

REQUEST FOR AUTHORIZATION TO CONTRACT WITH CUSTOM COMPUTER SPECIALISTS, INC. TO PROVIDE INFRASTRUCTURE HARDWARE AND BUILD-OUT SERVICES

| Estimated Annual/ Total Contract Amount | Funding Source | Contract Term | Options | Estimated Option Amount | Procurement Method | Is Contract Retroactive? | Contract Type |
|--|-----------------------------------|------------------|--------------------------|----------------------------|--|-----------------------------|------------------|
| \$127,481,939/ \$637,409,695 | Tax Levy / Capital / E-rate | Five Years | Two 2-Year Extensions | \$509,927,756 | Best Value Request for Bids (RFB) per DOE Procurement Policy and Procedures §3-02(o)(1)(ii) | No | Requirements |

| | |
|--------------------------------------|---|
| Vendor Name & Address | Custom Computer Specialists, Inc. (partnering with Dell Marketing, L.P.) 70 Suffolk Court Hauppauge, NY 11788 |
|--------------------------------------|---|

| Contract Manager | Lead Contracting Officer | Division of Contracts & Purchasing Contact |
|--|--|--|
| Joe Iacoviello Director Division of Instructional and Information Technology (DIIT) | Hal Friedlander Chief Information Officer Division of Instructional and Information Technology (DIIT) | James J. McBride Chief Administrator Technology & Instructional Material Procurement |

PURPOSE

Authorization is requested to contract with Custom Computer Specialists, Inc. (CCS; partnering with Dell Marketing, L.P.), to provide a variety of IT networking hardware and installation services. CCS will provide seven tiers of brand-specific servers, and 25 tiers of networking equipment, along with various other categories of related hardware, accessories, and warranties. For installation services, CCS will perform system integration services for schools in need of network updating.

DISCUSSION

With the increased use of on-line instruction and mobile devices for students in the classroom, upgrading the performance of schools' wireless and local/wide area networks is a Departmental priority. In the past, network hardware and associated installation services were typically procured through mini-bid competitions against New York State Office of General Services (OGS) contracts. The DOE currently has five separate contracts for these goods and services, including one contract for the purchase of networking equipment, one for the purchase and integration of wireless and local/wide area networks in schools, and three for the purchase of IBM, DELL, and HP hardware, respectively. All of these contracts are scheduled to expire in 2015.

Through this procurement, the DOE will combine the aforementioned contracts into a single contract and support team for each borough. It is believed that doing so will facilitate the DOE's overall management and coordination of services while leveraging economies of scale for the purchase of hardware. By ensuring that integration work is not dependent on or delayed by the availability and delivery of equipment from separate resellers, contracted vendors will be better positioned to meet the timelines and needs of schools and central offices.

The Department expects that a significant portion of these costs will be reimbursed through the E-rate Reimbursement Program, a Federal program administered by the Universal Service Administrative Company (USAC), subject to the oversight of the Federal Communications Commission (FCC). The purchase of IT hardware and the performance of integration services (classified as Category Two type services by FCC) are both E-rate eligible services. Beginning in funding year 2015, DOE would be potentially eligible to receive a maximum aggregate amount of approximately \$123 million or 11.45% in E-rate funding requests over a five-year period for these eligible services. A new contract for qualifying purchases must be in place by March 23, 2015 so that the DOE will be eligible to receive E-rate funds during funding year 2015. Services under the new contract will start July 1, 2015 in order to ensure continuity of services and hardware purchasing for the entire DOE.

The Division of Contracts & Purchasing (DCP) collaborated with the Division of Instructional and Information Technology (DIIT) and the Office of Federal and State Regulatory Compliance (OFSRC) in writing the solicitation and bid blank price form in order to ensure the documents cover DOE's needs and are E-rate compliant. A Best Value RFB was released to vendors on the DOE's bidders list, advertised in the City Record, and posted on the DOE and E-rate websites. Bidders were required to submit pricing on hardware covering seven tiers of brand-specific servers and 25 tiers for various networking equipment, and provide discounts off accessories and device warranties.

Both the RFB and the FCC Form 470 (a posting to USAC's website) were publicly available for 56 days. Five bids were received, of which one was determined to be non-responsive because the vendor submitted "no quote" for asbestos testing and insufficient responses to the RFB's request for evidence of minimum qualifications; no protest was received.

Three days after submitting a bid, ZTE requested to clarify, amend, or withdraw their bid, explaining that their unit prices were intended to be per classroom, instead of per building. After reviewing ZTE's bid, the DOE determined that the unit price instructions in the Bid Blank were clear and that there was no clear evidence that ZTE intended to bid otherwise. As such, their request was denied.

With technical advice from DOE Subject Matter Experts (SME), an evaluation committee, consisting of a Manager from DIIT and a Director from DCP, evaluated the bids from Custom Computer Specialists, ZTE, ASI System Integration and Presidio Networked Solutions, using the following criteria:

| CRITERIA | WEIGHT |
|---|-------------|
| Price of E-rate Eligible Products and/or Services | 30 |
| Price of E-rate Ineligible Products and/or Services | 15 |
| Program Plan | 20 |
| Demonstrative Effectiveness | 20 |
| Organizational Capacity | 15 |
| Total | 100% |

Both committee members recommended that award be made to Custom Computer Specialists (CCS), based on the reasons detailed below:

- Price – While at first glance CCS's bid appeared to be higher than two of the other three vendors, there were substantial differences that complicated such comparisons. Despite being lower by approximately \$269 million vs CCS in overall price, the evaluators did not believe that ASI provided a sufficiently comprehensive plan for providing the services required. Moreover, both ASI and ZTE pricing raised the following concerns:

- The RFB required that pricing for services be based on current Prevailing Wage guidelines but ASI responded no to this requirement, and instead based their pricing on Union Rates.
- The RFB required that all cabling must be installed in Wiremold metal raceway, with 40' of raceway per drop included. ASI responded no to this requirement, and instead indicated that flexible metal conduit for all pathways and non-metallic raceways for the classroom on the hall wall would be used.
- The RFB required that cable in the hallway needs to be run in a steel raceway usually the entire length of the hallway and in most cases on both sides of the hallway. ASI responded no to this requirement, indicating that their scope includes flexible metallic runway instead.
- ZTE claimed that their low bid on the services work was a mistake, based on per classroom pricing and not per school asked for in the bid.
- CCS offered the widest variety of different original equipment manufacturers (OEM) and hardware brands. Of the hardware CCS proposed, 88 percent passed all of the DOE's technical requirements. 35 percent of ASI's hardware offerings and 55 percent of ZTE's did not meet the hardware technical requirements. Accordingly, ASI and ZTE offerings would limit DOE's purchasing choices and, hence, drive up cost for like purchases.

The evaluators concluded that because of varying methodologies offered for services as well as offerings of alternate hardware, a simple apples-to-apples comparison for pricing is difficult to make. Thus, they focused on determining which vendor offered the best value overall.

- Program Plan – Unlike the other bidders, CCS provided a comprehensive plan, which detailed how all of the DOE's service needs would be handled. Their plan addressed key areas of the work, such as surveying, cabling, asbestos reporting, hardware purchasing process and vast experience with the E-rate filing process, all requested in the bid.
- Demonstrative Effectiveness – Unlike the other bidders, CCS has at least 15 years of experience in supporting the DOE and other school districts with their E-rate programs and other technology needs. They offered relevant examples of past experiences with the SCA and the DOE, as well as 20 school districts in the State of Massachusetts, Baltimore County Public Schools, Buffalo Public Schools, Jersey City Public Schools, Patterson Public Schools as well as the State of Maine Public School System. According to the vendor, this experience amounts to over 3,970 applicants and 24,862 E-rate funding requests totaling over \$456,570,000. While the other bidders provide no reference to E-rate experiences. Accordingly, E-rate is a major part of this award.
- Organizational Capacity – CCS offered the largest and most experienced team among all competitors. With 114 individuals, they showed the largest and most experienced team that would be dedicated to support this program. These individuals consisted of project managers (with 15 years), coordinators, system and network engineers (10 years experience), electricians (10 years experience), and management staff (20 years experience).

The RFB allowed awarding by borough or multiple boroughs if vendors offered additional discounts to the overall total price. The evaluators determined it was best to award all five boroughs to Custom for the reasons stated above. Moreover, doing so allows the Department to capture the additional 3.5 percent discount from CCS and to facilitate the management of the services while leveraging economies of scale for the purchase of hardware. Additionally, the hardware offered by the various vendors was not consistently similar and awarding to different vendors to different boroughs would create difficulty, and add additional cost for DOE to support an overabundance of differing technologies across schools and central locations.

CCS submitted an initial bid of \$1,123,972,164, below the bid for Presidio, but higher than the bids for ASI and ZTE. ZTE, although the lowest bidder for each borough, did not meet all requirements throughout their proposal. Though ASI's price was lower than CCS's initial price, it was determined that ASI offered a lesser solution in for reasons explained above. The Division of Contracts & Purchasing (DCP) engaged CCS in negotiations which resulted in a 41% drop in total pricing to \$660,528,181 before an additional 3.5% discount for an award of all five boroughs, which brings total pricing to \$637,409,695.

A comparison of CCS' revised pricing for services with the current contract shows that pricing for Brooklyn, Queens and Manhattan, which collectively represent 80% of the total estimated spend for services under the new contract, will be at or below the current contract's price. CCS' pricing for the Bronx and Staten Island is higher, but by less than 10%. CCS pricing is also higher for some generalized services, though by slightly more than 1%.

As indicated previously, CCS' proposal included superior hardware compared to the other vendors and, as part of CCS' price reduction, it increased the discounts on hardware to as much as 15%. Even so, there are remain a few areas where the hardware discount is not as great as what the DOE is receiving under other contracts, in which cases DCP will seek additional price reductions through negotiations. However, in light of the reduction in the total price, how CCS' pricing compares favorably with that of the other bidders proposed prices, as well its having offered slightly lower overall pricing vis-à-vis the contract it replaces, the DOE has determined that CCS' pricing is fair and reasonable.

| BIDDER | 5-Year Total (Eligible & Ineligible) for Manhattan Only | 5-Year Total (Eligible & Ineligible) for Brooklyn Only | 5-Year Total (Eligible & Ineligible) for Queens Only | 5-Year Total (Eligible & Ineligible) for Staten Island Only | 5-Year Total (Eligible & Ineligible) for the Bronx Only |
|---|---|--|--|---|---|
| ZTE | \$45,574,854 | \$77,549,166 | \$77,630,391 | \$24,731,417 | \$31,413,503 |
| Custom Computer Specialists, Inc. (Negotiated) | \$123,979,000 | \$211,938,209 | \$186,936,427 | \$65,920,262 | \$71,754,284 |
| ASI System Integration | \$159,532,814 | \$279,124,944 | \$247,538,606 | \$80,596,008 | \$88,685,648 |
| Custom Computer Specialists, Inc. (Original Bid) | \$213,399,144 | \$374,852,559 | \$318,684,236 | \$105,583,850 | \$111,452,378 |
| Presidio Networked Solutions, Inc. | \$243,367,464 | \$429,673,739 | \$361,433,683 | \$116,907,553 | \$123,399,267 |
| Zensar Technologies (non-responsive) | non-responsive | non-responsive | non-responsive | non-responsive | non-responsive |

A background check for Custom Computer Specialists, Inc. (CCS), using the City's VENDEX, Vendor CIP Report, and EPLS – Fed Debar List identified the following noteworthy findings for prime vendor, CCS.

VENDEX contains a caution regarding an April 28, 2011 report from the Special Commissioner of Investigation for the New York City School District (SCI) that found CCS enabled Ross Lanham, while

employed as a consultant for the DOE, to bill millions of dollars to the DOE for five consultants whom he employed through his company, Lanham Enterprises, Inc. without the knowledge and/or agreement of the DOE. In July 2012, CCS provided the DOE with an acceptable corrective action plan that it will disclose any contractual relationships with other entities involved in the contract, notify DOE of any pass-through entities used by other entities on DOE projects, and will contact SCI or the appropriate agency if there is any suspicion of wrongdoing. Since that time the company's performance on DOE's Cisco hardware and Dell server contracts has been viewed as "exceptional" by two Directors from DIIT.

For this contract, CCS has entered into an agreement with Dell Marketing, L.P. (DM) to ensure the delivery of goods. DM's VENDEX indicates the following:

- In 2012, the company paid a \$70,000 fine to the Occupational Safety and Health Administration due to inadequate procedures regarding equipment installation. The company has enacted corrective measures to address these matters.
- In 2010, the SEC filed a complaint that Dell had violated certain negligence-based fraud laws following a financial review of the company. Dell entered into a settlement with the SEC wherein the company paid \$100 million (Michael Dell, the company's founder, paid \$4 million personally), consented to a permanent injunction against future violations of various fraud and antifraud provisions, enhanced its disclosure processes, practices, and controls, and agreed to retain an independent consultant to assist in doing so. That work was completed shortly after the settlement was filed and the matter is now closed.

As the matters reported above have been satisfactorily addressed and Dell's performance on DOE's PCS Services contract has been viewed as "exceptional" by a DIIT supervisor. The DOE does not believe they preclude a determination that the vendors are responsible.