



UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF INSPECTOR GENERAL

February 9, 2005

CONTROL NUMBER
ED-OIG/A19-E0016

Jack Martin
Chief Financial Officer
Office of the Chief Financial Officer
U.S. Department of Education
400 Maryland Avenue, SW, Room 4E313
Washington, DC 20202

Grover Whitehurst
Director
Institute of Education Sciences
555 New Jersey Ave, NW
Washington, DC 20208-5500

Dear Messrs. Martin and Whitehurst:

This **Final Audit Report** (Control Number ED-OIG/A19-E0016) presents the results of our audit of the Department of Education's (the Department) Monitoring of the Educational Resources Information Center (ERIC) Contract. Our audit scope included the ERIC contract awarded January 14, 2000 (2000 ERIC contract), and the monitoring performed by staff in the Office of the Chief Financial Officer, Contracts and Acquisitions Management (OCFO/CAM), and the Institute of Education Sciences (IES). Specifically, we reviewed monitoring of the funds collected by the contractor for public sales of ERIC products.

BACKGROUND

ERIC is a national information system providing educators, researchers, and the general public with access to education literature and resources. The ERIC database is the world's largest and most frequently used education database, composed of more than one million bibliographic records spanning 1966 to the present.

400 MARYLAND AVE., S.W. WASHINGTON, D.C. 20202-1510

Our mission is to ensure equal access to education and to promote educational excellence throughout the Nation.

The 2000 ERIC contract was a cost-reimbursement contract awarded to Computer Sciences Corporation (CSC) for services to the Office of Educational Research and Improvement (OERI).¹ The 2000 ERIC contract was effective from January 14, 2000, to September 30, 2004. The total contract amount through September 30, 2004 was \$5,921,946. CSC was awarded the new contract (2004 ERIC contract) effective March 12, 2004, to March 11, 2005, including four option years. During the period March 12, 2004, through September 30, 2004, both the 2000 and 2004 ERIC contracts were in effect.

Our audit was limited to monitoring of funds collected by the ERIC contractor under Statement of Work (SOW) Subtask 5.8, *Pricing and Sale of ERIC Products*, from the 2000 ERIC contract. The subtask stated the contractor was responsible for sales of ERIC database products and resources. Pricing, use of funds, and contractor profit level were subject to Department approval. Subtask 5.8 defined the contractor's responsibilities related to selling ERIC products to the public as follows:

Pricing Structure: The contractor is directed to develop a pricing structure, subject to Department of Education approval, for the public sale of ERIC products, consistent with OMB [Office of Management and Budget] Circular A-130.² The contractor shall document all costs and expenditures related to this activity and explain the final pricing structure, which shall be on a cost-recovery basis. Any excess funds shall be deposited in a revolving, auditable account.

Revolving, Auditable Account: The contractor shall open a revolving, auditable account for receipt and disbursement of funds derived from public sale of ERIC products and ERICTOOLS.

Expenditure of Funds: The contractor shall use the funds in the account for authorized upgrading and improvement of the database to enhance its dissemination.

AUDIT RESULTS

We found that Department staff did not effectively monitor the funds collected by the contractor for the public sale of ERIC products. This occurred due to a lack of deliverables specified in the SOW that would have enabled effective monitoring of funds, such as periodic accounting reports from the contractor, lack of communication between the Contracting Officers Representatives (CORs) in IES and Contracting Officers (CO) and Contract Specialists (CS) in CAM, staff turnover, and a lack of awareness by CAM

¹On November 5, 2002, due to the *Education Sciences Reform Act of 2002*, OERI was reorganized as the Institute of Education Sciences (IES).

² Concerning pricing structures, OMB Circular A-130, *Management of Federal Information Resources*, Section 7(c) requires an agency to "...set user charges for information dissemination products at a level sufficient to recover the cost of dissemination but no higher. They must exclude from calculation of the charges costs associated with original collection and processing of the information."

with regard to SOW requirements and contractor intentions. As a result, the Department was not able to effectively monitor funds collected by the contractor from public sales. The Department did not have assurance that funds received from public sales were safeguarded to the level intended by the Department. Additionally, the Department could have reduced amounts it will have to reimburse the contractor caused by losses associated with sales of ERIC products.

OCFO and IES responded to our draft report, concurring with the finding and recommendations. The full text of the response is included in as Attachment 1 to this audit report.

Finding 1: Department Staff Did Not Effectively Monitor the Funds Collected by the Contractor for Public Sales of ERIC Products

Department staff did not effectively monitor the funds collected by the contractor for the public sale of ERIC products. Specifically, we found the CORs and CAM staff involved in contract monitoring did not:

- Adequately monitor activity in the ERIC products sales account on a periodic basis to minimize surpluses and deficits in the account;
- Follow up on terms related to accounting for funds from the public sales of ERIC products; and
- Timely review and formalize the contractor's request to increase prices of ERIC products.

Contract Monitoring Requirements

The Departmental Directive (Directive), OCFO: 2-108, "Contract Monitoring for Program Officials," dated January 12, 1987,³ provides policies and procedures for COs, CSSs, and CORs.

Directive Section X.D.1.b states:

If a contract contains no (or perhaps insufficient) reporting requirements and the [COR]⁴ feels that certain reports are needed, the [COR] should discuss the matter with his or her program office manager and CO to

³ This policy was updated and reissued on April 15, 2004. The requirements presented throughout this report are from the policy that was in effect during the period of contract performance. The same requirements also appear in the current policy.

⁴ Note: The 1987 Directive refers to a COR as a Contracting Officer's *Technical Representative* (COTR). The 2004 Directive updated this acronym to COR, but there is no difference in the definition of the position of a COR and a COTR. COR is a synonymous term of COTR. All language cited from the 1987 Directive will use the updated terminology.

assess whether the monitoring information to be gained is worth the additional cost of such a requirement.

Section VI.A.4.c & d of the Directive includes the following roles and responsibilities for a COR:

Provide monitoring information, advice, and requests for formal administrative action to the CO in a timely manner; and,

Review and make recommendations to the CO as to the approval, disapproval, or other action to take concerning a contractor's submission of (or failure to submit) payment requests, deliverables, interim or final progress and financial reports, or any other requirements of the contract.

Directive Section IX.D.1.a states:

The [COR] should read the full contract, particularly if he or she was not involved during the entire pre-award process. If, after one or two readings of the contract, the [COR] does not understand all that is in it or the monitoring responsibilities relative to it, the [COR] should consult the program office manager or CO.

Section IX.A of the Directive states the following concerning the Statement of Work:

A major portion of a contract is the Government's SOW, which if poorly written can inhibit effective contractor performance or the monitoring of it... Although SOW development predates the monitoring process, this section is provided to encourage the preparation of sound SOWs when planning future solicitations.

Directive Section IX.E further provides the following guidance concerning common contractor pitfalls:

Contractors occasionally behave, intentionally or not, in a manner contrary to the terms of the contract. A [COR] preparing for monitoring should become attuned to some of the more common of these mistakes, such as... Interpreting (knowingly or not) a SOW in a way contrary to the Government's intent.

Section V.D of the Directive defines a CS as follows:

The CO's designated representative in the contracting office who acts on behalf of the CO in most of the day-to-day administration of a contract. For the purposes of this directive, the term CO is used interchangeably to refer either to the CO or the Contract Specialist.

Section IX.C of the Directive stresses the importance of a good working relationship between the COR and the CO (this includes the CS, as stated in Section V.D above):

[CORs] and COs must rely heavily on each other in the monitoring process, and should develop a cooperative working relationship from contract planning through close-out. Should [CORs] and COs feel that their relationship is less than effective, they should make an active effort to improve it or arrange reassignments of work to arrive at an effective team.

Staff Did Not Adequately Monitor ERIC Sales Account on a Periodic Basis

The Department had no information regarding ERIC sales account activity for the period December 2000 to July 2004. In the first four years of the contract, the CORs on the 2000 ERIC contract received one periodic report (for the period ending December 2000) showing the sales and associated costs of ERIC products. Although this report was not a deliverable required by the contract, it was an effective means to monitor the funds collected by the contractor for public sales of ERIC products. CAM staff and the COR received one more periodic report in July 2004, in response to OIG's request for this information at the beginning of our audit.

We found the SOW did not require contractor reports to show the activity in the ERIC products sales account, or any other deliverable that would have enabled the COR to monitor sales activity. The COR did not note this deficiency or discuss it with the ERIC contract program manager and/or CO to add the requirement for additional reports.

Due to the lack of periodic reports, the Department did not have adequate documentation to effectively monitor the funds collected by the contractor for public sales. The report submitted by the contractor in July 2004 showed that the Department will have to repay a projected amount of \$43,954 at the end of the contract. The Department would have been aware of, and could have taken action to minimize this deficit, had it received and reviewed periodic reports.

Staff Did Not Adequately Follow Up on Terms Related to Accounting for Funds

The SOW required the contractor to maintain funds received from public sales in a revolving, auditable account. The contractor chose to address this requirement by identifying funds through accounting codes. The contractor included this approach in its proposal, and the CORs were aware that the contractor had chosen to account for funds in this manner. However, CAM staff sent a letter, dated May 27, 2003, to the contractor explaining it was required to establish a separate trust account to maintain funds received from public sales of ERIC products. In the letter, CAM stated the account should have been established when the contract was awarded in January 2000. CAM did not issue a

contract modification to clarify the requirements. As of October 2004, CAM had not followed up with the contractor or received any evidence a separate trust account was created.

We found the contractor's proposal, upon which the contract award was based, clearly stated it would use separate accounting codes and not create a separate trust account. We found the CORs were aware the contractor had chosen this accounting method, but CAM did not challenge this practice until May 2003, three years into the contract. This shows a lack of communication between the CORs and CAM regarding contract requirements, as well as a lack of awareness by CAM to contractor intentions as noted in the contractor's proposal. As a result, funds may not have been safeguarded to the degree intended by the Department.

Staff Did Not Timely Review and Formalize Price Increase Request

Prices for products under the 2000 ERIC contract were originally established during a prior contract. In its 1999 proposal for the 2000 ERIC contract, the contractor did not change the prices of ERIC products. In September 2002, the contractor proposed a price increase to the Department citing shortfalls in revenues. The Department verbally agreed to the price increase in December 2002, but did not provide formal approval for the price increase until May 2003, nine months after the proposal was submitted.

We found that CAM did not approve the proposal in a timely manner due to lack of communication between the CORs and CAM. This was due in part to staff turnover in both offices. At the time that the price increase proposal was under review, the COR left OERI due to its reorganization into IES. At the same time, a new CS was assigned to the contract.

Correspondence in the COR's files documented difficulties experienced in attempting to determine from the CS when the formal letter approving the price increase would be sent to the contractor. This correspondence showed there was not an effective working relationship between the COR and the CS during this time, which led to the delay in approval of the price proposal.

If the Department had approved the price increase in a timely manner, the contractor could have reduced the losses it incurred for selling ERIC products over the nine-month period from the contractor's request in September 2002, to formal approval by the Department in May 2003. If the price proposal had been approved earlier, customers requesting ERIC products would have paid the additional amounts from the price increases, and the projected deficit to be paid by the Department could have been reduced or eliminated. As discussed above, the amount of the contractor's projected losses to be paid by the Department is \$43,954.

Recommendations:

We recommend the Chief Financial Officer, and the Director, Institute of Education Sciences, take actions to ensure in current and future ERIC contracts:

- 1.1 The SOW requires adequate reports or other documentation from the contractor to ensure compliance with contract provisions can be effectively monitored.
- 1.2 Timely action is taken in response to changes needed in contract terms, such as in the case of price adjustments requested by the contractor, to reduce costs and protect the Department's interests.
- 1.3 Regular communication exists between the COR and CAM staff, both parties fully understand the contract requirements and the contractor's technical proposal, and an effective contract monitoring plan is developed and implemented to provide assurance that the contractor is in compliance with contract provisions.

In addition, we recommend for the 2000 ERIC contract, the Chief Financial Officer, and the Director, Institute of Education Sciences, take action to ensure:

- 1.4 The contractor provides a detailed accounting of its ERIC products account at the end of the contract term to ensure the amount of the deficit claimed is appropriate before final payment is made.

OBJECTIVE, SCOPE, AND METHODOLOGY

The objective of our audit was to determine the effectiveness of the Department's monitoring of the funds collected by the contractor for public sales of ERIC products. Our audit evaluated activity under the 2000 ERIC contract, effective from January 14, 2000 to September 30, 2004. We also reviewed terms of the 2004 ERIC contract, effective March 12, 2004, and found that due to a restructuring of the contract, the contractor will no longer sell ERIC products to the public. ERIC products available electronically will be available free to the public. Any products not available electronically may be purchased directly from the publisher and not through the ERIC facility. As such, we did not pursue further review of the monitoring of public sales.

To accomplish our objective, we reviewed the contract requirements related to the pricing, accounting, and use of funds received from public sales of ERIC products. We reviewed the 2000 ERIC statement of work, and the contractor's proposal submitted in response to the solicitation for the 2000 ERIC contract. We reviewed applicable laws and regulations, as well as Departmental policies and procedures for contract monitoring. We conducted interviews with IES staff, former OERI staff, and OCFO/CAM staff responsible for oversight of the ERIC contract. We obtained and reviewed

documentation from IES and OCFO/CAM hard copy contract files and related electronic files.

Use of computer-processed data for the audit was limited to reports provided by the contractor that showed activity in the ERIC products sales account. We used monetary data contained in these reports to a limited extent. We did not assess the reliability of the computer-processed data. We used this data for informational purposes only.

We performed our fieldwork at applicable Department of Education offices in Washington, D.C., during the period July 2004 through October 2004. We held an exit conference with Department management on October 8, 2004. Our audit was performed in accordance with generally accepted government auditing standards appropriate to the scope of the review as described above.

STATEMENT ON INTERNAL CONTROLS

As part of our review, we performed a limited assessment of internal controls applicable to the Department's management of the ERIC contract. Our review was limited to identification and review of laws, regulations, guidelines, and Department policies and procedures related to contract monitoring. We compared these requirements to the actual process followed to monitor the ERIC contract.

Because of inherent limitations, the assessment made for the limited purpose described above would not necessarily disclose all material weaknesses in the internal controls. However, our assessment disclosed significant internal control weaknesses that adversely affected the Department's ability to effectively monitor the ERIC contract. These weaknesses and their effects are fully discussed in the AUDIT RESULTS section of this report.

ADMINISTRATIVE MATTERS

Corrective actions proposed (resolution phase) and implemented (closure phase) by your office will be monitored and tracked through the Department's Audit Accountability and Resolution Tracking System (AARTS). Department policy requires that you develop a final corrective action plan (CAP) for our review in the automated system within 30 days of the issuance of this report. The CAP should set forth the specific action items, and targeted completion dates, necessary to implement final corrective actions on the finding and recommendation contained in this final audit report.

In accordance with the Inspector General Act of 1978, as amended, the Office of Inspector General is required to report to Congress twice a year on the audits that remain unresolved after six months from the date of issuance.

Statements that managerial practices need improvements, as well as other conclusions and recommendations in this report represent the opinions of the Office of the Inspector General. Determinations of corrective action to be taken will be made by the appropriate Department of Education officials.

In accordance with the Freedom of Information Act (5 U.S.C. § 552), reports issued by the Office of Inspector General are available to members of the press and general public to the extent information contained therein is not subject to exemptions in the Act.

We appreciate the cooperation provided to us during this review. Should you have any questions concerning this report, please call Michele Weaver-Dugan at (202) 245-6941. Please refer to the control number in all correspondence related to the report.

Sincerely,

Helen Lew /s/
Assistant Inspector General for Audit Services

cc: Cynthia Bond-Butler, CAM Audit Liaison Officer
Tom Brown, IES Audit Liaison Officer



UNITED STATES DEPARTMENT OF EDUCATION

WASHINGTON, D.C. 20202-_____

Attachment 1

MEMORANDUM

DATE: JAN 14 2005

TO: Helen Lew
Assistant Inspector General for Audit Services

FROM: Jack Martin *Jack Martin*
Chief Financial Officer
Office of the Chief Financial Officer

for Grover Whitehurst *Grover Whitehurst*
Director
Institute of Education Sciences

SUBJECT: Draft Audit Report, *Audit of the Department of Education's Monitoring of the Educational Resources Information Center (ERIC) Contract*, Control Number ED-OIG/A19-E0016

This memorandum responds to the Office of the Inspector General (OIG) subject Draft Audit Report, dated November 24, 2004. The OIG fieldwork was performed between July and October 2004. The OIG found that the Department staff did not effectively monitor the funds collected by the contractor for public sales of ERIC products.

Overall, the Office of the Chief Financial Officer (OCFO) and the Institute of Education Sciences (IES) concur with the finding. OCFO and IES concur that the Statement of Work (SOW) could have been improved with periodic reporting requirements tied to the public sales of ERIC products. As referenced in your report, the Contracting Officer's Representative (COR) changed three times, and the Contract Specialist assigned to the contract also changed. Although staff turnover is never an excuse, such changes compound the day-to-day challenges in timely contract administration.

In general, OCFO and IES concur with the recommendations of the report. However, there are no public sales in the current ERIC contract, nor is it anticipated that the current contract will require the contractor to collect funds from the public for sale of ERIC products. The Department received from the contractor a detailed accounting of its ERIC products account on December 30, 2004. The Department is reviewing this accounting.



This listing will be reconciled upon receipt, and then final payment will be made to the contractor.

The specific OIG recommendations and the Department's plan of action to address improved monitoring of the current ERIC contract are detailed in the attached Corrective Action Plan.

Thank you for the opportunity to respond to this Draft Audit Report.

Attachment