agreed-upon corrective action must be implemented, determined to be effective, and the actual amounts of monetary benefits achieved through implementation identified. The OIG is responsible for determining whether the documentation provided by management is adequate to disposition the recommendation.

^c Once OIG dispositions the recommendation, it can then be closed.

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