

More Frequent Reviews of Dell Pricing Will Ensure BART Pays Less for Its Computer Equipment

Office of the Inspector General



Investigation Results

BART is not being overcharged for its standard computer equipment purchases from Cornerstone Technologies (Cornerstone). The reseller is working to secure discounted prices on Dell computer equipment for BART. However, Dell's changing prices and market strategies led to an instance in which Dell offered a lower price than Cornerstone had already negotiated for BART. Additionally, the information provided to a BART employee by the Office of the Chief Information Officer (OCIO) explaining the pricing for computer equipment from Cornerstone did not provide enough detail for the employee to be reassured that BART is paying reasonable prices for its computer systems. Further, the OCIO's computer purchasing requirements are not specified in writing, which creates ambiguity as to why employees are generally required to purchase systems from the OCIO's list of approved computer systems.

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RECOMMENDATION

Require vendor to include in their quote information showing that their negotiated prices for BART are lower as compared to current Dell Small Business prices.

2

RECOMMENDATION

Directly address employees' concerns when they have reason to believe that prices for computer equipment may be excessive, including providing accurate information on why there may be variances in market prices as compared to quoted prices.

3

RECOMMENDATION

Move forward with including the OCIO's computer purchasing requirements on the employee website to clarify why computer purchases are generally limited to three options and to alleviate misconceptions on purchasing practices.

Providing independent oversight of the District's use of revenue.

Background and Investigation

 BART purchases computer equipment from Cornerstone Technologies (Cornerstone). Authorization to use Cornerstone's services comes via the BART Board of Directors' approval for management to purchase computer equipment using the National Association of State Procurement Official's public purchasing cooperative agreement. Cornerstone is an authorized reseller under that agreement and serves as a partner to BART to negotiate prices for Dell computer equipment. BART has three standard computer systems that it purchases for many of its needs, but also purchases other systems for some departments. Cornerstone negotiates the prices for the standard systems based on BART's expected volume of individual purchases over a six-month period. For all other computer systems, Cornerstone negotiates with Dell on a transactional basis. Cornerstone's objective is to obtain prices below Dell's market prices. When BART purchases computers in bulk, they also obtain quotes from other vendors to ensure they obtain the lowest prices available.

 The Office of the Inspector General received a complaint that alleged BART was significantly overspending on computer equipment. The purpose of this investigation was to determine whether BART was being overcharged by its purchasing partner for its three standard computer builds as compared to Dell's Small Business prices. This investigation was not intended to evaluate whether Dell is compliant with the National Association of State Procurement Official's public purchasing cooperative agreement or to review the cost of the computer purchases other than the District's three standard builds.

Key Findings

 There was no evidence to support that BART was significantly overcharged for computer equipment. However, there were instances in which BART paid more than market prices. Additionally, employees require better information about computer pricing and purchase options:

- **Pricing:** Cornerstone's process was to review Dell's prices every six months at the time of negotiation for BART's three standard builds. However, Dell changes its prices more frequently, which created a risk that Cornerstone would sell computers to BART at a higher price than Dell's current market price. This happened in October 2019 when Dell released a new laptop, the Dell Precision 5540, that replaced one of BART's standard systems. Shortly after Cornerstone negotiated prices for the 5540, Dell released the system on the market at a lower price. This resulted in a price variance of \$275, per laptop. Cornerstone reevaluated its pricing in January 2020 and lowered its price, but BART had already purchased 25 laptops at the higher price. As a result of this investigation, Cornerstone initiated corrective actions to address the pricing concerns. They issued a credit memo to BART for \$7,511 and changed their process to review Dell prices weekly to ensure that the prices negotiated for BART remain lower than Dell's Small Business prices.
- **Better Information:** An employee was told that Cornerstone's prices were higher than Dell's because of support service costs. That was inaccurate. The price variance was related to Dell's release of a newer laptop model and lowering the price of the older model to move inventory. The pricing change took place shortly after the employee had received a price quote for the older model when it was still at the higher price. This was not explained to the employee who questioned the quote. This resulted in the appearance that Cornerstone's prices were significantly higher than Dell's, which proved false.
- **Computer Purchase Requirements:** The OCIO generally requires that departments purchase one of three computer systems for BART's administrative operations. The OCIO evaluated these systems to ensure that they are made using high-quality parts and can last for three to four years, which is an enterprise-use standard. The OCIO has also ensured that they can support these systems and that they are compatible with BART applications. However, this is not a written requirement or understood by some BART employees who are charged with making computer purchases. The OCIO is in the process of creating an employee website that will include information on computer purchasing requirements. This will help clarify why computer purchases are generally limited to three options and alleviate misconceptions on purchasing practices.

BART OFFICE OF THE GENERAL MANAGER RESPONSE TO OIG FINDINGS & RECOMMENDATIONS**Report Title: More Frequent Reviews of Dell Pricing Will Ensure BART Pays Less for Its Computer Equipment**

The Office of the General Manager agrees with the findings and to implement the recommendations.

1	Recommendation:	Require vendor to include in their quote information showing that their negotiated prices for BART are lower as compared to current Dell Small Business prices
	Responsible Department:	OCIO
	Implementation Date:	10/1/2020
	Corrective Action Plan:	Include the requirement in RFQ
2	Recommendation:	Directly address employees' concerns when they have reason to believe that prices for computer equipment may be excessive, including providing accurate information on why there may be variances in market prices as compared to quoted prices.
	Responsible Department:	OCIO
	Implementation Date:	10/15/2020
	Corrective Action Plan:	Train staff in answering employee question with proper explanation.
3	Recommendation:	Move forward with including the OCIO's computer purchasing requirements on the employee website to clarify why computer purchases are generally limited to three options and alleviate misconceptions on purchasing practices.
	Responsible Department:	OCIO
	Implementation Date:	11/01/2020
	Corrective Action Plan:	Modify Intranet site to include equipment model and explanation.