



# Department of Veterans Affairs Office of Inspector General

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## Review of Enterprise-Wide PC Lease Awarded to Dell Marketing, L.P.

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## Executive Summary

### Introduction

On September 27, 2007, the Chairman of the Subcommittee on Oversight and Investigations, Committee on Veterans' Affairs, U.S. House of Representatives, requested that the VA Office of Inspector General review a contract awarded by VA to Dell Marketing, L.P. (Dell) to lease or purchase computers and technical support. The request outlined specific questions to be addressed in the review.

On August 3, 2007, Dell was awarded Blanket Purchase Agreement (BPA) V200P-1869 under their GSA Schedule contract GS-35F-4076D. The BPA was awarded to establish a long-term relationship to acquire personal computers (PCs), monitors, and services including installation, imaging, delivery/staging, maintenance, and disk retention for VA. The equipment is to be provided through a lease with the option to purchase (LWOP). The ordering period for equipment under the BPA is three years from the date of award. The estimated ceiling for the BPA is \$248,430,100. On September 26, 2007, VA ordered 38,217 PCs and monitors with a 1-year lease cost of \$10,110,878. The order also included installation and other services valued at \$6,081,910. As of January 2008, only 7,276 PCs and monitors (19 percent) were received. This is due in part to the fact that VA had not completed the development and testing of the standard image that Dell is required to install on each PC before shipping.

### Results

The results of our review are provided in response to the questions outlined in the request.

The contract was properly awarded. The award process technically complied with Federal Acquisition Regulation (FAR) requirements. However, contracting officials did include unnecessary criteria in the solicitation which unnecessarily hindered the competitive nature of the acquisition. Also, contracting officials did not consider what impact the bundling of services under the contract could have on small business participation in VA contracts.

The contract was not necessary or in the best interest of VA. The award of a BPA to a single vendor for leased PCs and related services was not necessary to achieve the stated objectives of the acquisition. Acquisition planners did not adequately document a need for a single vendor especially as the scope of the BPA was modified during the solicitation process. The awarded leasing arrangement and the limitation to two desktop configurations will not achieve the stated purpose of the

procurement. We also found that the award of the LWOP option was not in the best interest of VA. The decision made by the contracting office that a LWOP was the best option was based on incomplete analysis and inaccurate calculations. The most significant factors were the incomplete analysis and review of the potential life cycle of a PC and the duplication of costs for disposition of PCs included under the purchase option. Also, the BPA, as structured, does not provide the VA with an effective means to ensure competitive, reasonable prices are obtained in the later years of the leases.

The contract did not violate the public-private competition requirements of the FY 2007 Transportation Treasury Appropriations legislation. Compliance with legal requirements relating to public-private competition was not required because there was no intent to displace current VA employees.

The contract does not meet the needs of VA and not all VA customers were consulted. The BPA was awarded prior to completion of required processes to determine whether this investment met VA's needs. In particular, the acquisition team did not ensure that the required VA IT capital investment planning and control activities had been completed prior to moving forward with the acquisition. Also, acquisition planners did not perform adequate consultation with all major VA Administration and Staff Offices who are the customers under this procurement. This lack of consultation has resulted in inconsistent estimates of VA's need for PCs and overestimated need for services.

The contract was not reviewed by a Contract Review Board or subject to any other review process in the Office of Acquisition and Logistics before award. The contracting entity for this procurement was part of the Office of Finance's franchise fund operation located in Austin, Texas. The Office of Acquisition and Logistics performed a technical review, but otherwise was not involved in this procurement. Just prior to award, the procurement was submitted to the Office of Acquisition and Logistics for a business clearance review as required by VA policy. However, the review was based solely on information provided by the contracting entity, which we determined was flawed.

## **Recommendations**

We recommend that the Assistant Secretary for Information and Technology direct the contracting activity: (1) to obtain concurrence from the affected customers regarding the number of PCs needed, and any installation services required, prior to issuance of a task order; (2) to establish specific criteria and goals to be used to measure Service-Disabled, Veteran-Owned Small Business (SDVOSB) compliance under the contract and establish an additional penalty for not meeting small business goals other than terminating the contract; (3) to clarify the Fair

Market Value of PCs under the contract; (4) to modify the contract to require that Dell provide their newest PC model at the time a task order is issued; and (5) to modify the contract to inserting a requirement that the PC lease prices be evaluated, and possibly renegotiated, prior to exercising an option year.

### **Assistant Secretary for Information & Technology Comments**

The Assistant Secretary for Information & Technology met with us to discuss our findings and recommendations and provided us a final response to our report on June 2, 2008. The Assistant Secretary concurred with four of the five recommendations and non-concurred with our first recommendation. However, based on our review of the comments provided with the response, we believe that the intent of our recommendation was concurred with. In particular, the Assistant Secretary for Information & Technology advised that the requirements for PCs are identified at the customer site level and all services ordered are fully utilized, which was the intent of the recommendation. We will follow up upon the implementation of planned actions until they are complete.

MARK A. MYERS  
Director, Division A  
Office of Contract Review

## INTRODUCTION

### Purpose

At the request of the House Veterans Affairs Committee, Subcommittee on Oversight and Investigations, we reviewed the award and administration of a contract awarded to Dell Marketing, L.P. (Dell) to standardize personal computers (PC) within the Department of Veterans Affairs (VA). We were asked to address whether the contract:

- was properly awarded;
- was necessary;
- was in the best interest of VA;
- violated the public-private competition requirements of the 2007 Transportation Appropriations legislation;
- meets the needs of VA and if VA customers were consulted;
- was reviewed by a Contract Review Board or subject to any internal process in the Office of Acquisition and Logistics before award.

### Background

Formal acquisition planning for the standardization and consolidation of VA's PC requirements began in January 2007, when a VA IT PC Lease Workgroup was formed. The workgroup included Office of Information and Technology (OI&T) employees who were providing services to the Veterans Health Administration (VHA) and the Veterans Benefits Administration (VBA), as well as contracting officials from the VA Corporate Franchise Data Center. The stated purpose of the Workgroup was to review, comment, suggest, and get Contracting Officer Technical Representative's (COTR) perspectives on this procurement. The Workgroup served as the Contracting Officer's (CO) technical review board to evaluate proposals and ultimately forward the most cost beneficial scenario for approval. The acquisition plan was completed on March 21, 2007.

On April 12, 2007, VA issued Solicitation 200-132-07 for VA Enterprise-Wide PC Lease/Purchase for a firm fixed price Blanket Purchase Agreement (BPA) of an existing General Services Administration (GSA) Federal Supply Schedule (FSS) contract. Offerors were to submit responses based on the requirements in the Performance Work Statement (PWS) that was Attachment #1 to the solicitation. This document became part of the awarded BPA. According to the PWS, the procurement was necessary to "standardize the desktop-computing environment in VA" because it was "critical to the successful implementation of

initiatives such as an electronic medical record, medical imaging, and electronic data interchange.”

Offerors were to propose pricing for hardware under three scenarios—lease, lease with option to purchase (LWOP), and purchase. The decision whether to lease or purchase was to be made before award. The PWS stated that VA expected to acquire between 50,000 and 80,000 new workstations per year during the first three years of the contract and, while the number could vary, it would not exceed 300,000 PCs.

Questions from potential offerors on the solicitation were due by April 27, 2007, and offers were due on May 14, 2007. VA received 225 questions from potential offerors. On May 8, 2007, VA extended the date for offers until May 21, 2007, and notified potential offerors that the VA’s responses to questions would be posted on May 8, 2007. On May 8, VA posted its responses to questions and an updated pricing schedule. On May 15, 2007, VA posted responses to follow-up questions. On May 24, 2007, VA issued another amendment to the solicitation that changed the “Minimum CPU Requirements,” made the Chipset requirement non-mandatory, responded to additional follow-up questions and extended the due date for responses to May 29, 2007. Another Amendment, issued on May 25, 2007, clarified that offerors were limited to bidding one configuration for each type of PC/monitor and prohibited alternate configurations. This Amendment states that offerors “should propose the one technical solution that it believes represents the best value to the Government.”

VA received seven proposals that were considered responsive and sent for consideration. Only two of the 7 were from original equipment manufacturers (OEM). Four of the seven offered PCs manufactured by Dell along with other Dell services. This was due at least in part to a mandatory requirement in the Statement of Work section of the PWS that the PCs provided under the contract be “identified as Leader in the latest ‘Magic Quadrant for Global Enterprise Desktop PCs,’ from the Gartner Corporation or an equal standard.” This requirement essentially limited the PC’s to three manufacturers—Dell, Hewlett-Packard, and Lenovo. In response to questions submitted by potential offerors, VA agreed to accept “Magic Quadrant for U.S. Government Desktop PCs, 2H04” which added two additional manufacturers, IBM and Micron PC.

A technical evaluation panel rated two of the seven proposals as “blue,” the highest achievable rating. Both offerors proposed Dell computers and services. Three proposals were rated “green,” and two were rated “yellow,” the lowest rating.

On August 3, 2007, VA awarded a BPA with an estimated ceiling value of \$248,430,100 to Dell. Under the BPA, Dell is to provide PCs, monitors, other hardware, and services such as installation, image load, maintenance, move services, disk retention, asset management training, etc. Hardware is priced at a monthly lease rate and services line items are priced individually at a firm fixed flat rate price. The BPA includes two desk top PCs; one for a base workstation and the other for an IRM workstation. Other hardware line items include a tower case; small form factor case; 17, 19 or 21 inch monitors; and a dual head graphic card.

According to the BPA, the ordering period is for three years, beginning on the date of award. For leased equipment, the ordering period is a base year plus two option years, to be exercised at the discretion of the Government. However, this provision is inconsistent with the provision in Section 5.2.1 of the PWS which states that each Task Order issued against the BPA will be for a 3-year lease. The PWS requirement for a 3-year lease appears to be inconsistent with a base year plus two option year lease requirement in the BPA document. VA Officials initially told us that the reason to use option years was to renegotiate the price of the lease each year. However, neither the BPA nor the underlying FSS contract includes a provision allowing for price adjustments in the option years. We were later told that the option years were required for funding purposes.

The PWS also states that new equipment can be ordered by the Government only during the first three years of the BPA and that years 4 through 6 are for the operation of existing equipment installed during the first three years. Section 5.2.1 of the PWS specifically prohibits VA from ordering additional new equipment after the third contract year. The PWS appears to be inconsistent with the inclusion of FAR clause 52.211-9 in the BPA document, which allows the contract to be extended up to six years. It is not clear whether the inclusion of this clause would allow the ordering period to be extended beyond 3 years.

The BPA also provides that VA has the option to purchase the equipment at anytime in accordance with Dell's GSA FSS contract. However, if VA decides to purchase the equipment during the lease term, VA must pay the Fair Market Value (FMV) price that was supposed to be negotiated at the time of award, plus the remaining costs on the lease. Dell did not propose and VA did not negotiate a FMV price.

VA issued the first Task Order against the BPA on September 29, 2007, for 38,217 PCs and monitors. VA also ordered installation services, image loading, and staging facilities for each computer. The Task Order was for a base year plus two option years. As of January 2008, VA received only 7,276 (19 percent) of the 38,217 PCs and monitors. This is due in part to the fact that VA had not

completed the development and testing of the standard image that Dell is required to install on each PC before shipping.

### **Scope and Methodology**

The scope of the review was the planning, award, and administration of the contract. This included reviewing all records provided relating to procurement, interviews with planning and contracting officials, and discussions with VHA and VBA, the two largest customers. We also reviewed applicable laws and regulations and conducted market research. Because so few PCs have been delivered under the contract, we were unable to assess contract administration.

## **RESULTS AND CONCLUSIONS**

### **Issue 1: Whether the Contract Was Properly Awarded.**

Based on our review of the contract file, we determined that the award process technically complied with Federal Acquisition Regulation (FAR) requirements. However, the solicitation included unnecessary criteria that may have hindered competition. As such, VA can not be assured that the best vendors and options were offered to VA for consideration. We also found that the bundling of services under the contract may have negatively impacted small business participation in VA contracts. Our findings are as follows:

- the procurement process was technically in accordance with FAR requirements;
- use of Magic Quadrants from the Gartner Corporation unnecessarily limited the potential number of acceptable PC manufacturers;
- the Magic Quadrant restriction provided a competitive edge to the OEMs identified as a Leader in the Magic Quadrant; and,
- the acquisition team did not justify the bundling of services under this procurement.

### **The procurement process was in accordance with FAR requirements.**

We reviewed the solicitation and award documents to assess compliance with the applicable FAR requirements in the following areas: acquisition planning; development of the solicitation and PWS; technical and price proposal evaluations; and documentation of source selection decision.

We found that the CO adhered to the technical procedural requirements outlined in the FAR during the solicitation and award process, and that the contract was properly awarded based on the requirements contained in the PWS. However, we found that the reasons and justifications included in the planning and acquisition documents that were the bases for many of the decisions were not adequately supported.

### **Use of Magic Quadrants from the Gartner Corporation unnecessarily limited the potential number of acceptable PC manufacturers.**

The solicitation limited competition because it unnecessarily limited the brand of PCs that could be offered. The Scope of Work section in the PWS states: “Since this equipment will be in a mission critical environment, VA shall be provided PCs identified as Leader in the latest Magic Quadrant for Global Enterprise

Desktop PCs from the Gartner Corporation or an equal standard.” This requirement restricted the PCs that could be offered to three manufacturers. The acquisition plan supports the use of the Gartner Magic Quadrant by stating that the performance and capability goals of this initiative require a contractor with a global footprint and that the contractor must be able to provide PCs and next business day services to all VA locations in the Continental United States (CONUS) and outside CONUS.

Gartner, Inc. is a commercial entity that conducts research on various aspects of the commercial marketplace. They publish their research in several different formats, one of which is called Magic Quadrants. VA individuals involved in this procurement gave the opinion that Gartner reports are considered a good industry resource when researching different vendors. The Technical Evaluation Team Chief stated that they inserted the Magic Quadrant requirement because what they were looking for was an assurance that the company or OEM that VA would be dealing with was not a start-up company without an established reputation. He opined that because it is a volatile industry, they wanted to ensure that the integrator community and the OEM community realized that VA is looking for best in class. This could have been accomplished by making an established reputation a rating factor in part of the technical evaluation; rather than unnecessarily limiting acceptable PC manufacturers in the solicitation.

Concern over the restriction regarding the use of the Gartner Magic Quadrants was noted by the potential offerors and two questions specific to this issue were:

Question # 136 – Pursuant to FAR 12.202(b), and FAR 11.002(a)(2), solicitation requirements should state requirements with respect to acquisition of supplies or commercial items in terms of one of the following:

Functions to be performed;  
Performance required; or  
Essential physical characteristics

The requirement as stated does not satisfy any of the above requirements. Further, a PC that might be in the “Magic Quadrant” will not assure either technical compliance or achieving the requested uptime for your mission critical environment. Therefore, this offeror respectfully requests that this statement either be removed; or, removed as a minimum mandatory requirement.

Answer: VA has stipulated, in the minimum PC requirement attachment, the essential functions to be performed and physical

characteristics. The “Magic Quadrant” is not a function requirement, rather an industry-standard of measure of quality. Offerors may propose an industry standard that is equal to or exceeds the basic requirement. VA will accept PCs in Garner’s Magic Quadrant for US Government Desktop PCs, 2H04

Question # 201 – Request VA reconsider the requirement that PCs will be provided by manufacturer identified as Leader in the latest “Magic Quadrant for Global Enterprise Desktop PCs, as this gives the appearance of limiting competition to two, possibly three, PC manufactures. Request VA consider referencing the latest Gartner “Magic Quadrant for U.S. Government Desktop PCs, 2H04,” ...

Answer: VA will accept the latest Gartner “Magic Quadrant for U.S. Government Desktop PCs, 2H04”.

VA’s response to Question #201 expanded the possible PC manufacturers from three to five.

Although the “or equal standard” language in the PWS requirement appears to allow an offeror to offer PCs not included in the Magic Quadrant, documentation shows that VA added the language to address concerns raised that the requirements were overly restrictive but, in fact, did not consider there to be another PC that could meet this standard. In the Technical Review dated April 16, 2007, the Procurement Analyst stated “The Scope of Work paragraph refers to Gartner’s Magic Quadrant. Please define or clarify what an “equal standard” would be.” In response, the CO stated: “I don’t believe there is an “or equal” standard for the Gartner ratings. The Gartner Ratings are standards that are accepted industry-wide. We merely included the “or equal” language because ... had mentioned in a call that he felt we were restricting competition by requiring the hardware to fall in the Gartner Magic Quadrant; but I fail to see how we can define an equal standard when there is one industry standard, and Gartner is it.”

Based on our review of Gartner’s Magic Quadrants, what they are based on, and how they are to be used, we concluded that they were used inappropriately in this procurement. In a Gartner publication dated October 13, 2005, Gartner provides general information on what the Magic Quadrants are based on. The Magic Quadrants are based on two axes: (1) ability to execute - summarizes factors such as the vendor’s financial viability, market responsiveness, product development, sales channels and customer base; and (2) completeness of vision - reflects the vendor’s innovation, whether the vendor drives or follows the market, and if the vendor’s view of how the market will develop matches Gartner’s perspective. The publication advises that a Magic Quadrant “is not intended to be an exhaustive

analysis of every vendor in a market, but rather a focused analysis. Inclusion criteria consist of market share, revenue, number of clients, types of products or services, target market, or other defining characteristics that help narrow the scope of the research to those vendors that we consider to be the most important or *best suited to our clients needs.*” (Emphasis added). The publication also states that the client’s “...needs and circumstances should determine how you use the Magic Quadrant, not the other way around. To evaluate vendors in the Leaders quadrant only and ignore those in other quadrants is risky and thus discouraged..”

With respect to the Magic Quadrant for Global Enterprise Desktop PCs, 2H06 cited in the solicitation, Gartner states that the “main customers in this market are enterprises that operate globally – that *large government customers are not included in this Magic Quadrant.*” (Emphasis added). For this Magic Quadrant, Gartner regards global presence as a significant criterion for evaluating potential PC suppliers. Gartner again cautions users of the publication that PC buyers should not use these results as the sole criteria for selecting a vendor.

We were not able to obtain clarification as to why VA considered it appropriate or necessary to restrict the PCs offered for this procurement to this Magic Quadrant. In addition to the fact that it does not include large government customers, it includes elements that are not relevant to this solicitation, in particular the global footprint. When we questioned various VA officials involved in the procurement, they consistently stated that there were not that many VA locations outside of the CONUS. Basically, they cited Alaska, Guam, Puerto Rico, Philippines, Hawaii and the Virgin Islands. But overall the number of deliveries needed outside the CONUS was not considered a significant amount. Accordingly, it is not clear what justification was used to limit the competition to manufacturers with a global footprint. This restrictive requirement effectively eliminated a number of potential offerors, who may have been able to deliver to VA facilities outside CONUS from qualifying under the solicitation.

We reviewed an excerpt from the Magic Quadrant for U.S. Government Desktop PCs, 2H04 to see if it contained any information to justify the restriction. For this Magic Quadrant, Gartner states that they looked at the vendor attributes that matter to U.S. Government customers when selecting *notebook* PC supplies: product portfolio, customer relationship, financial health, service and support and U.S. government requirements including:

- Facility Security Clearance Status or Section 508 requirement as well as working with a minority owned partners.
- Government market experience; length of time listed on government purchase agreements or contracts; frequency of PC related business with government agencies.

- Ability to work with 3<sup>rd</sup> party partners to provide single point of contact.
- Ability to provide professional services and government specific applications.
- Size of sales organizations and account management dedicated to government customers.

Gartner once again cautions users not to use these Magic Quadrant results as the sole criteria in their requests for proposals or selection processes. Gartner advises that government customers should assess their priorities and apply these while performing due diligence as part of the vendor evaluation process.

Although Magic Quadrant for U.S. Government Desktop PCs appears to be the more relevant Magic Quadrant to use for this solicitation, we did not identify any written justification for limiting the PCs offered to the vendors listed in either of the two Magic Quadrants acceptable to VA. As Gartner cautions in all their publications, the Magic Quadrants should be used as one of the evaluation tools in the solicitation process, possibly some type of benchmark to evaluate vendors, but not to limit the potential bidder pool. Also, as Gartner further points out, not all vendors are included in their analysis, only those they feel are relevant to their customers needs.

We concluded that there was no justification for restricting the PCs to be provided under the BPA to the brand names in the two identified Gartner Magic Quadrants and that this requirement unnecessarily limited competition.

### **The Magic Quadrant restriction provided a competitive edge to the OEMs identified as leaders in the Magic Quadrant.**

The impact of the Magic Quadrant requirement is evident in the breakdown of the OEMs ultimately offered under the solicitation. In response to the solicitation, VA received 13 proposals, seven of which were determined to be responsive and considered for award. Of the seven responsive proposals two were from OEMs identified in the acceptable Magic Quadrants. Four of the seven responsive proposals offered Dell PCs. They also offered certain Dell services because only Dell could provide the services needed to meet the solicitation's requirements. We also found that Dell PCs were offered by three of the six non-responsive offerors.

The restriction on the possible PC manufacturers limited potential offerors to the identified OEMs or non-OEMs who had an existing partnership with one of the identified OEMs. Non-OEMs that did not have an existing partnership with an identified OEM had no choice but to partner with one of the limited OEMs designated as a leader in the Magic Quadrants. The OEMs identified as a leader in

the Magic Quadrant were in a position to control competition because they controlled the prices of the PCs and services that were offered by non-OEMs. There would be no incentive for Dell or any other identified Leader OEM to offer non-OEM partners a competitive price on their hardware when they are competing to win the same solicitation. Since the non-OEMs had only a limited number of OEM options, they would have to make the best deal they could with Dell and possibly try to make up the difference in the services cost. This also put Dell and other leader OEMs in the Magic Quadrant in a better position to offer value added services such as data migration and Intel consulting services at no cost which proved to be a significant differentiator in the best value recommendation. As a result, the Magic Quadrant restriction effectively limited competition for non-OEMs and created a competitive edge for Dell and other OEMs identified as leaders in the Magic Quadrant.

**The acquisition team did not justify the bundling of services under this procurement.**

The solicitation bundled nationwide services such as installation, de-installation and maintenance with the hardware acquisition. Although the acquisition team noted that there were existing leases in some VA VISNs and the method of acquiring hardware and related services varied across the VA, VA did not conduct a detailed analysis to determine who was currently performing the installation and maintenance services incorporated in this acquisition, to show that bundling would be a more cost effective or efficient way to obtain the services, or the impact it may have on small businesses.

In an email dated March 22, 2007, the CO states “Our acquisition strategy for this is to use GSA; we will post it on GSA’s ebuy so all interested parties can see the solicitation. We are also going to have SDVOSB status as one of our eval criteria (since this will be a large effort with many subcontractors, the more work performed by an SDVOSB in both the prime and subcontractor roles, the higher that proposal will be rated under that evaluation criteria).” Further in Attachment 23 to the VA Form 2268 “Contract Bundling Checklist” the CO answered that the this requirement did not result in a consolidated or bundled contract, and that it was not necessary for the team to document any potential impact on small business. Although the procurement was approved by VA’s Office of Small and Disadvantaged Business Utilization (OSDBU), the individual who approve the procurement told us that she did not determine whether the procurement bundled services.

We disagree that the requirement did not result in a bundled contract. VA essentially bundled all of VA’s desktop PC requirements, including hardware and services, into one nationwide contract. VA did not consider or assess the value of

awarding local or regional contracts with small businesses to perform some or all of the services required under the contract. Rather, VA bundled the requirements and allowed the prime contractor to either provide the services itself or use subcontractors. Although offerors were required to identify the subcontractors in the proposal and the use of Service Disabled Veteran Owned Small Businesses (SDVOSB) would be used in the evaluation process, there is no requirement in the BPA that would prohibit the prime contractor from using the services of other subcontractors who were not small businesses.

Section 10.0.3 of the PWS, which is incorporated into the BPA, requires the Contractor to report on a monthly basis the work performed by prime and subcontractors. This section specifically requires the Contractor to report the amount of work (not dollars) performed by SDVOSBs and show how the actual numbers relate to the subcontracting plan. If the contractor does not meet its stated SDVOSB participation, the contractor must submit a report stating why the goal was not met and how it will get back to the stated goal. The PWS also states that the BPA may be terminated if the contractor does not meet the SDVOSB participation percentages stated in the proposal for three consecutive months.

Based on our review of the Dell's proposal and the awarded BPA, we could not determine how or if VA could hold Dell accountable under Section 10.0.3. In its final proposed small business plan, Dell did not commit to achieving a specific level of effort by SDVOSBs; rather, Dell identified a "targeted" participation rate of up to 21 percent. Also, Dell's target participation rate was of the evaluated value of the contract, which is dollars, not the amount of work as required by Section 10.0.3. Because Dell did not commit to a specific participation rate and the target rate was based on dollars, not the amount of work, the provision in Section 10.0.3 of the PWS is meaningless as a means to hold the Contractor accountable for not meeting SDVOSB participation goals. In its original proposal, Dell stated: "Dell is targeting at a minimum 25 percent of all PC's installed using SDVOB." A targeted goal is not a commitment, and it is not clear whether this was superseded by the final accepted small business plan.

Also, there is no evidence that the technical evaluation panel reviewed any agreements between the offerors and the SDVOSBs identified in the proposals to ensure that the SDVOSBs would actually be required to perform 51 percent of the work as opposed to subcontracting it to another non-SDVOSB entity. In addition, there is no oversight by VA to assure that the SDVOSBs are actually performing the work. VA officials told us that none was required.

## **Issue 2a: Whether the Contract Was Necessary.**

The objectives for the VA enterprise personal computer project were technology standardization and cost reduction. To attain these objectives, acquisition planners determined that it was necessary to enter into the BPA with a single vendor. However, the acquisition planners did not adequately explain their rejection of multiple vendor solutions or consider the effects eliminating ongoing price competition would have on their cost reduction objectives, particularly in the outlying years. In addition, planners did not adequately document a need for an enterprise service agreement. The resulting BPA does not require the contractor to meet several of the original standardization objectives in the acquisition plan, such as assuming responsibility for all software problems or implementing tracking of PCs on an enterprise basis. In addition, OI&T's acquisition strategy does not have a credible mechanism to achieve cost reduction goals beyond the base year. Based on these findings, we concluded this agreement did not meet VA's needs and may not be in the best interest of the Government.

### **Applicable FAR Provisions**

Early in the planning process, acquisition planners are required to consult with the requirements and logistics personnel who determine type, quality, quantity, and delivery requirements. [FAR 7.104(b)] To the extent practicable, agencies are required to state requirements in terms of functions to be performed, performance required, or essential physical characteristics. [FAR 11.002] Acquisition plans should include discussion of: the technical and contractual history of the acquisition; feasible acquisition alternatives; and, the impact of prior acquisitions on those alternatives. [FAR 7.105] Prior to entering into a contract for information technology, an agency should analyze risks, benefits, and costs. Reasonable risk taking is appropriate as long as risks are controlled and mitigated. [FAR 39.102] Acquisition plans should discuss the expected consequences of trade-offs among the various cost, capability or performance, and scheduled goals. [FAR 7.105]

### **Desktop Standardization Goals Did Not Justify Having Only One Vendor or One Computer Option**

As noted in the acquisition plan, project planners determined VA had a critical need to increase standardization of VA's desktop environment in areas affecting software and hardware. With regard to software, the project planners sought to discontinue using older Microsoft Windows operating systems that were no longer fully supported by software updates. In addition, the project called for the development of standard sets of software (disk images) for VA personal computers, which the vendor could clone and distribute with the new computers.

OI&T officials told us that standard disk images would help VA implement recent requirements for standard security configurations on personal computers using certain Windows operating systems (OMB Policy Memorandum M-07-11). The planners' statement of need suggested that a single contractor was necessary, in part, to address problems related to software. However, the contractor's responsibility with regard to software is limited to distributing the standard disk images provided by VA. VA obtains the software for these standard images by licensing commercial products from multiple vendors or through internal development. The BPA does not assign responsibility to the vendor for risks related to software, such as the risk that systems and applications produced by other entities will not work well together.

With respect to hardware, to facilitate uniform quality testing and support, the planners decided that most users would use either a basic or advanced standard platform. OI&T engineers told us they developed hardware specifications for these standard platforms to ensure they would run the software VA planned to use and support VA's anticipated migration to the Windows Vista operating system. OI&T officials familiar with the relevant technical requirements acknowledged that it was not necessary to have a single vendor or a single model to distribute standard disk images or obtain hardware configurations required by VA.

In contrast to their efforts to standardize, project planners identified other factors that would limit the standardization of VA's desktops. For example, VA would continue to use existing computer inventories and local leases until they are replaced or expire. As such, standardization within the 3-year contract term will never be attained. In addition, OI&T officials told us that VA organizations would be permitted to order personal computers from other manufacturers with other configurations when purchased with funds other than the VA IT appropriation. Also, the BPA is limited to two desktop models, one for general use and one for OI&T personnel, which further defeats the standardization objective. The contract does not include laptops, which are used by many VA personnel as their day-to-day computer, and VHA officials told us that the PCs offered on the BPA do not meet all of their needs. Finally, the hardware components of new equipment ordered under the BPA would change in response to technology refreshment cycles, and ultimately the vendor and manufacturer would be subject to change in the future when the current BPA expires and the leased PCs are replaced.

### **Planners Did Not Adequately Document a Need for a Single Vendor to Install, De-Install, and Track PC Equipment**

OI&T attempted to justify a single prime vendor, in part, by developing a concept of a single contractor solution that would provide comprehensive, cradle-to-grave services for VA's PC-related needs. However, the BPA that resulted was less

comprehensive than the planner's concept and reflected the reality that VA could continue to rely on multiple contractors to meet VA's PC requirements.

According to the acquisition plan, the intent of the planners was to replace current local PC procurements with a prime vendor who was supposed to become "the single point of contact and responsible for all products and services provided to fulfill the contract, including responsibilities for all problems relating to any hardware, software and/or service."

Although the acquisition plan claimed that computer leasing would provide more comprehensive services than standard computer procurements, such as asset tracking, the services to be provided under the BPA were designed to be identical whether the equipment was leased or purchased, with a minor exception in the de-installation process. As part of the equipment lease, the contractor agreed to distribute the VA standard images and to maintain the computer hardware. As a separately priced service line, the contractor would also install the equipment at the beginning of the lease and de-install the equipment at the end. When de-installing a leased computer, the contractor is required to remove the hard drive and turn it in to VA for erasure. If VA does not exercise the option to purchase the PC, then after removing the hard drive the contractor is further required to reclaim and remove the remaining computer components. If the PC is purchased, de-installation is not required. Despite OI&T's decision that an enterprise service agreement was needed, our review found that the services will not be ordered on an enterprise-wide basis, and VA customers can choose whether or not to use the services. For example, OI&T's second-largest customer, VBA, declined to use contractors to install computers ordered from this BPA on its behalf.

As part of the cradle-to-grave service concept, OI&T planners attempted to justify the use of a single contractor as necessary to assume responsibility for tracking VA's PCs. Planners initially intended to have the contractor track the PC's instead of VA. VA currently has multiple systems for tracking computer assets and meeting its custodial responsibilities concerning automated data storage. The solicitation called for the contractor to either use the same asset tracking system VA used or to interface with it, as well as to provide a detailed proposal on how the tracking service would be accomplished. However, during the pre-award discussion period, VA acknowledged that it did not have a single tracking system, the decision to buy such a system had been deferred, and there was no longer a need for the contractor to interface with VA tracking systems. The acquisition plan had not addressed the complexities of migrating from multiple to a single tracking system; had not addressed the potential impact of changing to a single tracking system would have on the customers' business processes; and, had not included an implementation plan. Because of these problems, planners abandoned the objective of having the contractor take over VA's computer asset tracking

activity after the solicitation was issued. Instead, the contractor is only required to track the equipment provided under the BPA. This would have been done anyway under a leasing arrangement. More importantly, the requirement would be duplicative because it would not relieve VA of its responsibility to track computer assets.

In light of the BPA's limited responsibilities regarding software issues, and the abandonment of a unified asset tracking system, which were key factors in the decision making process, the acquisition plan does not adequately support the decision to establish a single vendor for a national service agreement. Current practices demonstrate that multiple vendors are capable of installing, tracking, servicing, and de-installing VA's PCs. In fact, Dell's proposal calls for multiple vendors to continue to perform these activities under the BPA as subcontractors.

### **Acquisition Officials Did Not Adequately Manage Acquisition Risks or Consider Trade-Offs Among Its Acquisition Goals**

The acquisition plan did not contain an adequate review of the history of VA's acquisition of personal computers or consider how lessons previously learned could affect this effort. As references to acquisition history, the plan briefly stated that VA currently purchases and leases personal computers locally and that capital investment in this equipment had been done in conjunction with annual budget cycles.

OI&T planners did not identify acquisition risks or discuss trade-offs among acquisition goals in sufficient detail as necessary for a procurement of this size and importance. Concerning acquisition risk, the plan noted that assigning a prime vendor with exclusive responsibility for PC desktops and related services at all VA facilities would create performance risks, which the planners determined would be mitigated by requiring the vendor to be a member of the Gartner Magic Quadrant. However, the acquisition plan does not explain why or how the Magic Quadrant requirement would mitigate the risks. The plan did not discuss or evaluate alternate ways of mitigating performance risk, such as awarding multiple BPAs and having competition at the ordering level, or unbundling the requirements.

As a scheduling goal, the plan noted that VA needed to replace up to 80,000 desktop computers in FY 2007 and, if the new BPA could be in place by June 30, 2007, it would prevent the otherwise pending extensions of alternate VA leases in the following quarter. However, the plan did not include consideration of schedule risk—the risk that problems and delays would interfere with VA's ability to meet its schedule goals. For example, the acquisition schedule did not originally allow sufficient time for VA to clarify and revise its complex requirements during the solicitation phase. As a result, the BPA award was

delayed from June until August, beyond the date cited as necessary to replace existing PC leases. Because of the delay, VBA purchased PCs in Fiscal Year 2007 from an existing lease. These leases are in effect for three years, which negates the stated objective of the procurement to standardize the desktop-computing environment in the VA. In another schedule risk area, the plan did not determine the time or resources necessary for VA to develop and test standard disk images that would enable the contractor to fill the first order. As a result, the contractor cannot deliver 81 percent of the first order of 38,217 PCs and monitors until February 2008, due to VA's failure to develop and test on a timely basis the standard disk images that the contractor is required to install prior to shipping the PCs.

Even though controlling costs is an overarching Federal procurement objective, acquisition planners did not discuss or develop a strategy to mitigate the risk that the firm-fixed prices in the BPA for a potential 6 year time period would become excessive if the market price of computer equipment continues its downward trend or that the model offered under the contract would become obsolete before the contract expired in 6 years, thus decreasing in value. While planners did state that their enterprise agreement would result in lower administration costs, the plan did not discuss or compare other cost considerations, such as whether regional service agreements offered lower costs than enterprise solutions.

**Issue 2b: Whether the decision to lease the hardware complied with the FAR and was in VA's best interest.**

We reviewed the documentation, including the cost evaluations, relating to the decision to award a lease under this BPA and determined that the decision to lease versus purchase was not in accordance with FAR and was not in the best interest of VA. It appears that OI&T management had a preference for a lease decision and the analysis and evaluations were biased towards supporting leasing versus purchasing the equipment.

**Criteria used to make the lease versus purchase decision was not clear and was inconsistent with statements made in other contract documentation.**

On April 12, 2007, solicitation no. 200-132-07, VA Enterprise-Wide PC Lease/Purchase, was issued. The Memorandum For All Respondents issued with the solicitation states "This letter serves as our solicitation for an enterprise-wide PC lease (or purchase)." In the Memorandum's cost instructions, offerors were instructed to provide three pricing structures for the PC's: to purchase, to lease only, and to lease with the option to purchase.

Although it was clear that VA would be evaluating proposals for three possible scenarios, leasing, purchasing, and lease with option to purchase; neither the solicitation nor the PWS identify the specific evaluation factors the VA would use to ultimately decide whether to lease or purchase.

This lack of specific information was noted by the potential offerors in questions submitted after the solicitation was issued:

Question # 26 – Please define the factors the VA will use to choose between lease and buy.

Answer: VA will conduct a net present value analysis of lease versus purchase costs and will factor that, plus other considerations (such as budget and policy) into its decision whether to lease or purchase.

Question # 140 – Is evaluation criteria available for determining whether the VA will lease or buy equipment? Will determination be strictly cost-driven?

Answer: Cost is one, but not the only evaluation factor.

Although VA's answers provided potential offerors with some additional information, the answers were vague and did not provide the specific criteria and the relative importance each criteria would receive in the decision making process. More importantly, although the answers indicate that cost will not be the only factor considered in making the award, contract documentation shows that cost was the sole deciding factor used in the decision to lease rather than purchase. This action is consistent with Section B.3. in the Acquisition Plan which states the decision to lease versus purchase will be based on cost, i.e. the lease will only be effective if it is cost effective to do so, and that VA will require offerors to submit price proposals for both leasing and for purchasing, to determine which option is most cost effective. The CO confirmed to us that the final lease versus purchase decision was purely monetary.

We were unable to obtain clarification from the contract documentation or interviews to explain why the answers to the questions posed by potential offerors implied that factors other than cost would be considered, when this was not VA's intent. VA's responses misrepresented the decision criteria which may have affected the way offerors approached their proposals.

## **The Decision to Lease Rather than Purchase was Based on Incomplete and Inaccurate Information**

Section VIII – Selection Decision – of the Proposal Analysis Report (PAR) states that the LWOP “has been determined to be the best option for the Government given the current situation; see tab 89 of the contract file for the determination that LWOP is the best option.” Tab 89 of the contract file consists of a July 9, 2007, memorandum to the file from the CO titled “Memo for Record Regarding Lease vs. Purchase Decision, Enterprise-Wide PC Lease”. The memorandum includes the CO’s consideration of the elements required to be addressed under FAR 7.4 – “Equipment Lease or Purchase.” Listed below are factors considered by the CO, his rationale in support of his lease decision, and our findings and conclusions with regard to whether there was sufficient support for the CO decision.

a. Estimated length of the period the equipment is to be used and the extent of use within that period - FAR 7.401(a)(1). The CO states “It is estimated the equipment will be used for 3 years, regardless of whether VA leases or purchases the equipment. In the event of a lease situation, VA will have a forced equipment life cycle of 3 years. It is estimated that if VA purchases PCs, they will also have a life cycle of 3 years; however, there is no guarantee that in a purchase situation, PCs will not be utilized beyond their 3 year life cycle. PC components are only designed to function optimally for a set amount of time. Leasing guarantees the appropriate refreshment of these assets in a steady, manageable framework as opposed to sporadic procurements. In the past, acquisition of PCs has been treated as a capital investment. In a strong budget year, a large PC purchase may be made. In a lean year, institutions may go without a technology refresh, regardless of necessity.”

OIG Findings: The establishment of a life cycle at or longer than 3 years is significant because of its impact on the total cost of ownership under the purchase option. Despite the significance, we were not provided a written analysis or other documentation showing how the 3-year life cycle was determined. In fact, we found conflicting information in other contract documents indicating that PCs continue to function beyond 3 years. For example, section 7 of the acquisition plan states that enterprises tend to keep purchased systems for a minimum of five years, even when the desire is to do otherwise. In addition, information provided by the VA employees we interviewed did not support the decision. An OI&T official in Region 5 stated that currently there are PCs older than 3 years that are still adequately functioning in their offices. A contracting official at the VA Corporate Franchise Data Center was of the opinion that quite a few of the machines being ordered under this procurement would last three to five years with little or no maintenance. We also asked one of the potential users under this acquisition, VHA officials, what the average useful life span for a desktop

computer as used in VHA currently was, and they responded that it was approximately 4 years, which was supported by current best practices.

Based on our interviews with various officials involved in the procurement, we concluded that the 3-year life cycle determination was based mainly on data published by vendors, not an independent study or analysis conducted by VA. The COTR told us that members of the acquisition team looked at studies done by Intel and Microsoft and came up with the strategy of 36 months. He stated that the life cycle had more to do with Microsoft and Intel's life cycle on refreshing their hardware and that VA's strategy was to try and match up to Microsoft and Intel. When asked if he meant to say that the Intel processor would not work after 3 years, the COTR said no, but that their review of an Intel study led them to come up with the strategy of 36 months. The Director of Contract Technical Management, OI&T Logistics, stated that the 3 year cycle was determined based on the expected life cycle of a PC. He claimed that manufacturers in the industry state that the life cycle of a PC is typically 3 years. A Director in the Engineering Infrastructure Group, OI&T, initially stated that he thought the three year period was selected to align VA with the standard warranty period. However, he also stated that the decision to use the 3 year cycle was based on industry best practice and the costs associated with longer lease periods. We asked if any VA policy or directive had been considered in their analysis of the life cycle and he stated that he did not believe that any existed. When asked if there was any documentation of the cost/benefit analysis done in determining the length of the life cycle, he stated that VA did not perform a specific cost/benefit analysis. Finally, when we asked the Technical Evaluation Team Chief for this procurement how the useful life of the PCs was determined, he told us that a financial decision was made. He explained that the team conducted some market research and concluded that three years was the return on investment time; that for every month past the 36 month the cost of the lease goes up because the value of the commodity to the capital entity that performs the financing goes down. He told us that they did look at lease intervals longer than 36 months, but determined that they were cost prohibitive.

The establishment of the 3 year life cycle was based on what was considered the most cost advantageous time period for a lease. Although the contract file does not contain documentation showing market research or analysis, the minutes of the VA IT PC Lease Workgroup conference call on January 17, 2007, state that Austin's past experience with a three year vs. four year lease is that cost is significantly higher and that four year leases are hard to justify financially. There was no evidence that any subsequent activity or analysis was performed to determine what the actual life cycle of a PC has historically been shown to be, or what industry considers the potential, not optimal, PC life cycle. We reviewed the Intel study cited by the COTR and determined that it dealt with the "Optimum

Refresh Cycle and Method for Desktop Outsourcing”, not the expected life cycle of PCs. Based on the information provided to us, we concluded that the acquisition team did not give consideration to the fact that PCs can and do continue to function longer than 3 years and the impact that could have on the cost of ownership under the purchase option.

Also, we found no support for the CO’s statement that PC components are only designed to function optimally for a set amount of time, or how this factored into the cost analysis of the lease versus purchase options. The absence of a comprehensive analysis of the total cost of ownership for any term other than 3 years shows a lack of due diligence by the CO and the program officials

In addition, the CO’s statement that leasing guarantees the appropriate refreshment of these assets in a steady, manageable framework as opposed to sporadic procurements is inconsistent with current VA policy. VA Directive 6401 establishes a four-year technology refresh cycle for all office automation workstations, to optimize and maintain the standard desktop environment and to facilitate management of the VA IT portfolio. The Directive requires all VA administrations and offices to develop the necessary plans and procedures to ensure that all office automation workstations are upgraded or replaced to meet the requirements of the Directive every four years. We concluded that compliance with VA directive 6401 would guarantee the necessary technology refreshment and this factor should not have been the basis of the decision to enter into a contract for 3-year leasing. Also, any refresh of technology still depends on whether there are funds available to support the leasing or purchasing of new PCs with the refreshed technology. The issue of how to guarantee timely technological refreshment is ultimately a funding issue, and should not have been a factor in deciding whether VA should lease or purchase.

Finally, although the CO’s statement that purchases of PCs will be less in a lean budget year may be correct, it is not clear how leasing versus purchase under the terms of this contract will alleviate this problem. If there are no funds to purchase PCs, then there are no funds to lease new PCs, or continue to pay lease costs on existing leased PCs. The availability of funds is especially pertinent to this acquisition because only the first year of a possible three year lease is authorized under the individual task orders. The second and third years of the lease are option years and will be exercised at the Government’s discretion in the future. If there are no funds to exercise the option years, VA would have to return the leased PCs, and be left with nothing. Under the purchase option VA might not be able to purchase new PCs, but the existing functioning PCs would still be available for use.

b. Net purchase price - FAR 7.401(a)(4). The CO conducted a Net Present Value (NPV) analysis on the proposed purchase costs for the top-rated technical contractor, Dell. However, prior to conducting the NPV analysis the CO revised Dell's proposed purchase costs. First, the CO added estimated de-installation costs that were proposed by Dell under their LWOP option for de-installation costs. Then, the CO added an additional \$44.00 per PC to Dell's proposed purchase costs for the estimated cost of "excessing" the PCs at the end of the 3 year period. The CO's \$44.00 estimate was based on input from VA Regional OI&T directors, and was comprised of the following factors:

1 hour	IT Specialist	@ \$28/hour
1 hour	A&MM Specialist	@ <u>\$16/hour</u>
	Total	<u>\$44/hour</u>

After the two additions, the CO calculated a total purchase NPV cost of \$216,333,736.16. The CO compared that total to the LWOP NPV cost of \$215,578,071.24 and concluded that the costs associated with purchasing are more than the costs associated with LWOP.

OIG Finding: The NPV analysis performed by the CO for the purchase option is flawed and we take exception to the revisions made by the CO to Dell's proposed purchase costs. Dell did not include any de-installation cost in their proposed purchase cost. The solicitation did not require any de-installation of purchased PCs; therefore, there was no reason for Dell to include costs for this service in the proposal. Once a PC is purchased, the contractor would have no further ownership or interest in the PC and no responsibility to de-install or retrieve the PC at any time in the future. Accordingly, the CO had no justification to add de-installation cost to any offerors' proposed purchase costs. When asked why he added de-installation costs to the proposed purchase option costs, the CO told us that the de-installation costs were added so he could get an "apples to apples" comparison between purchasing and leasing, since leasing involved the contractor de-installing the machines at the end of the lease. His rationale is confusing because the purpose of obtaining separate pricing proposals for leasing and purchasing was to evaluate the cost benefits to the Government under the two different methods. To try and flatten out the cost differences and make them "apples to apples" defeated the purpose of obtaining separate cost estimates.

We also take exception to the CO's addition of the "excessing" costs to Dell's proposed purchase costs because it is duplicative of the de-installation costs the CO already added to Dell's proposed costs. The services included in Dell's proposed de-installation cost covered three options for the return of leased PCs:

- Option 1 – Dell will install new system and de-install system for lease return.  
Dell completes hard drive removal and return and packing. Dell ships prepared systems. Dell recovery PM provides final disposition reports.
- Option 2 – VA or other will install new system and de-install system for lease return. Systems are already pre-packed with hard drive removed. Dell will arrive onsite and ship systems. Dell recovery PM provides final disposition reports.
- Option 3 – VA or other will install new system, and Dell will de-install system for lease return. Dell arrives onsite to de-install system and complete hard drive removal and return packing. Dell ships prepared systems. Dell recovery PM provides final disposition reports.

Dell proposed the same price for each of the options. This should have been questioned during the price evaluation because Option 2 involves more effort by VA than the other two options. However, for this discussion, the salient point is that under all three of the options, the PC is packaged and shipped out of VA.<sup>1</sup> VA personnel have no additional responsibilities, or costs, associated with excessing of PCs. By adding per unit de-installation cost in the purchase costs, the CO already accounted for the total disposition or excessing of the PCs.

The CO also erred when he included both de-installation costs and excessing cost in his NPV calculation for the purchase option. If the CO needed to add an estimated cost to the purchase option for disposition of PCs, one or the other of the above costs could have been used. To include both de-installation and excessing is duplicative and inflates the true cost of the purchase option. So any comparison of this inflated NPV purchase cost to the LWOP NPV costs would be flawed.

We performed separate NPV analysis of Dell's proposed purchase costs. In the first analysis we included just the de-installation cost estimate per PC. In the second analysis we included just the excessing cost estimate per PC. The results of our calculations are shown on the following page.

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<sup>1</sup> The removal of the hard drives is not an issue because the PWS states that hard drive removal will be done by VA personnel even if the PCs are leased.

	<b>Purchase (NPV)</b>
With Dell’s proposed de-installation costs only	\$207,590,711.13
With VA’s estimated excessing costs only	\$204,612,120.45

When we compare the recalculated NPV purchase cost to the LWOP NPV cost of \$215,578,071.24, we find that the CO’s determination that the purchase cost are more than the LWOP cost is incorrect.

In his final analysis, the CO stated “When all costs are considered, including costs for VA staff to excess equipment that is purchased, the LWOP option provides the best value, using NPV dollars for VA.” As we have shown, this statement is not accurate. Using either the de-installation cost estimated by Dell, or the excessing cost estimated by VA, the final purchase costs end up being less than the LWOP costs. Since the decision to lease or buy was ultimately based only on cost, the correct decision for this procurement should have been to purchase, not lease the PCs.

c. Maintenance and other service costs - FAR 7.401(a)(6). The CO claims these factors are not applicable, because this is a “wash” as VA will require the same maintenance and service costs regardless of whether leasing or buying the PCs.

OIG Finding: We agree that the costs could be a wash if the 3 year life cycle determination for both leased and purchased PCs is correct. However, as previously discussed we found no documentation to support this determination and it is inconsistent with other evidence. The CO did not consider the impact using a purchased PC past the 3 year term would have on the total cost of ownership for purchase versus leasing.

In the planning documents, the planners noted that funding for PC purchases can be unpredictable. Therefore, it would have been prudent for the CO to consider some realistic alternatives to the estimated 3 year lease term and how they would affect the maintenance and service cost estimates. One alternative would be that the purchased PCs are used beyond the 3 year term. In this case, the CO should have estimated the cost for obtaining additional maintenance agreements past the three year warranty term to compare against the cost of leasing or purchasing new PCs at the end of the BPAs 3 year lease term. Even considering the issue of outdated technology, the cost savings associated with using a purchased PC for even six more months may have been substantial and allowed for more flexibility in the budgeting process.

We found no evidence that the CO obtained any information regarding what the maintenance or service costs would be for any term other than 3 years. By not even considering the potential that a PC could be utilized for longer than 3 years, the CO did not have all the information necessary to declare maintenance and service costs are a wash under a purchase of a lease.

Using Dell's proposed costs, we performed a NPV analysis of the total cost of ownership for purchase versus lease for a 4 year life cycle. For purchased PCs, the additional cost to VA would be obtaining an additional year of maintenance service. For leased PCs, the additional cost to the VA would be an additional year of lease payments and an additional year of maintenance service. For purposes of our calculations, we used the same estimated amount for the additional year of maintenance service for both the purchase and lease options. Our results are as follows:

Total Cost LWOP (NPV)	\$276,988,907
Total Cost Purchase (NPV)	\$213,131,522
Difference	\$ 63,857,385

Our analysis shows that using PCs for one additional year significantly impacts the total cost of ownership and further supports our conclusion that based on cost only, the purchase option was the best option for the VA.

### **The use of 1-year lease option years increased the risk to the Government**

An April 12, 2007, Memorandum for all Respondents attached to the Solicitation states that each order (if VA elects to lease the equipment) will be for a 3 year lease (years 2 and 3 of the lease will be option years).

The CO told us that when you exercise an option, you need to go in and make sure that you are still getting a good deal. The business case written after the BPA award states that as the cost of PC technology decreases, the lease rates can be renegotiated at defined intervals to take advantage of these decreased costs. However, we found no provision in the solicitation, the PWS or the BPA that requires the contractor to renegotiate the price at the time an Option year is exercised. There is no contractual requirement for the contractor to i) prove that the awarded BPA prices are still market competitive; or ii) provide any additional cost or pricing information for new prices to be negotiated at the end of each lease year. The only options the Government has at the end of each lease year are delineated in section 2.0.1. of the PWS. This section states that if a lease is

executed, at the conclusion of each year of the lease, the government reserves the right to exercise the option to lease for another year, buy the PCs, or cancel the lease. If the BPA allowed for renegotiation of the lease prices or any other awarded priced, it should have contained the Firm Fixed-Price with Economic Price Adjustment Clause, 52.216.4.

Even if the BPA or task orders issued against the BPA allowed for VA to renegotiate the lease prices before exercising the option year, VA would be in no better position than under the current contract. If the contractor decided not to renegotiate their lease prices, VA's only options would have been: i) continue to pay the previously awarded lease prices, which may now be above the market prices; ii) terminate the lease, return the leased PCs and buy replacement PCs on the open market; or iii) purchase the currently leased PCs which would be one or two years old. This is essentially the same position VA is in under the current contract which does not allow for renegotiation of prices in each option year.

### **Lease with Option to Purchase is not in the best interest of VA**

In the Memorandum for all Respondents attached to the Solicitation, the offerors were instructed to include their proposed formula for calculating FMV under the leasing with option to purchase scenario. It further stated that individual orders must include a pricing table that allows VA to see the FMV at any point in time during the three year lease. Section 4.0.2. of the PWS states the vendor shall provide the formula used to calculate fair market value at the end of any given month of the lease.

Dell proposed the following formula:

In the event the Government wishes to buy-out the lease at any time, during or at the end of the Lease Term, the Government will be required to pay a lump sum amount equal to the present value of all outstanding Lease Payments discounted at the Treasury Constant Maturities as published in the Federal Reserve statistical release H.15 in effect at the time of the original order, interpolated to the number of months remaining in the Lease Term, plus any applicable end of lease purchase option, Fair Market Value or pre-stated purchase option price, and any unpaid taxes or other charges then due. The election to purchase at the end of the Lease Term shall require purchase of all of the leased products included in the Delivery Order. The end of the lease option elected by the Government shall be the same for all of the products included in the Delivery Order.

Dell's proposal was not responsive to the solicitation because it does not provide the specific formula used to calculate FMV as required by the PWS and we were unable to find any clear formula or description anywhere else in the contract files. Dell's response merely delineates the buyout terms that VA must adhere to. The CO told us that it was his understanding that a 3 year old PC with no hard drive has basically no FMV. We asked the CO how the FMV would be established if VA decided to buy the PCs in the first or second year of the lease, and he told us that he guessed it would be discussed and negotiated with Dell. We also noted that the required FMV pricing table was not included in the contract file for Task Order #1 issued against the BPA.

In addition to not having any clear understanding of the FMV at any point in time for the leased PCs, if VA decides to purchase before the end of an option year, under the terms of the BPA, VA will have to pay any remaining lease payments *plus* the FMV. For example, if VA decided to purchase a PC six months into the first lease year, VA would be required to pay the FMV at the time the decision was made (which is the amount the VA would pay on the open market for the PC), and the remaining lease term payments. As a result, VA would pay more than FMV for the PC.

The lack of adequate clarification regarding the buyout cost for the leased PCs increases the risk that the VA will pay more than fair and reasonable costs under the LWOP provision. The failure to obtain the FMV information before awarding the BPA or Task Order #1 affects VA's ability to make prudent decisions whether to purchase the leased PCs.

### **Issue 3: Whether the contract violates the public-private competition requirements of the 2007 Transportation Treasury Appropriations Act.**

Compliance with legal requirements relating to public-private competition was not required because there was no intent to displace current VA employees.

### **The contract contained provisions for services, such as installation and de-installation, which are services currently performed by VA employees.**

With some exceptions, Section 842(a) of Public Law 109-115 prohibits an executive agency from converting work performed by 10 or more Federal employees to private sector performance unless the agency can show that, through competition, performance by a contractor would be less costly by an amount that equals or exceeds the lesser of \$10 million or 10 percent of the personnel-related costs associated with performance by the agency's most efficient organization.

There is no evidence that VA officials considered the legal requirements cited above during the planning or award phase of the process. However, based on our discussions with VA program and contracting officials, there was no plan to displace any VA employees. The services provided under the contract are optional and at least one program office, VBA, has decided not to use these services. In addition, OI&T and the unions signed a Memorandum of Understanding on December 5, 2007 stating that OI&T bargaining unit employees will not be affected by the Dell PC Lease Statement of Work Agreement.

**Issue 4: Whether the contract meets the needs of VA and whether VA customers were consulted.**

The BPA was awarded prior to completion of required processes to determine whether this investment met VA's needs and without adequate consultation with the VA Administration and Staff Offices who are OI&T's customers.

**Federal law requires integrated capital investment and procurement planning, including consideration of users' needs and satisfaction.**

Federal law requires executive agencies to design and implement a process for maximizing value, and assessing and managing the risks, of information technology investments. Agencies are further required to identify quantifiable measurements for determining the net benefits and risks of a proposed investment. IT capital planning and investment control is required to be integrated with the processes for budgeting, financial, and program management decisions in the agency [40 U.S.C. §11312 and OMB Circular A-130]. Acquisition planners are responsible for ensuring that information technology acquisitions comply with capital planning investment and control requirements of 40 U.S.C. §11312 and OMB Circular A-130. FAR 7.102 requires agency program managers and procurement officials perform acquisition planning in order to integrate efforts of all personnel responsible for the acquisition and to ensure that the Government meets its needs in the most effective, economical, and timely manner.

VA policy requires VA officials to consider user satisfaction when planning potential IT investments and to ensure that such investments meet user requirements [VA Directive 6000, paragraph 2i, n]. The acquisitions team, which should include representatives of the customers they serve, must strive to satisfy their principle customers—the users and line managers, acting on behalf of the American taxpayer [FAR 1.102(c), 1.102-2].

**The BPA was executed without completing VA's IT investment control review processes or consultation with its largest customer organization.**

The reorganization of VA's IT resources in 2006 established new conditions which influenced this initiative. Beginning in fiscal year (FY) 2006, VA's funding for IT was consolidated into a dedicated IT appropriation, rather than being disbursed among various VA appropriations, such as medical care, as had been done in the past. Similarly, in October 2006, employees with IT duties were reassigned from VA Administrations and Staff Offices to OI&T, to centralize VA's IT activities. By December 2006, OI&T began planning an enterprise PC lease initiative to standardize VA's desktop computers.

OI&T established an IT PC Lease Workgroup in January 2007 to develop the lease requirements and plan the acquisition. The work group consisted of OI&T employees with technical or logistical expertise and contract specialists from the Corporate Franchise Data Center in Austin, Texas. Although the OI&T members worked at VHA and VBA facilities and had worked for these organization prior to the reorganization, the work group did not include representatives currently working for the VA customer organizations, such as VHA or VBA.

Acquisition planners told us that they obtained information on users' future computer needs through data calls conducted in August 2006 and May 2007 by the OI&T Field Business Operations office. However, the information obtained actually represented inventories of existing IT assets, including personal computers, rather than estimates or descriptions of future needs. In addition, knowledgeable officials told us that this information was collected from IT professionals reporting to OI&T, rather than representatives of VHA or VBA operations.

VHA, which represents OI&T's largest customer, told us that OI&T did not consult or involve them in planning this procurement. By contrast, VBA told us that their field operations personnel had ongoing contacts with their OI&T liaison while this procurement was being planned. OI&T told us that while planning this initiative they considered issues recently experienced with a VBA computer lease, which may have led to more direct communication with VBA than VHA and other agency administrations.

The workgroup (acquisition team) prepared formal acquisition planning documentation between January and March 2007, which addressed most of the requirements of FAR Part 7. However, the planning documents did not address whether the work group checked to see whether the required VA IT capital investment planning and control activities had been completed, as required by FAR 7.105(b)(4)(ii), before they proceeded with the acquisition. The acquisition

documentation shows that the planners thought the expenditure would not become a capital investment if it were a lease rather than a purchase. Accordingly, there was no record that the IT investment control process was completed or approved prior to the signing of the BPA in August 2007. We did not identify any provision in the applicable laws, regulations, or OMB Circular that distinguished between equipment that was leased versus purchased. More importantly, during the planning process, no decision had been made whether to lease, lease with option to purchase, or purchase the equipment. As previously discussed, offerors were required to provide prices for all three scenarios.

To comply with capital investment controls, the capital planning process for anticipated requirements is initiated in advance as part of budget formulation or later when additional requirements are identified. By June 2007 the enterprise PC lease project had been submitted to a capital planning body committed to developing the IT portfolio for the out-years, and the board decided that this initiative needed additional study before the budget was finalized for FY 2009. A VA Planning, Architecture & Services Board member noted at that time that the request was not supported by the necessary IT investment business case documentation and had not been validated as a requirement. The board determined that the proposal needed further study before a decision could be made.

In August 2007, after the contract was awarded, the VA Business Needs and Investment Board, which includes senior representatives from VA Administrations and Staff Offices, raised the following concerns about the investment proposal for the PC lease project:

- a comprehensive, detailed business case analysis was not developed or distributed,
- miscommunication on the topic between OI&T and the Administrations and staff offices concerning needs,
- human resource issues regarding potential for loss of outsourced work, and
- legacy application compatibility issues with the new PC platforms.

Despite the lack of IT investment review and approval, OI&T placed an initial order valued at approximately \$38 million against the Dell BPA on September 29, 2007. According to OI&T officials, a “business case” was later provided and reviewed by the VA Planning, Architecture, Technology & Services Board in October 2007. However, the purported business case was actually an extremely brief analysis supporting the erroneous lease decision.

### **The BPA does not meet VA's needs.**

By not adequately consulting with its customers and circumventing the VA IT capital investment process, OI&T and the contracting activity awarded the BPA without ensuring that it met VA's needs in key areas. For example, OI&T developed inconsistent estimates of VA's need for PCs. In March 2007 OI&T planned to order 80,000 PCs per year from FY 2007 through 2009. The following month, OI&T lowered its estimated need to between 50,000 and 80,000 PCs per year. As a further reduction, OI&T ordered only 38,217 computers from the BPA in FY 2007 and only 3,827 so far in FY 2008. However, only 7,276 of the PCs VA ordered have been delivered as of January 9, 2008. VHA told us that no decision has been made whether the desktop computer offered on the BPA meets its needs. VHA stated that the computer should be sufficient for general access purposes, but will not meet special needs such as viewing medical images, as well as alternate platforms used in executive support, research, and the creation of multi and merged media.

OI&T estimated that VA had a need for uniform PC-related services. However, VBA declined the installation services offered on the BPA. In addition, OI&T partially justified bundling services with equipment purchases in this BPA in order to create enterprise asset tracking. However, OI&T had to abandon enterprise asset tracking during the solicitation phase when it became apparent that VA had to continue with multiple asset tracking systems. These issues could have been avoided if there had been adequate planning with the involvement of the customers.

VA's need was further misrepresented when OI&T estimated that the useful life of a computer throughout VA was only three years. However, their largest customer, VHA, estimated that the useful life is four years. Based on this miscalculation, OI&T has negotiated a BPA that is more costly than necessary for its largest customer. This issue was discussed in Issue 2b.

### **Issue 5: Whether the contract was reviewed by a Contract Review Board or subject to any internal review process in the Office of Acquisition and Logistics before award.**

The procurement was not reviewed by the Contract Review Board prior or subsequent to award. The solicitation was submitted for a legal/technical review and appropriate changes were made. However, neither the legal nor the technical review addresses the substantive issues we identified in our review. Just prior to award, the procurement was submitted to the Office of Acquisition and Logistics for a business clearance review as required by VA policy for contracts over \$5 million. However, the review was based solely on information provided by the

contracting entity, which we found to be flawed. The contracting entity was part of the Office of Finance's franchise fund operation located in Austin, Texas. The Office of Acquisition and Logistics was not involved in this procurement.

## Conclusion

We concluded that while there was technical compliance with the procurement process, there were substantive issues with the decision to use 3 year leasing and the analysis used to support the decision to lease rather than purchase the equipment. We concluded that the contract was not necessary or in VA's best interest. The leasing arrangement and the limitation to two desktop configurations will not achieve the stated purpose of the procurement, which is standardization. Because VA does not intend to displace employees currently performing services that may be provided under the contract, we found no violation of laws regarding public-private competition. We determined that the procurement does not meet VA's needs and will not meet the stated objective of standardization. We found that VHA was not consulted during the planning or procurement process; however, VBA was. Prior to award the procurement was not reviewed by the Contract Review Board or similar body. However, prior to award the procurement received a business clearance review.

## Recommendations

**Recommendation 1.** We recommend that the Assistant Secretary for Information and Technology direct the contracting activity to obtain concurrence from the affected customers regarding the number of PCs needed, and any installation services required, prior to issuance of a task order.

**Recommendation 2.** We recommend that the Assistant Secretary for Information and Technology direct the contracting activity to establish specific criteria and goals to be used to measure SDVOSB compliance under the contract and establish an additional penalty for not meeting small business goals other than terminating the contract.

**Recommendation 3.** We recommend that the Assistant Secretary for Information and Technology direct the contracting activity to clarify the Fair Market Value of PCs under the contract.

**Recommendation 4.** We recommend that the Assistant Secretary for Information and Technology direct the contracting activity to modify the contract to require that Dell provide their newest PC model at the time a task order is issued.

**Recommendation 5.** We recommend that the Assistant Secretary for Information and Technology direct the contracting activity to modify the contract to inserting a requirement that the PC lease prices be evaluated, and possibly renegotiated, prior to exercising an option year.

## Management Comments

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Department of  
Veterans Affairs

## Memorandum

Date: MAY 30 2008

From: Assistant Secretary for information & Technology (005)

Subj: Response to Recommendations in OIG Findings of Enterprise-wide PC  
Lease Report Awarded to Dell Marketing L.P.

To: Inspector General (50)

1. Thank you for taking our comments on the draft recommendations into account in the revised recommendations.
2. My concurrence/non-concurrence to each of the recommendations is indicated below, with comments. Responses to all recommendations are included in Attachment 1.

**Recommendation 1:** non-concur.

Although we routinely involve the customers to the extent indicated in our response to Recommendation 1 below, I am concerned that the recommendation could be construed in such a way that it seriously inhibits our ability to support the federally mandated Federal Desktop Core Configuration (FDCC). If your primary concern is whether we are ordering services that are not needed or used, I assure you that we only order services to directly assist OI&T staff, and that the services are fully utilized.

**Recommendation 2:** concur

**Recommendation 3:** concur

**Recommendation 4:** concur conditionally

Conditions:

- no disruption to contract
- no additional cost
- does not impact FDCC or other security measures

**Recommendation 5:** concur

3. Our response to recommendations without full concurrence is shown below.

**Recommendation 1.** We recommend that the Assistant Secretary for Information and Technology direct the contracting activity to obtain concurrence from the affected customers regarding the number of PCs needed, and any installation services required, prior to issuance of a task order.

Page 2: Response to Recommendations in OIG Findings of Enterprise-wide PC Lease Report Awarded to Dell Marketing L.P.

OI&T obtains required PC quantity directly from the VA customers. Data calls are forwarded to customers to establish the quantity to support PC lease installation requirements. VHA, VBA, NCA, Corporate Data Center Operations (CDCO), and Program Offices are contacted for requirements. Those requirements are rolled up into orders against the PC lease.

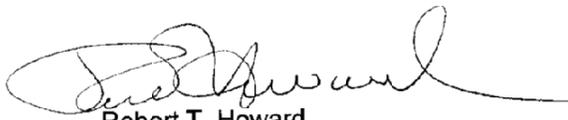
For example, VHA is contacted at the customer site level. Requirements are identified by the customer site to the Facility Chief Information Officers (FCIO). The FCIO task is to gather PC requirements for their facility. Requirements sources include facility management, planning, medical, research, and administration staffs. Requirements such as new staffing, facility identified projects or capability activations are supported. Equipment refreshment and upgrades are identified by the FCIO.

Installation services are an extension of OI&T resources to assist OI&T staff in the fulfillment of VA customer identified PC requirements. Their use is determined by OI&T vice customers since the services' purpose is for direct support of OI&T.

**Recommendation 4. We recommend that the Assistant Secretary for Information and Technology direct the contracting activity to modify the contract to require that Dell provide their newest PC model at the time a task order is issued.**

We agree with the IG recommendation to modify the contract to require the contractor to provide the most recent PC Model within VA specification at the time a task order issued. The contracting activity is working with the contractor to provide this contract clarification.

4. Thank you for the opportunity to comment on your recommendations.



Robert T. Howard

Attachment

**OI&T Comments on IG Recommendations**  
**28 May 08**

**Recommendation 1. We recommend that the Assistant Secretary for Information and Technology direct the contracting activity to obtain concurrence from the affected customers regarding the number of PCs needed, and any installation services required, prior to issuance of a task order.**

OI&T obtains required PC quantity directly from the VA customers. Data calls are forwarded to customers to establish the quantity to support PC lease installation requirements. VHA, VBA, NCA, Corporate Data Center Operations (CDCO), and Program Offices are contacted for requirements. Those requirements are rolled up into orders against the PC lease.

For example, VHA is contacted at the customer site level. Requirements are identified by the customer site to the Facility Chief Information Officers (FCIO). The FCIO task is to gather PC requirements for their facility. Requirements sources include facility management, planning, medical, research, and administration staffs. Requirements such as new staffing, facility identified projects or capability activations are supported. Equipment refreshment and upgrades are identified by the FCIO.

Installation services are an extension of OI&T resources to assist OI&T staff in the fulfillment of VA customer identified PC requirements. Their use is determined by OI&T vice customers since the services' purpose is for direct support of OI&T.

**Recommendation 2. We recommend that the Assistant Secretary for Information and Technology direct the contracting activity to establish specific criteria and goals to be used to measure SDVOSB compliance under the contract and establish an additional penalty for not meeting small business goals other than terminating the contract.**

We agree with IG recommendation that specific criteria and goals to measure SDVOSB compliance be established in the contract. The contract will be updated with specific criteria and goals used to measure SDVOSB compliance. The criteria will document the percentage of SDVOSB participation and define what constitutes SDVOSB participation. The contracting activity is working with that the contractor to provide this clarification.

The current penalty of contract termination for continued non-compliance is adequate and will be retain in the contract.

**Recommendation 3. We recommend that the Assistant Secretary for Information and Technology direct the contracting activity clarify the Fair Market Value of PCs under the contract.**

We agree with the IG recommendation that the contractor clarify the Fair Market Value (FMV) of PCs under the contract. The contracting activity is working with the contractor to provide the formula and methodology to be used in the Fair Market Value calculation.

**Recommendation 4. We recommend that the Assistant Secretary for Information and Technology direct the contracting activity to modify the contract to require that Dell provide their newest PC model at the time a task order is issued.**

We agree with the IG recommendation to modify the contract to require the contractor to provide the most recent PC Model within VA specification at the time a task order issued. The contracting activity is working with the contractor to provide this contract clarification.

**Recommendation 5. We recommend that the Assistant Secretary for Information and Technology direct the contracting activity modify the contract to inserting a requirement that the PC lease prices be evaluated, and possibly renegotiated, prior to exercising an option year.**

The requirement is already addressed by current procedure. In accordance with FAR 17.207 prior to exercising any option years; the contracting activity will make a determination whether the exercise of the option is the most advantageous method of fulfilling the Government's need, price and other factors considered.

**Appendix B**

**OIG Contact and Staff Acknowledgments**

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OIG Contact	Maureen Regan
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Acknowledgments	Justice Baek
	Sheila Brown
	Sharee Smalls
	Kathryn Wick
	Steven Wise

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