



*State of Louisiana*

**OFFICE OF**

**STATE INSPECTOR GENERAL**

**VENDOR OVERCHARGES ON COMPUTER SALES**

**Report by**

**Inspector General Bill Lynch**

**Prepared for**

**Governor M.J. "Mike" Foster, Jr.**

**June 7, 1999**

**File No. 1-99-0051**



*State of Louisiana*

**OFFICE OF  
STATE INSPECTOR GENERAL**

**Vendor Overcharges on Computer Sales**

**May 28, 1999**

**Report by**

A handwritten signature in black ink, appearing to be "BL", written over a horizontal line.

**Inspector General Bill Lynch**

**Approved by**

A handwritten signature in black ink, appearing to be "M.J. Foster", written over a horizontal line.

**Governor M.J. "Mike" Foster, Jr.**

**File No. 1-99-0051**

# Vendor Overcharges on Computer Sales

An audit of state purchasing records shows that 10 computer vendors overcharged the state more than \$61,000 during the period of June 10, 1998 to Dec. 31, 1998. These overcharges are in addition to the previously reported \$120,397 in overcharges by Government Computer Sales, Inc. (GCSI), which have been repaid.

Our auditors found the overcharges are the result of an industry wide problem of computer vendors failing to pass on all price reductions as required by their state contracts.

This audit was done to determine if vendors other than GCSI also failed to invoice correctly. The time period was chosen because of the large number of contracts and transactions.

Our findings indicate that similar pricing failures likely would be found in other time periods. It may behoove agencies with large purchases, such as from Dell Marketing, LP, to request an audit by the company to determine if additional refunds are due.

## Background

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This office has previously issued two reports on Oct. 11, 1996, and June 18, 1998, concerning overcharges by Government Computer Sales, Inc. of the Gateway brand computers. That audit covered the two year period from August, 1995, to June, 1997. Government Computer Sales, Inc. has recently refunded the state an additional \$72,231. This amount added to the previously paid \$48,166 brings the total reimbursement by GCSI to \$120,397. This audit consists of examining the state's other personal computer vendors for overcharges.

Micro-computer contracts are awarded by the Office of State Purchasing for all types of computer equipment, accessories, parts and hardware. Our audit was restricted to the 62 micro-computer contracts that deal mainly with the sale of personal computers and related equipment.

The audit encompassed the period from June 10, 1998, to Dec. 31, 1998. The audit targeted purchases initiated by a contract release order through the Advanced Government Purchasing System (AGPS) which had a price reduction between the release order date and the receipt date. The release order is the document initiated by the

department making the purchase, which begins the purchasing process. Total value of all release orders issued during this period amounted to \$9,844,667. However, total contract sales to the state are substantially higher as many political subdivisions and some departments are not on AGPS.

Standard bid specifications in the micro-computer contracts state:

“Price reductions must be received within two (2) weeks after general announcements. These price reductions must be granted on any order not delivered.”

The responsibility to ensure correct pricing clearly lies with the vendor and is not dependent on state auditors.

A highly competitive computer market has resulted in rapidly falling prices. This contract provision is intended to benefit the state in this type of market.

## Companies Examined

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At the time of this audit, the state had 62 micro-computer contracts. Twenty companies had no sales during the audit period and 12 had sales of less than \$10,000.

Our audit focused on companies that averaged at least \$30,000 a year in sales. The contract for Gateway brand was not included as that contract had been previously audited. As a result, our audit covered 32 contracts consisting of 2,048 release orders valued at \$8,946,487.

Ten vendors with 11 contracts were found to have overcharged the state. They were asked to provide a response to this report. Sivad, Inc., Time Trend Computers, RMD Computers, American Office Machines, Inc., Associated Business Equipment, Micro Technology Concepts, Inc., Comp USA, and Dell Marketing LP did respond. Ameridata, Inc., and Formosa Computers chose not to respond.

## The Process

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Usually a company will notify State Purchasing of a price reduction via fax. Purchasing staff promptly inputs the reduced price into the AGPS. When an agency needs to order a particular product, it obtains a price from the AGPS and a release order is generated. After the release order is approved it is sent to the vendor. The vendor ships the products and most invoice the state at the same price as the release order. Problems occur when a price reduction is sent to purchasing after a release order is generated but before the product is received. Here are some examples:

### **Example I**

This example shows how a vendor prices an invoice prematurely. In this instance the invoice was generated more than a month before the order was received. During that time a price decrease occurred but is not reflected on the invoice. The overcharge on this invoice amounts to \$2,676 or 36%.

Oct. 20, 1998 -- Louisiana Technical College Northeast Campus issued a release order to Sivad Inc. for the purchase of six computers, monitors, sound boards and speakers for a total price of \$9,960.

Oct. 23, 1998 -- Sivad prepared an invoice for \$9,960.

Nov. 2, 1998 -- Sivad notified State Purchasing of a product price reduction. Accordingly the new price of the ordered equipment should have been reduced to \$7,284.

Dec. 1, 1998 -- LTC received the order in full.

Dec. 14, 1998 -- LTC received and approved the Oct. 23 invoice for \$9,960.

### **Example II**

This example shows that the vendor reduced the price on an item and produced an invoice after the reduction but failed to apply the price reduction. This overcharge amounts to \$5,605.45 or almost 5%.

## Computer Overcharges

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Aug. 25, 1998 -- Department of Public Safety issued a release order to Dell Marketing LP for 71 Dell computers and monitors for \$119,063.10.

Sept. 1, 1998 -- Dell notified State Purchasing of a product price reduction. Accordingly the new price for the ordered equipment should have been reduced to \$113,458.

Oct. 28, 1998 -- Dell prepared an invoice for one computer and monitor at the original price of \$1,676.95.

Oct. 30, 1998 -- Dell prepared three separate invoices for 70 computers and monitors at the original price of \$117,386.50. Public Safety received partial shipment of 1 computer and monitor.

Nov. 2, 1998 -- Public Safety received shipment of the remaining 70 computers and monitors.

Dec. 11, 1998 -- Public Safety received the Oct. 28 and Oct 30 invoices totaling \$119,063.45. Ironically this was an increase of 35 cents over the original price instead of the required price reduction.

Dec. 16, 1998 -- Public Safety approves the Oct. 28 and Oct. 30 invoices for \$119,063.45.

### **Example III**

This example shows again that the vendor did not generate the invoice until after the latest price change but failed to apply the price change. This overcharge amounts to \$125.

July 30, 1998 -- Department of Natural Resources issued a release order to Dell Marketing LP for one Dell computer at \$1,703.

Sept. 1, 1998 -- Dell notified State Purchasing of a product price reduction. Accordingly the new price for the computer should have been reduced to \$1,578.

Sept. 2, 1998 -- Dell prepared an invoice for \$1,703.

Sept. 4, 1998 -- DNR received the computer.

Sept. 8, 1998 -- DNR received and approved the invoice for \$1,703.

These are the common type of failures found during our audit. Other examples are more complex with multiple receiving dates, substitute products, returned items, and insufficient price reductions.

## Refunds Due

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Twelve of the 32 contracts audited had products ordered and received on which a price reduction occurred before the receiving date. Our audit revealed that of the 12 contracts having price reductions prior to the receiving date, only Apple Computer Inc. correctly passed on the savings in all instances.

The following schedule shows the computer brand name, the vendor name, the number of release orders/invoices reviewed, the number of invoices that needed a price adjustment for at least one item, the number of invoices on which the adjustment failed to be included, the total value of all release orders/invoices reviewed, and the amount of refund due the state.

### Summary of Computer Contract Overcharges

Brand Name	Vendor Name	Release Orders	Adj. Needed	Adj. Failed	Amount Reviewed	Refund Due	
Dell	Dell Marketing LP	389	55	51	3,372,715	36,468	
ACT	Sivad, Inc.	12	6	6	146,864	12,728	
Comp USA	Comp USA	23	3	3	147,012	4,815	
IBM	Time Trend Computers	79	11	11	408,966	2,675	
RMD	RMD Computers	22	1	1	120,329	2,295	
Compaq	Ameridata, Inc.	18	1	1	69,862	1,654	
American Patriot	American Office Machines, Inc.	35	1	1	83,816	600	
Hewlett-Packard	Comp USA	775	4	4	869,711	237	
ADS	Associated Business Equipment	99	1	1	299,917	150	
DLC	Formosa Computers	167	5	3	394,271	80	
MTC	Micro Technology Concepts, Inc.	26	1	1	59,441	20	
Apple	Apple Computer, Inc.	11	3	0	24,752	0	
<b>Brands – 12</b>	<b>Vendors – 11</b>	<b>Totals</b>	<b>1,656</b>	<b>92</b>	<b>83</b>	<b>\$5,997,656</b>	<b>\$61,722</b>

The 12 brand name contracts listed comprised more than half of the total dollar value ordered from all computer contracts. Out of the 92 invoices that needed to be adjusted 83 did not reflect the adjustment for a 90% failure rate. This resulted in overcharges to the state amounting to \$61,722.

### Conclusions

1. At least ten vendors have failed to abide by contract requirements to grant price reductions effective prior to the state receiving the equipment purchased. This failure has resulted in overcharges totaling \$61,722 during the period from June 10, 1998, to Dec. 31, 1998.
2. Further auditing of another period of time would likely find significantly more overcharges by micro-computer vendors. Additional auditing of non-AGPS departments would also likely find similar overcharges.
3. Vendors are not meeting their obligation to ensure that the state is granted the lowest price through delivery date as required in the contracts.

### Recommendations:

1. State Purchasing should immediately notify the appropriate agencies so they may make demand to recoup the overcharges from the vendors.
2. State Purchasing should request all micro-computer contract vendors to conduct a self audit for the length of term of the contract, report to State Purchasing and refund any overcharges. The audit reports will be subject to review.
3. State Purchasing should require all computer equipment vendors to delay invoicing the state until the vendor has determined the receipt date and applied all price reductions.

### IG Comments:

In reading three of the responses received it is apparent that those vendors have interpreted the state's actions to mean that a price reduction does not become effective until the data is input into the state's AGPS. Dell Marketing LP suggested modifications to the AGPS so that price reductions become effective

immediately. However, the contract currently states that price reductions become effective immediately and this is an independent function from any data entry. The micro-computer contracts make no mention of state's necessity to acknowledge and input data in order to receive the benefits of a price reduction. All responsibility clearly lies with the vendor and is reinforced by the contract's usage of the terminology "must be presented directly to..., must be immediately extended to..., and failure to offer the benefit ... within a two week period may result in the cancellation of this contract."

Furthermore, Dell has failed to address a major shortcoming shown in examples II and III which we feel their invoicing system should correct. In these examples an order is not shipped until a month or two after the release order date and is invoiced in one case a day and the other two months after the price reduction notification. It is obviously Dell's shortcoming in failing to access its own system for current pricing information. While Dell may have indeed given other discounts to the state it was not the intention of this audit to balance Dell's account for them. Our intent was to measure the performance of vendors in meeting the contract provisions to provide all required price reductions per line item.

It is obvious to us that the failure by vendors to comply with contractual pricing obligations is a problem that can only be resolved by a change in the billing process. Although it is the vendor's obligation to submit the proper pricing, the present system with its unique pricing clause lends itself to continued abuse, intentionally or otherwise, in the absence of a costly monitoring system. There is no reason for the state to have to ferret out inaccurate pricing months or years down the road. The state may be able to resolve this problem with a contractual requirement that invoices be submitted after verification of the receipt date in order for the state to be billed correctly.

*Management Response:*

See attached responses. Ameridata, Inc., and Formosa Computers chose not to respond.

Dell Computer Corporation Telephone 312.538.4400  
One Dell Way www.dell.com  
Round Rock, TX 78682-2244

May 27, 1999



The Honorable Bill Lynch  
State Inspector General  
Office of the State Inspector General  
State of Louisiana Division of Administration  
P. O. Box 94095  
State Capitol Annex  
Baton Rouge, Louisiana 70804-9095

RE: File No. 1-99-0051

VIA FACSIMILE TO (225) 342-6761

Dear Mr. Lynch:

We appreciate the opportunity to comment on the recent draft report prepared by your office concerning potential overcharges on contract computer sales to the State of Louisiana. Overcharging of state agencies by vendors is a serious issue if it in fact is occurring. Dell Marketing, L.P. ("DMLP" or "Dell") respectfully submits the following comments on the draft report, and looks forward to working with you and your staff as you move toward issuance of your final report.

We have undertaken considerable measures to help ensure that the State of Louisiana has received the discounts and pricing agreed to in our contract. In addition, we often have charged the State significantly less than the state contract price. Any overcharges that may have occurred are caused by two factors beyond the control of the vendor community: (1) the administrative complexities of the Advanced Government Purchasing System (AGPS) and (2) the practical application of and the administrative burdens and costs of certain state contract terms and conditions.

#### **AGPS Issues**

Our experience with the various end-users purchasing our products indicates that the orders generating the most administrative burdens are small, non-project orders sent through AGPS. Only state agencies, certain state universities, and Department of

The Honorable Bill Lynch  
March 27, 1999  
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Education purchases on behalf of school districts are made through the AGPS. While many of the purchases under this contract are made by end users that do not have access to the AGPS, those orders are sent directly from the end-user to Dell and have not generated significant administrative issues.<sup>1</sup> The manual processes involved with AGPS orders appear to generate much of the difficulty for these smaller orders, frequently resulting in inaccurate information being communicated to vendors fulfilling against those orders.

As the state is well aware, furthermore, the information technology industry frequently has experienced product price drops in the past several years. Dell's policy is to pass these pricing advantages on to our customers promptly. These frequent price drops frequently make AGPS out of date by the time the adjusted pricing becomes available to end users. In addition, the rapid technology advances experienced in the information technology industry during recent years has generated significant numbers of product changes that must be added to AGPS. Once in AGPS, a line item number is assigned to every component within a system---leading to a large number of line items in Louisiana's technology contracts. The Dell contract, for example, currently has 2,637 line items in AGPS.

To accommodate the unique administrative needs of the AGPS, Dell has created a special internal system for handling Louisiana state contract modifications and updates. Specifically, we have submitted our price drops and product changes to the Office of State Purchasing on a weekly or bi-weekly basis for over a year. This practice allows Dell to pass on price savings as they occur. Since Dell does not have direct access to AGPS, however, we are dependent upon the Office of State Purchasing to inform us when the price drops and product changes have been entered into AGPS and thereby made available to AGPS qualified users.

While the goals and objectives of the AGPS are admirable, we respectfully suggest that the administrative burdens of this complex system place considerable additional requirements upon already stretched state resources and employees. These administrative procedures also generate costs to the state and to the vendor community working to fulfill state procurement needs in an expeditious fashion.

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<sup>1</sup> Non-AGPS orders are processed through Dell's standard order management system, which automatically invoices the lowest price available to Louisiana government and education customers at the time of shipment from Dell. These prices will be the same or better than the contract price. In addition, large project orders often are specially priced at deep, project-specific discounts far exceeding the standard contract discount rate.

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### **Overcharges Generated by Certain Contract Terms**

The State clearly is working to make its purchasing practices more closely track best practices found in the commercial arena. While considerable progress has been made, a specific provision of the current contract significantly impacts the ability of the vendor community to provide competitive and current pricing to the State's endusers. Section 1 of the General Conditions states:

1. PRICES. All prices must be firm for the contractual period. Whenever there is a reduction in price which is lower than the contract price, offered to similarly situated customers contracting for the same period and under the same terms and conditions, said reduction must be presented directly to the Division of Administration, State Director of Purchasing.....These price reductions must be granted on any order not delivered.

While we make every effort to provide prompt notification to the State of applicable reductions, it is difficult to pass along price drops occurring after the date of shipment of an order as invoicing occurs at the time the product leaves the factory. In addition, the resources of both the State and the vendor community are taxed with the verification of the prices invoiced against the price for the products as of date of enduser receipt of the products.

### **Specific Examples of Overcharges**

Because the draft report does not identify the purchase order numbers for the specific examples of Dell overcharges, we have had considerable difficulty in identifying the specific orders at issue and in assessing the alleged overcharges. We did review the two agencies to the extent possible given the information in the draft report and disagree with the finding that overcharges occur for the following reasons.

First, we reviewed the Department of Public Safety's experience with Dell. During the audit period, Dell received 54 different orders from DPS. These orders were shipped at an actual discount of 9.53% below Dell's retail price, for a savings of \$18,369.47 off of the established State of Louisiana contract price. We were not able to identify the alleged overcharge in this subset of orders for \$5,605.45 and do not believe that an overcharge has occurred. Even if an overcharge occurred, we believe that any overcharge was small and clearly is offset by the State's receipt of better pricing than it had bargained for in its contract.

Second, we reviewed the Department of Natural Resource's account history with Dell. During the audit period DNR placed 46 orders with Dell. DNR had a similar experience with the savings, receiving a 9.9% discount during the period, for a savings of \$5,175.71

The Honorable Bill Lynch  
March 27, 1999  
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off of the contractual discount of 6.58%. Again, Dell was not able to identify the overcharges of \$125 set forth in your draft report. As stated above, in the unlikely event that an overcharge has occurred, we believe that the dollar amount of any overcharge was small and clearly is offset by the State's receipt of better pricing than it had bargained for in its contract.

#### Conclusions and Recommendations

We believe that Dell has gone well beyond any vendor in working with the state to ensure that the state receives the best price under this contract. In fact, Dell has passed along considerable additional savings beyond the contract price. Dell has worked diligently to accommodate AGPS, and has taken great pains to ensure that price drops are passed along when they occur.

Dell recommends that the state consider the contract as a whole, and look at Dell's performance in providing a significantly better price than the contractual discount percentage and not require any repayment for Dell for possible overcharges. Dell recommends that the state modify AGPS for the information technology industry and require vendors to create an Internet ordering system that will work with AGPS. By doing so, price drops will become effective immediately when they are published by vendors, rather than having to be uploaded into AGPS. Additionally, vendors will be forced to be more competitive by having easily available pricing published on the web, allowing end users to "shop around" for the best price.

Dell also recommends that the contract requirement that price drops occurring during transit be eliminated because it is difficult for both vendors and the State to manage this requirement. Specifically, we recommend that Section 1 of the General Conditions be amended to provide that pricing adjustments be made on orders if product prices decrease before the order has been invoiced.

Dell looks forward to continuing our strong partnership with the State of Louisiana. Please feel free to call me directly if you would like to discuss the issues raised in this letter.

Very Truly Yours,

*Dennis Pryor (by CRB)*

Dennis Pryor  
Controller, State and Local Government Sales  
Dell Marketing, L.P.

The Honorable Bill Lynch  
March 27, 1999  
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Copy: David Forsythe  
Vice President and General Manager, State & Local Government  
Dell Marketing, L.P.



5/26/99

MICRO-TECHNOLOGY CONCEPTS, INC.

To Van Cochran  
Office of the Inspector General  
State of Louisiana

From Wing Lee  
Vendor number 112976835-00  
State Contract number 403306

RE: OVERCHARGING ON AN LTC SHREVEPORT BOSSIER CAMPUS PURCHASE ORDER

Dear Mr. Cochran,

A purchase order issued by LTC Shreveport Bossier Campus dated to 10/23/1998 with LTC Shreveport's purchase order number 3144066 was erroneously invoiced by our accounting department with an overcharge of \$20. The overcharge was NOT intentional at all-merely a result of our accounting department's oversight. Our sales department had notified State Purchasing on price reduction of State Contract item number 403306-00097 from \$445 to \$425 around the same time when our accounting office made the invoice ( Invoice # 107698.) But our accounting department HAD NOT received price update from our sales department on that particular item's price reduction of \$20. We hope not to repeat the same mistake in the future.

A refund check in the amount of \$20 was mailed on 5/4/99 to State of Louisiana's Department of Treasury.

I thank you again for your help in resolving this overcharge matter.

Please call me at 800-366-4860 if you have any question.

Best Regards,

A handwritten signature in black ink, appearing to read "Wing Lee", is written over the typed name "Wing Lee".

Wing Lee



THE SYMBOL  
OF SERVICE

# ASSOCIATED BUSINESS EQUIPMENT OF LOUISIANA, INC.

8412 WEST EL CAJON DRIVE • BATON ROUGE, LOUISIANA 70815

PHONE (504) 9  
FAX: (504) 924  
SALES AND SE

JOHN O. AVERETTE  
ARTHUR P. COUVILLON  
DAVID N. FRISVOLD  
EDWARD C. HARRISON, JR.

April 22, 1999

State of Louisiana  
Division of Administration  
Office of State Inspector General  
P.O. Box 94095  
Baton Rouge, LA 70804-9095

Dear Mr. Lynch,

Thank you for bringing the matter of Associated Business Equipment of La., Inc. overcharging the state of Louisiana. We apologize for the overcharges of \$150.00 during the period of June 10, 1998 to December 31, 1998. Attached you will find a refund check for that amount. Upon receipt of this check, we would like itemized documentation showing the overcharged amounts along with the agency name(s) and purchase order number(s).

Again, we apologize for the overcharges.

Sincerely,

Al Michel  
Manager Government Marketing

***RMD Computers, Inc.***  
***9848 Perkins Road, Suite B***  
***Baton Rouge, Louisiana 70810***  
***Phone 225.767.4008 Fax 225.767.7444***

April 21, 1999

Bill Lynch  
State Inspector General  
State of Louisiana  
Division of Administration  
P.O. Box 94095  
State Capital Annex  
Baton Rouge, La. 70804-9095

Dear Mr. Lynch:

Thank you for allowing us the opportunity to explain and rectify the overcharges on our invoice to LTC- Slidell.

There does appear to have been a mistake on the invoice, on our behalf, that resulted in an overcharge to the state. The original quote, dated September 9, 1999, was created and the product ordered prior to the price reduction of October 10, 1999. We then delivered the order on October 15, 1999 and invoiced them at the rate quoted in our billing system, not at what was then the contract price. This was due to an honest clerical error on our behalf caused by the software in which we use to process invoices.

In addition, upon further review of the invoice we noticed that one of the items that should have been billed on that invoice was not. The invoice should have included twenty-seven ethernet cards at a cost of \$35.00 each. For some reason the unit price was left off and therefore the amount was not billed correctly.

Below should outline the correction for invoice 8938:

Line item	Description	Quantity	Billed Unit Price	New Unit Price	Adjustment
00021	RMD P-II 266	27	\$1150	\$1100	\$1350
0004	15" Monitor	27	\$250	\$215	\$945
00016	10/100 ethernet	27	\$ -0	\$35	(\$945)
Total Refund					\$1350

***RMD Computers, Inc.***  
***9848 Perkins Road, Suite B***  
***Baton Rouge, Louisiana 70810***  
***Phone 225.767.4008 Fax 225.767.7444***

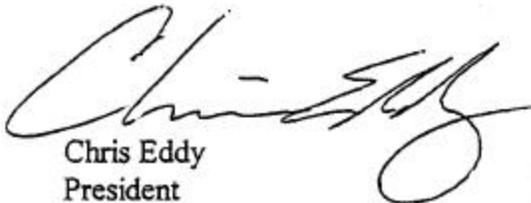
If the above meets with your approval please let me know and I will write a refund check to LTC- Slidell in that amount.

Just as a sideline note, the systems that were ordered were upgraded at no cost to the state from Pentium II 266's to Pentium II 300's and 4 gig hard drives to 6 gig. In addition, for no additional charge, we provided on site delivery and setup and have also provided on site warranty services at no cost, which was not in the contract or the bid.

RMD Computers has offered quality computer solutions to state agencies for over five years and constantly strives to offer prices and services that are better than what is on the state contract.

Again, thank you for the opportunity to rectify this situation and if you need any further assistance please do not hesitate to call on me.

Sincerely,



Chris Eddy  
President  
RMD Computers

C.C. Van Cochran



5421 SUPERIOR DR., SUITE A • BATON ROUGE, LA 7081  
MAILING ADDRESS: P.O. BOX 41224 • BATON ROUGE, L  
(504) 291-1549 • (800) 274-2194 • FAX: (504) 291-1429

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April 14, 1999

Office of Inspector General  
Van Cochran  
PO Box 94095  
Baton Rouge, LA 70804-9095

Re: Letter received on April 13, 1999 in reference to File No. 1-99-0051

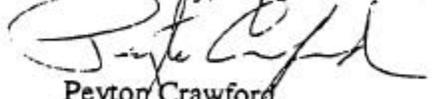
Dear Mr. Cochran,

This letter is in response to your letter on April 13, 1999 regarding any overcharge of Louisiana State Contracts No. 403405. I can assure you any that any overcharges that may have occurred are not intentional.

Sivad, Inc. invoicing is done from our Jackson, MS office. They issue invoices in the amount of the purchase orders. If we have submitted a price change and we deliver equipment after the price change goes in to affect, we try to notify our accounting department so they can pass on the reduction in price to the agency. However, I do not dispute the fact that some errors may have occurred.

We make every effort to keep our Louisiana State Contracts as low as possible. Sivad, Inc. has been in business for 23 years and it is not our intention to overcharge our customers. If however these overcharges have occurred we would be more than happy to remit any overcharge to the proper agency.

Yours truly,

  
Peyton Crawford  
President

cc: Denise Lea  
Director of Louisiana State Purchasing

P. O. Box 12898  
Alexandria, LA 71315-2898  
Telephone: (318) 473-8707  
Facsimile: (318) 445-1987

## Time Trend, Inc.

RE: Vendor Overcharges on Computer Sales

April 27, 1999

Office of State Inspector General  
P. O. Box 94095  
State Capitol Annex  
Baton Rouge, LA 70804-9095

Dear Bill Lynch,

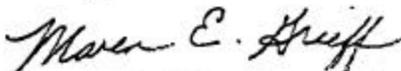
This letter is to thank you for the opportunity to respond to your drafted report of Vendor Overcharges on Computer Sales. In analyzing the audit data you have drafted we can see where circumstances can happen to an order in satisfying the customer. We here at Time Trend, Inc. in furthering our ISO9002 certifications have been investigating our processes and are continually striving to become better customer service providers. Time Trend, Inc. appreciated seeing the scope and focus of the state auditor's findings and how the findings were measured. However, we have understood that any changes to a contract are available, or official, when the La ISIS system has these changes made available to the state agencies to create purchase requisition orders. We also understand when, contract changes are sent to La Office of State Purchasing, the day changes are entered on the La ISIS system are not available until the next business day. The contract changes do not post until the La Office of State Purchasing's end-of-day processes is complete. The vendor receives a hard copy of the contract via postal mail weekly after the end-of-day process on Thursday evenings at the La Office of State Purchasing. This is the only confirmation made available to vendors that contract changes have taken place. As part of the vendor audit, the auditors, reviewed the vendor faxed in contract change documents and the date of the fax. The audit does not supply the date the contract changes were entered, and made available to the state agencies to produce purchase requisition orders, on the La ISIS system.

Time Trend, Inc. standard policy is to invoice a customer the same day the product ships out. We use, for most orders, Federal Express Economy Ground and shipments deliver in one-to-two days standard. We feel this is an acceptable way to do business with our customers.

Time Trend, Inc. appreciates the business relationship with the State of Louisiana and will take the opportunity given us through this audit to continue improving our own goal of quality and customer service. Within the guidelines set forth by our quality certifications and Accounting and Business principles.

Upon receipt of the final audit report Time Trend, Inc. will remit refunds due to the effected state agencies.

Sincerely,



Maren E. Grieff, State Contracts Administrator

MG



Sales • Service • Rentals • Supplies

<http://www.neosoft.com/~aominc/aominc.htm>

May 4, 1999

Mr. Bill Lynch  
State Inspector General  
State of Louisiana  
Division of Administration  
P O Box 94095  
State Capital Annex  
Baton Rouge, Louisiana 70804-9095

RE: File # 1-99-0051

Dear Mr. Lynch:

Thank you for sharing the reports prepared by your and Mr. Van Cochran's offices concerning overcharges on contract computer sales to the State of Louisiana. Once we received this information we were able to track the chain of events in the order in which they occurred. Listed below are the sequences of the order.

First, the release order from Public Safety was created on 11/09/98. American received the release order on 11/16/98, which we then processed on our end. On 11/22/98 we received the subject machines and on 11/23/98 we invoiced the agency. As is our standard policy on all machines we performed a 72-hour burn-in to make sure that the units were all right. We then set up the delivery for 12/03/98, which is the day shown on our delivery ticket. On 12/11/98 we received an official notice from State Purchasing that prices had been changed.

As you can see, by the above dates, almost a month transpired from the date of the release order to the date of the price change. We, therefore, feel the audit did not reflect the correct chronology of events. We respectfully request that our good name be removed from the list that has been circulating.

Sincerely,  
AMERICAN OFFICE MACHINES, INC.

  
John D. Manzella, Jr.  
President



Kerry M. Guillory  
State Contract Administrator  
8855 Veterans Boulevard  
Metairie, LA 70003  
Phone: 504-471-2971  
Fax: 504-471-2983

## MEMO

**To:** Mr. Van Cochran  
**From:** Kerry M. Guillory, State Contract Administrator  
**CC:**  
**Date:** 04/20/99  
**Re:** Response to file No. 1-99-0051

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Dear Mr. Cochran,

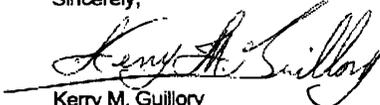
Upon review of our records we found due to the dates contract changes were effective and shipping delays, overcharges occurred on the following purchase orders.

P.O. #	Part #	Qty.	Invoiced Price	Price After Reduction	Difference	Total
3042649	J2591A	6	\$244.00	\$221.00	\$23.00	\$138.00
3090608	C4582A	2	\$231.00	\$195.00	\$36.00	\$72.00
3094467	C2680A	2	\$480.00	\$471.00	\$9.00	\$18.00
3094714	C2680A	1	\$480.00	\$471.00	\$9.00	\$9.00
3104489	198180	6	\$275.00	\$244.00	\$31.00	\$186.00
3152060	195451	1	\$384.00	\$374.00	\$10.00	\$10.00
3152060	194957	1	\$57.00	\$51.00	\$6.00	\$6.00

P.O. #	Part #	Qty.	Invoiced Price	Reduced Price	Difference	Total
3152060	188500	1	\$179.00	\$174.00	\$5.00	\$5.00
3155323	189151	48	\$527.00	\$431.00	\$96.00	\$4,608.00

CompUSA will credit the accounts of the state agencies affected, and in order to prevent this situation from reoccurring, CompUSA will delay invoicing until delivery dates have been verified, and all price reductions have been applied.

Sincerely,



Kerry M. Guillory  
State Contract Administrator



*State of Louisiana*  
DIVISION OF ADMINISTRATION  
OFFICE OF STATE PURCHASING

M. J. "MIKE" FOSTER, JR.  
GOVERNOR

MARK C. DRENI  
COMMISSIONER OF ADMINISTRATION

April 22, 1999

Mr. Bill Lynch  
Office of State Inspector General  
Post Office Box 94095  
Baton Rouge, Louisiana 70804

RE: File No. 1-99-0051

Dear Mr. Lynch:

In response to your draft report concerning overcharges on contracts for computers, the Office of State Purchasing offers the following statements. This office maintains 124 microcomputer and peripheral contracts. The competitive market for this type of equipment is very volatile creating numerous contract changes which occur daily.

The logical party to audit these contracts is the Office of State Purchasing; however, it is not possible to maintain the database of these contracts in the present manner much less perform the audit function with the current human resources in this office. This is the main reason we need to have fewer contracts, with the ability to post instantaneous price changes, internet access and verification. At this time, we do not have all the approvals necessary to move in this direction. When we do implement the new procedure we will require detailed reporting from the successful contract holder and require a third party audit on an annual basis.

The Office of State Purchasing will send a letter to all contract holders to perform an audit of their contract to ascertain if reductions have been passed on to the state. I strongly recommend that the date that should be utilized in this audit to be that of the shipping date and not agency receipt date.

Sincerely,

A handwritten signature in cursive script that reads "Denise Lea".

Denise Lea  
Director of State Purchasing

