
Department's Controls Over EDUCATE Contract Costs

FINAL AUDIT REPORT



ED-OIG/A19L0003
March 2012

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U.S Department of Education
Office of Inspector General
Washington, DC

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UNITED STATES DEPARTMENT OF EDUCATION
OFFICE OF INSPECTOR GENERAL

AUDIT SERVICES

March 29, 2012

Memorandum

TO: Danny Harris
Chief Information Officer
Office of the Chief Information Officer

Thomas Skelly
Delegated to Perform Functions and Duties of the Chief Financial Officer
Office of the Chief Financial Officer

FROM: Patrick J. Howard /s/
Assistant Inspector General for Audit

SUBJECT: Final Audit Report
Department's Controls Over EDUCATE Contract Costs
Control Number ED-OIG/A19L0003

Attached is the **final audit report** that covers the results of our audit to (1) evaluate the Department's controls over cost management of the EDUCATE contract, and (2) identify areas with material differences between actual and projected costs and determine the reasons for such overages. An electronic copy has been provided to your Audit Liaison Officers (ALO). We received the combined comments from the Office of the Chief Information Officer and the Office of the Chief Financial Officer concurring with the recommendations in our draft report.

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 findings and recommendations contained in this final audit report.

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Messrs. Harris and Skelly
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We appreciate the cooperation given us during this review. If you have any questions, please call Michele Weaver-Dugan at (202) 245-6941.

Enclosure

cc: Dana Stanard, ALO, Office of the Chief Information Officer
Stephanie Girard, ALO, Office of the Chief Financial Officer, Contracts and Acquisition
Management

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EXECUTIVE SUMMARY

The Education Department Utility for Communications, Applications, and Technology Environment (EDUCATE) contract established a contractor-owned contractor-operated (COCO) Information Technology (IT) service model for the Department of Education (Department) under which the EDUCATE contractor provides the total IT platform and infrastructure to support Department employees in meeting the Department's mission. The EDUCATE contract replaced the Department's previous government-owned contractor-operated (GOCO) IT environment. Under the GOCO IT environment, principal offices (POs) were responsible for procuring hardware, software, servers, and printers, while the Office of the Chief Information Officer (OCIO) procured the services to manage and maintain the IT infrastructure through multiple contracts such as the former EDNet contract.

The EDUCATE contract was awarded in September 2007 and may extend for a period of up to 10 years if all option years are exercised. The total projected cost over the anticipated life of the contract at the time of award was \$397,700,377. After the first option year, costs were expected to decrease under the assumption that the EDUCATE contractor would recognize efficiencies and optimize its operations.

EDUCATE contract costs are comprised of eight contract line item numbers (CLINs). CLIN costs consist of usage-based costs, fixed costs, or a combination of the two. Costs are allocated to the POs based upon a percentage of full-time equivalents for fixed costs and based upon actual usage of EDUCATE services for usage-based costs.

The Department has multiple processes in place to manage EDUCATE contract costs. These include a multi-level budget review process involving the OCIO, Planning and Investment Review Working Group (PIRWG),¹ Investment Review Board (IRB),² and the Office of Planning, Evaluation, and Policy Development. Annual credit lines and monthly expenditure reports are provided for POs to use in managing their usage-based costs under the EDUCATE contract.

The objectives of our audit were to (1) evaluate the Department's controls over cost management of the EDUCATE contract, and (2) identify areas with material differences between actual and projected costs and determine the reasons for such overages. Overall we found that improvements are needed in the Department's controls relating to cost management of the EDUCATE contract. Specifically, we determined that the Department did not:

¹ The PIRWG is comprised of senior managers with specialized knowledge and skills in the various disciplines that comprise the work of the Department. PIRWG members represent critical areas of Department operations to include acquisition, budget, information technology management, and planning functions.

² The IRB is the executive decision-making body for the Department's IT investment management process. The IRB is comprised of the senior officers of POs and other key personnel. It sets priorities and objectives used to assess IT initiatives and is responsible for overseeing the entire IT portfolio of the Department.

- Establish a complete and accurate baseline of costs related to operations being transitioned from the GOCO IT environment to the COCO environment;
- Adequately document its calculations of anticipated cost savings over the life of the contract; and
- Implement an oversight structure that emphasized cost control.

We also found that the Department's actual costs for four of the eight (50 percent) EDUCATE CLINs varied significantly from projected costs during the first 3 years of the EDUCATE contract, which may limit the Department's ability to meet projected savings.

As a result of the issues noted above, the Department's ability to assess EDUCATE cost savings and efficiencies is hindered. Further, the Department may not always identify opportunities to reduce costs, hold individuals accountable for cost performance in relation to initial expectations, and seek to assess and address cost performance variances where applicable. As of June 22, 2011, the Department had incurred approximately \$151 million in expenses for the EDUCATE contract compared to the approximately \$136 million projected for the same period at the onset of the contract; an increase of approximately \$15 million (11 percent).

To correct the weaknesses identified, we recommend that the Chief Information Officer and Chief Financial Officer, among other things:

- Develop and implement appropriate controls to ensure that acquisition planning provides for the preparation and documentation of complete and adequate data by which to effectively evaluate the future performance of contracts in relation to stated goals.
- Update policies to ensure documentation supporting business case information is maintained as required by the Office of Management and Budget.
- Retain documentation for all IT costs incurred under the EDUCATE environment to ensure that comparisons can be made regarding cost savings with any future IT service contracts that may be awarded.
- Formally define and emphasize roles and responsibilities for monitoring the contract's performance with respect to the cost saving objective of the contract.
- Develop and implement policies and procedures to ensure that necessary information is transferred to succeeding employees charged with managing EDUCATE contract costs.
- Ensure needs assessments are adequately performed prior to awarding future IT contracts.

In the response to the draft audit report, OCIO and the Office of the Chief Financial Officer (OCFO) concurred with our recommendations. OCIO/OCFO noted that although many of the issues noted in the report pertain to the absence of documentation managed under prior leadership, the report was insightful and useful and the recommendations appropriately note the importance of establishing necessary baseline information for audit and performance measurement purposes. OCIO/OCFO's comments, including corrective actions proposed, are summarized at the end of each finding. The full text of OCIO/OCFO's response is included as Enclosure 3 to this report. No changes were made to the report as a result of OCIO/OCFO's response.

BACKGROUND

The Education Department Utility for Communications, Applications, and Technology Environment (EDUCATE) contract established a contractor-owned contractor-operated (COCO) information technology (IT) service model for the Department of Education (Department). The EDUCATE contractor is responsible for providing the total IT platform and infrastructure to support Department employees in meeting the Department’s mission. This includes items such as hardware, printers, helpdesk support, systems and data center operations, e-mail, and network service. The EDUCATE contract is a performance-based, indefinite delivery/indefinite quantity contract with fixed unit prices. The contract was awarded in September 2007 and may extend for a period of up to 10 years if all option years are exercised.

The EDUCATE contract replaced the Department’s previous government-owned contractor-operated (GOCO) IT environment. Under the GOCO IT environment, principal offices (POs) were responsible for procuring hardware, software, servers, and printers, while the Office of the Chief Information Officer (OCIO) procured the services to manage and maintain the IT infrastructure through multiple contracts such as the former EDNet contract.

Cost Structure

The total projected cost over the anticipated life of the EDUCATE contract at the time of award was \$397,700,377. After the first option year (OY), costs were expected to decrease under the assumption that the EDUCATE contractor would recognize efficiencies and optimize its operations. Table 1 below shows the annual estimated contract costs as noted in the EDUCATE contract.

Table 1 – Estimated Annual EDUCATE Contract Costs

Contract Period	Estimated Value
Base Period	\$44,896,187.67
OY 1	\$45,779,118.43
OY 2	\$45,416,643.08
OY 3	\$43,493,819.08
OY 4	\$41,654,339.85
OY 5	\$39,501,308.20
OY 6	\$37,478,656.75
OY 7	\$35,231,822.93
OY 8	\$33,116,945.96
OY 9	\$31,131,535.05
	\$397,700,377

EDUCATE contract costs are comprised of eight contract line item numbers (CLINs), including Desktop Services; Helpdesk Services; Systems/Data Center; Email; Networks, Telecommunications, and Multimedia; Disaster Recovery Center; Special Services; and Printers. CLIN costs consist of usage-based costs, fixed costs, or a combination of the two and are dependent on the services being provided through the contract. For example, Desktop Services (CLIN 1) costs are usage-based and are dependent on the number of hardware and software profiles utilized, whereas Network, Telecommunications, and Multimedia Services (CLIN 5) are a combination of fixed costs for the Department’s network services and usage-based for the Department’s telecommunication services. Table 2 below shows the cost structure of each CLIN.

Table 2 – EDUCATE Cost Structure

CLIN	Cost Structure (Usage-based, Fixed, or Mixed Costs)
001 - Desktop Services	Usage-based
002 - Helpdesk Support	Usage-based
003 - Systems/Data Center	Mixed
004 – Email	Mixed
005 - Networks, Telecommunications, and Multimedia	Mixed
006 - Disaster Recovery Center	Fixed
007 - Special Services	Fixed
008- Printers	Mixed

The Department allocates costs to the POs based upon a percentage of full-time equivalents (FTE) for fixed costs and based upon actual usage of EDUCATE services for usage-based costs.

Cost Management Process

The Department has multiple processes in place to manage EDUCATE contract costs. These include a multi-level budget review process and reporting mechanisms intended to assist individual POs with cost oversight in relation to the approved budget.

The budget review process involves the OCIO, Planning and Investment Review Working Group (PIRWG),³ Investment Review Board (IRB),⁴ and Office of Planning, Evaluation, and Policy Development (OPEPD), with each group having distinct responsibilities. OCIO develops the EDUCATE budget, which includes estimated costs for usage-based and fixed price services as well as task orders and special projects that benefit the Department as a whole. OCIO is responsible for submitting related information to the PIRWIG throughout the fiscal year, to include the EDUCATE budget and investment cost and performance data for the prior year.

³ See footnote 1 on page 1.

⁴ See footnote 2 on page 1.

The PIRWG is responsible for reviewing the IT portfolio from an enterprise-wide perspective and scoring IT investment business cases. The PIRWG's scoring model includes the investment's cost, schedule, justification, alignment with strategic objectives, and how well the investment is meeting its specific performance goals. The PIRWG makes recommendations to the IRB on the composition of the Department's IT investment portfolio and related funding levels.

The IRB is responsible for approval of the IT investment portfolio including the funding level of each individual IT investment. The IRB reviews each IT investment from a high level perspective, ensuring that the requested funding level aligns with the Department's overall budget for the year. OPEPD's Budget Service is responsible for using the funding levels in the approved IT investment portfolio in preparing the Department's budget.

The Department provides annual credit lines and monthly expenditure reports for POs to use in managing their costs under the EDUCATE contract. OCIO develops a credit line for each PO once the EDUCATE budget is approved. The credit line is a breakdown of EDUCATE costs allocated to each PO, based on usage from the previous year and the number of FTE in the PO. The credit lines include usage-based charges, fixed price charges, and charges for special Department-wide projects. POs are required to fund any of their EDUCATE related costs that exceed their established credit lines. OCIO also provides monthly expenditure reports to each PO.⁵ These reports show the actual charges incurred by each PO, based on monthly chargeback reports, and enable them to monitor usage-based EDUCATE costs incurred each month.

⁵ During the first 3 years of the EDUCATE contract, the Department provided the expenditure reports on a quarterly basis. In OY 3, the Department began providing the reports on a monthly basis.

AUDIT RESULTS

Overall our audit found that improvements are needed in the Department's controls relating to cost management of the EDUCATE contract. We determined that the Department did not establish a complete and accurate baseline of costs related to operations being transitioned from the GOCO IT environment to the COCO environment, did not adequately document its calculations of anticipated cost savings over the life of the contract, and did not implement an oversight structure that emphasized cost control. We also found that the Department's actual costs for several EDUCATE CLINs varied significantly from projected costs during the first 3 years of the EDUCATE contract. As a result, the Department's ability to assess EDUCATE cost savings and efficiencies is hindered and its ability to meet projected savings may be limited. Further, the Department may not always identify opportunities to reduce costs, hold individuals accountable for cost performance in relation to initial expectations, and seek to assess and address cost performance variances where applicable.

FINDING NO.1 – The Department's Cost Management Controls Over the EDUCATE Contract Need Improvement

Improvements are needed in the Department's controls relating to cost management of the EDUCATE contract. We determined that the Department did not:

- Establish a complete and accurate baseline of costs related to operations being transitioned from the GOCO IT environment to the COCO environment;
- Adequately document its calculations of anticipated cost savings over the life of the contract; and
- Implement an oversight structure that emphasized cost control.

As a result, the Department's ability to assess EDUCATE cost savings and efficiencies is hindered. Further, the Department may not always identify opportunities to reduce costs, hold individuals accountable for cost performance in relation to initial expectations, and seek to assess and address cost performance variances where applicable. As of June 22, 2011, the Department had incurred approximately \$151 million in expenses for the EDUCATE contract through the end of OY 2, compared to the approximately \$136 million projected for the same period at the onset of the contract.

Ability to Assess EDUCATE Cost Savings and Efficiencies is Hindered

Weaknesses in the Department's processes implemented during the transition to the COCO environment have impacted its ability to effectively assess the EDUCATE contract's cost effectiveness. Specifically, the Department did not establish a complete and accurate cost baseline of the operations being transitioned from the GOCO IT environment to the COCO environment prior to the EDUCATE contract award for comparison purposes. In addition, the

Department did not adequately document its calculations of projected cost savings over the life of the contract as noted in contract documentation.

A stated objective of the EDUCATE contract was to achieve a significant annual return on investment and reduce the Department's overall IT costs. The Department made assertions during the award process that the EDUCATE contract would provide cost savings to the Department as a result of a reduction in costs as compared to the prior IT environment and through recognized efficiencies and optimized operations over time by the EDUCATE contractor. In its related business case for budget year (BY) 2010⁶, the Department estimated the EDUCATE contract would save approximately \$20 million to \$25 million between fiscal years (FY) 2008 and 2010, but did not clearly identify the basis for the savings.⁷

Under the Department's GOCO IT environment costs were incurred under multiple contracts and by various individual POs for services such as equipment, network services, and consumable items. During this audit, we requested documentation from numerous Department officials that would show the actual costs related to the prior IT environment. This included officials from OCIO, Contracts and Acquisition Management (CAM), and four selected POs. None of these officials were able to provide documentation of costs under the Department's prior GOCO IT environment that could be compared to EDUCATE's actual documented costs.

In addition, according to the EDUCATE contract, annual EDUCATE costs were expected to decrease each year after the first OY as the EDUCATE contractor recognized efficiencies and optimized their operations. As part of this review, we conducted discussions with appropriate OCIO officials and requested information supporting the anticipated cost savings stated in the BY 2010 business case (Exhibit 300). These officials could not fully explain how the anticipated savings were calculated because they were not in their current positions at the time the business case was prepared and were not part of the contract acquisition process. They were also unable to provide support related to the anticipated savings. However, they believed the savings were justified through an Independent Government Cost Estimate (IGCE) prepared by Department staff.

As part of the acquisition process, the Department prepared an IGCE for the EDUCATE contract that was intended to provide an estimate of the costs to perform the work identified in the Performance Work Statement (PWS), and would provide a basis against which the Department could compare bids from interested contractors. However, during our review of the IGCE, we noted weaknesses in its overall compilation and found it presented only an estimated one-time annual cost and had no comparative value to determine anticipated savings over time. We found that the IGCE was flawed due to several factors including conflicting estimates and incomplete costs. As examples:

- An independent contractor hired by the Department to validate the IGCE's cost justifications calculated costs that were approximately 28 percent less than the IGCE;

⁶ Submitted to the Office of Management and Budget (OMB) on September 8, 2008.

⁷ The EDUCATE business case for BY 2010 is able to reflect expected savings for FY 2008-2010 because according to Department officials, EDUCATE business cases are developed 2 years in advance of the budget year.

- There were differences in the number of estimated user profiles between the IGCE and the EDUCATE cost proposal; and
- Printer services that were not included in the IGCE were included in the EDUCATE cost proposal.

Overall, the Department could not adequately justify anticipated cost savings over the life of the EDUCATE contract or in comparison to the prior IT environment in response to related requests.

The Government Accountability Office (GAO), “Standards for Internal Control in the Federal Government,” dated November 1999, states that internal control is an integral component of an organization’s management that provides reasonable assurance that objectives are being achieved, to include effectiveness and efficiency of operations. It further states that transactions and other significant events need to be clearly documented, and the documentation should be properly managed and maintained and readily available for examination. In addition, information should be recorded and communicated to management and others who need it to enable them to carry out their internal control and other responsibilities.

The U.S. Department of Education, Departmental Directive, Office of the Chief Financial Officer (OCFO): 1-101, “Federal Managers’ Financial Integrity Act Management/Reporting on Internal Controls,” Section III, Policy, dated March 31, 2008, states

It is the policy of ED [Department of Education] to safeguard the resources entrusted to it against fraud, waste, mismanagement, and misappropriation. To that end, the Secretary and the Principal Officers are responsible for establishing and maintaining internal control to achieve the following objectives to ensure: effective and efficient operations . . .

Individual program and administrative managers must take systematic and proactive measures to: (1) develop and implement appropriate, cost-effective internal control for results-oriented management. . . .

OMB Circular A-11, Part 7, Section 300.8 “Planning, Budgeting, Acquisition, and Management of Capital Assets,” dated June 2008, states

All information necessary to complete an exhibit 300 should already exist as part of the agency’s overall Information Resources Management activities and within project specific documentation. The materials used to produce the exhibit 300 should be readily available to OMB upon request . . .

There was no specific policy or procedure in place during the EDUCATE acquisition to ensure the Department conducted an analysis of the actual IT costs incurred Department-wide as part of its transition to the COCO environment. We also found that Department management did not emphasize the need for the determination of accurate and complete costs under the GOCO environment in planning for the acquisition of the EDUCATE contract. According to a current OCFO official, the previous senior management in OCIO rushed to have the EDUCATE contract

awarded, which contributed to a lack of formal analysis of the Department's IT needs, historical IT costs, and initial preparation and reliance on an IGCE with recognized weaknesses.

Some Department officials believed the costs associated with the EDUCATE contract and the prior IT contract cannot be directly compared because of the way in which IT expenses were accounted for under the previous IT environment. Specifically, the Department's previous IT contract only accounted for services. POs purchased their own IT equipment, including computers and printers, and these assets were serviced through the IT contract. According to Department officials, the PO costs were not always identified as IT expenses because they did not always clearly account for the IT related expenses. For example, POs would use varying object classes to record the purchase of IT assets. As a result, EDUCATE costs could not be readily compared to the costs under the previous IT contract.

The Department also did not have formal policies and procedures that required retention of documentation that supported computations of anticipated cost savings at the time the estimates were prepared, and Department officials did not follow related OMB guidance. We noted the Department issued a policy titled "Business Case Guidance" in November 2009, in response to a Department Office of Inspector General (OIG) audit report titled, "Reliability of Cost and Benefit Information in the U.S. Department of Education's Information Technology Investment Exhibit 300s," dated July 30, 2009. This policy was designed to provide guidance for investment owners in preparing an IT investment business case and was most recently updated in August 2010. In its response to OCIO's comments to the noted report, the OIG stated that OCIO needed to address the maintenance of accurate, reliable, and complete cost and benefit data to support estimated costs and benefits presented in Exhibit 300s, and include requirements to promote adherence to the guidance. However, we noted that the August 2010 guidance did not address the retention of supporting documentation.

The Department cannot ensure that it is effectively and efficiently meeting the cost saving objective of the contract. The lack of supporting documentation has in turn caused confusion and varying perceptions within the Department as to whether the EDUCATE contract is more cost effective than the prior IT environment. Department officials expressed differing opinions regarding the cost effectiveness of EDUCATE when compared to the prior IT environment. For example, a senior OCIO official stated that the Department is spending less under the EDUCATE contract when compared to the prior IT environment. However, officials from each of four selected POs believed that EDUCATE was not reducing IT costs in relation to the prior IT environment.

An OCFO official stated that he believed that there is a perception at the PO level that IT costs under the EDUCATE contract are greater than the prior IT environment because POs are accountable for a greater share of IT costs. He stated as an example that under the prior IT environment POs purchased equipment and OCIO assumed associated costs such as time and materials for maintaining the equipment. Under EDUCATE, the POs who receive the benefit of the purchased equipment are also responsible for the costs of maintaining the equipment.

Lack of supporting documentation has also significantly impacted the ability of key staff to answer related questions about the contract. This has been amplified by the fact that at least five

key Department EDUCATE personnel have left their positions since August 2009: the Contracting Officer (CO), Contracting Officer's Representative (COR), Assistant Contracting Officer's Representative (ACOR), Program Manager (PM), and Program Management Office (PMO) Manager. In addition, the Chief Information Officer (CIO) and Deputy CIO that were instrumental in acquisition planning have also both left the Department. During a meeting with an OCIO official, a contractor assisted in answering most of our questions because the Department official was unable to do so.

Oversight Structure Did Not Emphasize Controlling EDUCATE Costs

While various groups within the Department executed responsibilities relating to cost management, this process did not effectively ensure that the Department controlled EDUCATE costs to realize the contract's objectives of cost efficiency and savings. The Department's processes do not routinely compare actual or budgeted contract costs to those costs that were originally projected when the contract was awarded.

We examined related control activities in place at multiple levels within the Department. This included: 1) OCIO as the organization generally responsible for the overall execution of the contract; 2) four selected POs as examples of first level oversight for Department users; and 3) the IRB and PIRWG— groups that function as higher level oversight bodies. We noted that in general, OCIO is responsible for managing fixed costs, modifications, and task orders; POs are responsible for the costs incurred for their own usage-based charges; and the IRB and the PIRWG generally review costs from a budgetary perspective.

OCIO Activity

Per Department guidance, the PM within OCIO has the overall responsibility for ensuring that contractor results align with program goals. According to a former OCIO official, the Department conducted manual, ad hoc comparisons of actual EDUCATE costs to the budgeted costs during the first 3 years of the EDUCATE contract. Starting in OY 3, the Department began systematically tracking actual costs of the total EDUCATE contract to the EDUCATE budget as a result of the development of an invoice tool. The invoice tool integrates budget and invoice data and allows the Department to forecast expenditures, identify anomalies, and create annual reports which compare the EDUCATE budget to actual EDUCATE expenditures. We found that this process does not include analyses that compare actual contract costs to those originally projected at the time of award and that there was no specific focus on ensuring the contract's overall cost saving objectives were achieved.

We noted that OCIO has attempted to identify individual areas for potential EDUCATE cost savings. Based on discussions with OCIO officials these efforts included the areas of storage capacity, circuit sizes, and consumables usage. Department officials further indicated they are working on developing policies for storage management and recommending that Department employees employ cost saving printer practices, such as duplex printing.⁸ The Department also underwent a telecom optimization, during which the contractor readjusted circuit sizes based on

⁸ Duplex printing is a feature that allows the automatic printing of a sheet of paper on both sides.

the Department's actual needs. However, the savings from these specific activities are not being tracked by OCIO.

According to "Contractor Performance Information" reports for the first 3 years of the EDUCATE contract, the Department gave the EDUCATE contractor a "fair" rating in its efforts to control EDUCATE contract costs. The reports all noted that there were minor cost increases. Additional problems noted in the annual reports included:

- Contrary to contract deliverables, cost efficiencies have yet to be identified by the EDUCATE contractor.
- The EDUCATE contractor provided cost proposals for additional tasks that were often exponentially higher than the independent government cost estimates, resulting in proposals that were not awarded, and thus delaying Department projects and other needed services.
- The EDUCATE contractor failed to proactively analyze technical solutions in order to drive cost savings.

Department officials noted that although the ratings received by the contractor were "fair" in most areas, the Department has exercised OYs due to expectations that the EDUCATE contractor would improve its performance and because the decision to exercise an OY is not based only on the contractor's cost performance. However, there does not appear to be any related incentive or disincentive for the contractor to improve its cost performance.

PO Level Activity

We found there was limited focus on or incentive to reduce EDUCATE contract costs at the PO level. Officials from four selected POs stated that they are only able to directly control their own usage-based charges, including the number and types of hardware and software profiles assigned to users, the number of blackberries issued to users, the number of personal desktop printers assigned to users, and the number of teleconference lines installed. Despite having some control over usage-based costs, three of the four POs (75 percent) stated that their primary concern was ensuring that users receive the IT services required to meet their needs, while the costs of those IT services were secondary.

According to the POs, there is no incentive to keep costs below their established credit lines. The credit line is a breakdown of EDUCATE costs allocated to each PO based on usage from the previous year and the number of FTE in the PO. The former PMO Manager also noted that there is no incentive for POs to save money under the EDUCATE contract if they have extra money in their credit line with which to purchase additional assets. While POs with their own appropriations⁹ are credited any excess funds in their credit line at the end of the year for spending on other needs, POs that do not have their own appropriations do not receive a similar incentive.

⁹ Includes the Office of Inspector General, Federal Student Aid, Office of Civil Rights, and National Assessment Governing Board.

IRB/PIRWG Activity

The IRB and PIRWG generally review the costs of EDUCATE from a budgetary rather than a cost savings perspective. The PIRWG reviews the annual business case submissions as part of the Department's budget review process. The business cases include a section for the comparison of planned and actual costs. However, under existing guidance, the Department reports the current budget projection as planned costs. As such no data is presented relating the actual cost performance to the projected cost performance at the time of contract award for the applicable contract year. According to selected members of the PIRWG, the PIRWG requests justification for increased costs from the PM when OCIO submits an EDUCATE budget request that exceeds the request of the previous year. However this also has no correlation to the originally anticipated contract costs for each contract year.

The IRB reviews the costs of the EDUCATE contract from a higher level budget perspective, reviewing the investment's funding from the prior year, the current year, and estimated funding needs for the next year. The IRB then determines whether or not the Department's requested EDUCATE budget aligns with the Department's overall budget for the year. According to meeting notes, members of both the PIRWG and IRB expressed concern that the annual EDUCATE budget requests have not been decreasing from year-to-year as was originally anticipated. In response, the PIRWG began meeting regularly with OCIO officials in order to more timely monitor the EDUCATE investment. No other action was taken by the PIRWG or the IRB as a result of the EDUCATE investment not meeting its intended cost efficiency objectives.

Overall, the Department's collective cost management activities do not incorporate adequate processes to ensure the control of EDUCATE contract costs to realize the contract's objectives of cost efficiency and savings.

The Department's "Contract Monitoring for Program Officials," OCFO: 02-108, Section VI, Responsibilities, dated August 6, 2009, states that a program manager monitors all contracts within the program to ensure that contractor results align with program goals. The GAO, "Standards for Internal Control in the Federal Government," adds that managers need to compare actual performance to planned or expected results throughout the organization and analyze significant differences.

The Department did not emphasize roles and responsibilities for monitoring the contract's performance with respect to its cost saving objective. Discussions with various levels of Department officials provided conflicting responses regarding who was ultimately responsible for overseeing EDUCATE contract costs from an overall cost savings standpoint. For example, a former OCIO official emphasized that the responsibility lies mainly with the PIRWG, while selected PIRWG members stated that since the PIRWG is a working group and does not have decision-making authority, responsibility for cost saving oversight lies with the IRB. Without properly emphasized and understood roles and responsibilities, there was a general lack of accountability and focus regarding the overall goal of reducing the Department's IT costs.

As a result of the identified weaknesses, the Department may not be achieving the cost reductions that were originally intended through the awarding of the EDUCATE contract. As of June 22, 2011, the Department had incurred approximately \$151 million in expenses for the EDUCATE contract through the end of OY 2, compared to the approximately \$136 million projected for the same period at the onset of the contract.

During our review, we found that the Department awarded a contract on September 26, 2011, to analyze the value and cost of the EDUCATE contract. While this acquisition is outside the scope of this audit, we reviewed the related EDUCATE Analysis PWS, dated July 28, 2011. The purpose of the contract is to complete the following:

- Assess the services provided, services required and costs associated with those services, and compare the costs and services to other available options;
- Analyze the existing EDUCATE contract and related documentation and assess the scope, appropriateness, quality, and value of the services and technical solutions being provided; and
- Assess the appropriateness of related costs, including identifying areas for potential cost savings.

If the contract is executed as planned, the related analysis may provide the Department with information that could be useful in determining whether the EDUCATE contract is achieving the cost savings and efficiencies originally anticipated.

Recommendations

We recommend that the CIO and Chief Financial Officer (CFO)

- 1.1 Develop and implement appropriate controls to ensure that acquisition planning provides for the preparation and documentation of complete and adequate data by which to effectively evaluate the future performance of contracts in relation to stated goals.
- 1.2 Update policies to ensure documentation supporting business case information is maintained as required by OMB.
- 1.3 Retain documentation for all IT costs incurred under the EDUCATE environment to ensure that comparisons can be made regarding cost savings with any future IT service contracts that may be awarded.
- 1.4 Formally define and emphasize roles and responsibilities for monitoring the contract's performance with respect to the cost saving objective of the contract.
- 1.5 Develop and implement policies and procedures to ensure that necessary information is transferred to succeeding employees charged with managing EDUCATE contract costs.

- 1.6 Ensure that the EDUCATE Analysis contract's planned objectives are effectively carried out, and results are appropriately considered and applied to the management and oversight of the EDUCATE contract.

Department Comments

OCIO/OCFO concurred with each of our recommendations and provided a number of corrective actions to be implemented between May and July 2012. OCIO stated that it will prepare Standard Operating Procedures to ensure that IGCEs and PWSs are used as comparative measures to assess contract performance, ensure that controls are in place regarding retention of IT cost data for assessing anticipated savings, and specify storage and retention requirements for project management-related documentation. OCIO further noted that it will modify the CLIN Owner Responsibilities Manual to define cost savings and monitoring standards, establish policies and procedures to ensure that the EDUCATE cost management responsibilities of CLIN Owners and Subject Matter Experts are documented and maintained, and provide training to ensure that CLIN Owners and Subject Matter Experts understand these new standards. Lastly, OCIO stated that it will ensure that the objectives of the EDUCATE Analysis contract are effectively carried out, and that the results are appropriately considered and applied in the policies and procedures developed for CLIN Owner management of IT services costs.

FINDING NO. 2 – The Department's Actual Costs for Multiple EDUCATE Contract Line Items Varied Significantly from Projected Costs

While the costs of several EDUCATE CLINs have been less than or equal to projected costs, the Department's actual costs for four EDUCATE CLINs (50 percent) varied significantly from projections during the first 3 years of the EDUCATE contract. We determined that four of the eight CLINs (50 percent) experienced variances within at least 1 contract year where actual costs exceeded projected costs by \$1 million or more.¹⁰ These CLINs included: 1) Desktop Services; 2) Systems/Data Center; 3) Network, Telecommunications, and Multimedia; and 4) Printer Services. Overall, cost variances have resulted in approximately \$15 million in additional costs under the EDUCATE contract when compared to projected costs.

CLIN 1 – Desktop Services

The actual cost for Desktop Services exceeded projected costs over the first 3 years of the EDUCATE contract by approximately \$9.5 million (31 percent). As evidenced in Table 2.1, during the base year of the EDUCATE contract actual costs exceeded projected costs by approximately \$5.5 million (54 percent). Actual costs successively decreased for OYs 1 and 2; however they continued to exceed the projected contract costs.

¹⁰ See Enclosure 1 for a summary of EDUCATE contract costs for all eight CLINs for each of the first 3 years of the EDUCATE contract.

Table 2.1 – Desktop Services (CLIN 1) – Summary of Costs

Contract Year	Projected Costs	Actual Costs	Actual to Projected Costs	Variance
Base Year (FY07-FY08)	\$10,335,077.53	\$15,867,467.60	\$5,532,390.07	54%
OY 1 (FY09)	\$10,400,547.64	\$12,761,235.56	\$2,360,687.92	23%
OY 2 (FY10)	\$10,269,193.75	\$11,901,754.78	\$1,632,561.03	16%
Total	\$31,004,818.92	\$40,530,457.94	\$9,525,639.02	31%

The Department’s projections and established baseline were not an accurate representation of the Department’s actual usage. The Department agreed upon a baseline of 5,300 hardware and software profiles at the onset of the contract. The Department then used the agreed upon baselines to project costs for Desktop Services, which included usage-based charges for hardware and software profiles. From December 2007 through July 2008, the Department and the EDUCATE contractor used the aforementioned baselines to bill for hardware and software profiles regardless of the number actually in use.

In August 2008, the EDUCATE contractor procured new computers and software to replace the Department’s old equipment and began billing the Department based upon actual usage. At this point in time, the number of hardware profiles for which the Department was billed increased from 5,300 to 7,896, an increase of 49 percent, while software profiles increased from 5,300 to 12,367, an increase of 133 percent. As of November 2010, the Department was billed for 6,362 hardware profiles, an increase of 20 percent over baseline, and 7,419 software profiles, an increase of 40 percent over baseline.

As evidenced above it appears that the baseline of 5,300 profiles did not accurately reflect the Department’s needs. According to Department officials, the baseline was established based upon the Global Address List at the time of award. However, this number did not take into consideration users with multiple profiles or laptop pools, and appeared to significantly underestimate the Department’s actual usage. According to the former CLIN 1 owner,¹¹ the Department never completed a full assessment of staffing to determine equipment needs and also did not complete a comprehensive review of equipment to make a determination of what profiles were actually necessary. Specifically, the former CLIN 1 owner stated that the baseline for the number of hardware and software profiles that the Department agreed upon was not reflective of the Department’s actual needs and was therefore erroneously established. According to the former CLIN 1 owner, the prior IT environment contained 7,700 assets. The Department never consulted the former CLIN 1 owner during the acquisition of the EDUCATE contract.¹²

¹¹ CLIN owners are responsible for evaluating the EDUCATE contractor’s performance related to the distinct services and deliverables associated with their respective CLIN.

¹² The former CLIN 1 owner held the position from the base year of the EDUCATE contract through OY 2. During acquisition planning for the EDUCATE contract, the former CLIN 1 owner was an application developer within OCIO. His knowledge regarding the Department’s needs is based upon this role.

CLIN 3 - Systems/Data Center

The actual cost of services provided under CLIN 3, Systems/Data Center exceeded projected costs over the first 3 years of the EDUCATE contract by approximately \$8.4 million (43 percent). As evidenced in Table 2.2 below, during the base year of the EDUCATE contract actual costs exceeded projected costs by approximately \$1.6 million (27 percent). Actual annual costs successively increased for OYs 1 and 2.

Table 2.2 – Systems/Data Center (CLIN 3) – Summary of Costs

Contract Year	Projected Costs	Actual Costs	Actual to Projected Costs	Variance
Base Year (FY07-FY08)	\$6,023,003.94	\$7,663,356.97	\$1,640,353.03	27%
OY 1 (FY09)	\$6,728,739.98	\$9,253,101.70	\$2,524,361.72	38%
OY 2 (FY10)	\$6,716,820.99	\$10,954,894.64	\$4,238,073.65	63%
Total	\$19,468,564.91	\$27,871,353.31	\$8,402,788.40	43%

Additional server usage above the established baseline as well as services added to the contract through modifications and task orders contributed to increased costs within this CLIN.

With respect to server usage, in May 2010 (OY 2), the Department began receiving reports from the EDUCATE contractor summarizing actual usage. At that point in time, the Department began to be billed by the contractor according to the server usage less a baseline established at contract award. Subsequently during OY 2, the Department was billed approximately \$730,000 for server usage over the baseline.

There were a total of 18 unique contract modifications or task orders that impacted CLIN 3 through OY 2. Collectively these contracting actions added approximately \$8.6 million to the total EDUCATE contract costs. As part of our review we identified the two largest dollar contract modifications to CLIN 3, and we examined the purpose of those actions. Together these modifications accounted for approximately \$6.6 million (77 percent) of the total modifications to CLIN 3. We found these modifications were due to unexpected changes in the Department’s IT environment and an inaccurate server count during the acquisition process.

- Starting in the base year, as part of the mandated transition to the Direct Loan Program (unknown at the time of award), the Department added Direct Loan capacity through Modification 0011, dated June 27, 2008. Modification 0011 resulted in approximately \$1.9 million in additional charges applied to CLIN 3 to the base year of the EDUCATE contract, and approximately \$1.1 million per year to OY 1 and OY 2. The Direct Loan Capacity Modification was needed to expand capacity by approximately 20 percent in

order to handle an additional 2,000 transactions per day as a result of incremental Direct Loan type expenditures.

- In OY 1, the Department added support for 14 preexisting Unix-servers through Modification 0036, dated January 1, 2009, that were not identified in the EDUCATE contractor’s business proposal. Modification 0036 resulted in approximately \$1.1 million in additional charges applied to CLIN 3 in OY 1 and approximately \$1.3 million in additional charges in OY 2.

CLIN 5 - Network, Telecommunications, and Multimedia

The actual cost for Network, Telecommunications, and Multimedia exceeded projected costs by approximately \$1.3 million (8 percent) during the third year of the EDUCATE contract. As evidenced in Table 2.3, actual costs for CLIN 5 were near or below projected costs for the first 2 years of the EDUCATE contract. Specifically, during the base year the Department did not incur CLIN 5 costs of approximately \$4.9 million (-28 percent). However, since the base year, the costs of CLIN 5 successively increased.

Table 2.3 – Network, Telecommunications, and Multimedia (CLIN 5) – Summary of Costs

Contract Year	Projected Costs	Actual Costs	Actual to Projected Costs	Variance
Base Year (FY07-FY08)	\$17,278,267.68	\$12,389,660.76	(\$4,888,606.92)	-28%
OY 1 (FY09)	\$16,340,335.12	\$16,709,419.91	\$369,084.79	2%
OY 2 (FY10)	\$16,169,528.01	\$17,484,690.30	\$1,314,168.49	8%
Total	\$49,788,127.81	\$46,582,774.17	(\$3,205,353.64)	-6%

Actual costs were significantly less than projected during the base year due to an overestimate for services that were not ultimately needed by the Department. Specifically, according to the CLIN 5 owner, during the base year of the EDUCATE contract telecommunication services were billed through a contract with the General Services Administration (GSA). The Department had included the telecommunication charges in the projected costs for the base year of the EDUCATE contract. Since the services were already being provided through a contract with GSA, the EDUCATE services were not used and these projected EDUCATE costs for the base year were not incurred. During OY 1, telecommunication services were fully transitioned from the GSA contract to the EDUCATE contract.

A combination of increased usage based costs in the areas of teleconferencing and wireless services along with multiple contract modifications that were not part of the original pricing estimate contributed to increased costs within this CLIN.

Regarding usage based costs, CLIN 5 experienced a net increase in total telecom costs of approximately \$975,000 during OY 2. This was primarily due to an increase in (1) usage-based conferencing of approximately \$706,000, and (2) wireless charges of approximately \$310,000.

According to Department officials, the increase in teleconferencing was due to the POs' inefficient use of teleconferencing services. Specifically, POs were using more expensive services or a combination of services that resulted in increased charges. With regard to wireless charges, the number of blackberries increased by 15 percent from OY 1 to OY 2, resulting in an additional cost of \$155,133. According to Department officials, the increase in blackberries was a direct result of additional FTEs and several moves from a lower-cost wireless device to higher-cost wireless device.

There were a total of four unique contract modifications or task orders that impacted CLIN 5 in OY 2. Collectively these contracting actions added approximately \$447,000 to the total EDUCATE contract costs. As part of our review we identified the two largest dollar contract modifications to CLIN 5 and we examined the purpose of these actions. Together these modifications accounted for approximately \$428,000 (96 percent) of the total modifications to CLIN 5. We found these modifications were due to unexpected changes in the Department's IT environment and an omitted requirement in the contract's PWS.

- As noted above the Department added Direct Loan capacity through Modification 0011, which resulted in approximately \$314,000 in additional charges applied to CLIN 5 in OY 2.
- Through Modification 0032, dated July 15, 2009, the Department added relay services to the EDUCATE PWS. According to the memorandum to the file, "As witnessed in the EDUCATE PWS (Subsection 6.1.2.5.3.1(d)), the Contractor must provide services/equipment that "interact" with relay services. However, there was no requirement to render the services themselves." The modification added the requirement that the EDUCATE contractor provide relay services and establish the unit prices for the services. The addition of relay services to the EDUCATE contract resulted in approximately \$115,000 in additional charges applied to CLIN 5 in OY 2.

CLIN 8 – Printer Services

The actual cost for Printer Services exceeded the projected costs by approximately \$1.7 million (116 percent) during the third year of the EDUCATE contract. As evidenced in Table 2.4, actual costs for CLIN 8 equaled projected costs during the base year of the EDUCATE contract. However, since the base year, the costs of CLIN 8 have successively increased.

Table 2.4 – Printer Services (CLIN 8) – Summary of Costs

CLIN 8 – Printer Services	Projected Costs	Actual Costs	Actual to Projected Costs	Variance
Base Year (FY07-FY08)	\$1,347,748.68	\$1,347,748.68	\$0.00	0%
OY 1 (FY09)	\$1,505,669.02	\$1,848,417.49	\$342,748.47	23%
OY 2 (FY10)	\$1,503,001.94	\$3,241,841.01	\$1,738,839.07	116%
Total	\$4,356,419.64	\$6,438,007.18	\$2,081,587.54	48%

A combination of consumable usage and usage-based charges that exceeded estimates, and multiple contract modifications that were not part of the original pricing estimate contributed to increased costs within CLIN 8. According to a Department official, this occurred because OCIO did not adequately assess the Department's printer needs at the time the contract was awarded.

Regarding consumable usage, we noted that printer services costs are made up of both fixed and usage-based charges. According to a contractor in the EDUCATE PMO, the fixed-price charges include the infrastructure of network printers, scanners, copiers, and fax machines. All other charges are usage based and include individual desktop printers and toner and other consumables, which have an established baseline of 2.5 consumables per device (e.g., printers, scanners, fax machines) per year. The Department must pay an additional charge for each consumable used above the established baseline. Based upon discussions with Department officials, it appears that the Department did not adequately assess the Department's needs and arbitrarily adopted as a baseline 2.5 consumables per device. Since the Department is using more than the projected amount of consumables, the Department is paying for increased usage. As a result of the increased consumable usage, the Department has paid approximately \$1 million over baseline during OY 2 for printer and copier toner.

Regarding additional usage-based charges, we found that the Department incurred approximately \$460,000 for additional printers that required one-time and monthly recurring printer costs. According to a Department official, these costs included printers and other related equipment purchased by POs from the EDUCATE product catalog to meet the PO's individual needs.

Regarding the contract modifications, we identified several costs in the Department's current EDUCATE contract pricing schedule that were not included in the original pricing schedule for printer services. According to memorandums in the contract files, these modifications were required in order to add copiers and printers to the EDUCATE contract. Specifically, we determined:

- Modification 0039, dated July 31, 2009, added 12 copiers to Federal Student Aid facilities. According to the pricing schedule, this modification resulted in approximately \$51,000 in additional costs for OY 2; and
- Modification 0042, dated September 15, 2009, increased the number of network copiers and printers in order to maintain the 10:1 employee/printer ratio as established by the EDUCATE contract. Modification 0063, dated August 4, 2010 removed 18 duplicate copiers and added 4 copiers that were supported through Modification 42. According to the pricing schedule, the net result of these modifications was an increase of approximately \$350,000 to CLIN 8 costs for OY 2.

The EDUCATE contract's performance work statement stated that the EDUCATE contract was expected to achieve a significant annual return on investment and a reduction in the Department's costs. The variances noted have resulted in approximately \$15 million in additional costs under the EDUCATE contract when compared to projected costs. Flaws in the Department's needs assessments may have limited the Department's ability to meet projected savings.

Recommendation

We recommend that the CIO and CFO

2.1 Ensure needs assessments are adequately performed prior to award of future IT contracts.

Department Comments

OCIO/OCFO concurred with the recommendation. OCIO stated that it will ensure that needs assessments are adequately performed and included in the Business Cases for both Major and Non-Major IT investments beginning October 1, 2012.

OBJECTIVES, SCOPE, AND METHODOLOGY

The objectives of our audit were to (1) evaluate the Department’s controls over cost management of the EDUCATE contract, and (2) identify areas with material differences between actual and projected costs and determine the reasons for such overages. To accomplish our objectives, we obtained an understanding of internal control applicable to the Department’s management of EDUCATE contract costs. This included reviews of applicable laws and regulations, Department policies and procedures, Departmental directives, relevant EDUCATE contract documentation, budget and financial data related to the EDUCATE contract, and GAO “Standards for Internal Control in the Federal Government.” Specific information on the scope and methodology applicable to each of the key areas reviewed during our audit are presented below.

Controls Over Cost Management

We identified and reviewed the controls the Department has in place to manage EDUCATE contract costs. The scope of our review included an assessment of these controls to determine whether the processes are adequate in managing EDUCATE contract costs. Specifically, to perform our review we:

1. Held discussions with OCIO officials including the CIO, the EDUCATE PM, COR, the EDUCATE PMO Manager, and individuals from the EDUCATE PMO, regarding the Department’s processes for managing EDUCATE contract costs, and the roles and responsibilities of program officials in managing EDUCATE contract costs.
2. Conducted discussions with CAM officials, specifically the COs assigned to the contract, regarding their involvement in the management of EDUCATE contract costs.
3. Reviewed Exhibit 300s from BY 2008 through 2012 to determine the information available to the Department to manage EDUCATE contract costs.
4. Met with applicable staff from Budget Service, four members of the PIRWG, including the Chair of the PIRWG, and two individuals involved with the IRB, to discuss the budget and approval process for the EDUCATE contract.
5. Interviewed the owners of selected CLINs regarding their duties related to the management of their assigned CLIN and related costs.
6. Conducted discussions with applicable individuals from 4 out of 24 POs (17 percent) regarding their roles and responsibilities in the management of EDUCATE costs and the adequacy of information available to effectively manage costs. We judgmentally selected the POs with the highest percentage of annual EDUCATE costs and/or largest variances noted between their annual expenditures and their annual credit line.

Material Differences between Actual and Projected Costs

To identify the areas with material differences between actual and projected costs, we obtained the contract costs by FY and CLIN as projected in the EDUCATE pricing schedule as well as the actual EDUCATE contract payments from the Department's Financial Management Support System (FMSS). We determined the cost variances between actual costs and projected costs by CLIN for each of the first 3 years of the contract. We judgmentally selected four of the eight CLINs (50 percent) to review based on the significance of the difference between the actual and projected costs. Specifically, we limited our review to those CLINs where the total actual costs exceeded the projected costs by \$1 million or more in any of the first 3 years of the contract.

We interviewed the CLIN owners of the selected CLINs regarding the variances between actual and projected costs, including the reasons for the variances. We also interviewed OCIO and CAM officials to discuss noted variances, as well as representatives from affected POs.

We reviewed documentation provided by OCIO and CAM officials, including the EDUCATE pricing schedule and contract documentation for select modifications, to identify charges for equipment and services that were not originally included in the projected costs. We also obtained and analyzed usage and cost information from the EDUCATE invoices and chargeback reports to identify actual costs that were not included as part of the projected costs. We reviewed the chargeback reports to verify the Department's use of equipment and services over the 3 year period included in our review.

Because there is no assurance that the judgmental samples used in this audit are representative of their respective universe, the results should not be projected over the unsampled POs and CLINs.

Use of computer-processed data for the audit was generally limited to Department developed reports that supported EDUCATE costs. This included data extracted from the Department's FMSS of actual costs for the first 3 years of the EDUCATE contract. We did not specifically assess the accuracy of the computer-processed data as FMSS is an official system of record for the Department's financial data and is widely used and relied on by Department officials. As a result, we considered it to be the best available data for the purpose of our audit. We did independently generate EDUCATE cost reports from FMSS to assess the completeness of the data provided by the Department. Based on the above, we determined that the computer-processed data were sufficiently accurate and complete for the purposes of this audit.

We conducted fieldwork at Department offices in Washington, D.C. from April 2011 through November 2011. We provided our audit results to Department officials during an exit conference conducted on November 22, 2011. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on the audit objectives.

Summary Tables of EDUCATE Costs

Base Year – FY 2008

CLIN	Projected Costs	Actual Costs	Cost Variance	Percentage Variance
001 - Desktop Services	\$10,335,077.53	\$15,867,467.60	\$5,532,390.07	53.5%
002 - Helpdesk Support	\$2,535,689.08	\$2,264,123.87	-\$271,565.21	-10.7%
003 - Systems/Data Center	\$6,023,003.94	\$7,663,356.97	\$1,640,353.03	27.2%
004 - Email	\$3,006,052.08	\$2,904,540.67	-\$101,511.41	-3.4%
005 - Networks, Telecommunications, and Multimedia	\$17,278,267.68	\$12,389,660.76	\$4,888,606.92	-28.3%
006 - Disaster Recovery Center	\$2,194,231.80	\$2,046,707.78	-\$147,524.02	-6.7%
007 - Special Services	\$2,176,116.89	\$1,983,780.22	-\$192,336.67	-8.8%
008- Printers	\$1,347,748.68	\$1,347,748.68	\$0.00	0.0%
	\$44,896,187.67	\$46,467,386.55	\$1,571,198.88	

Option Year 1 – FY 2009

CLIN	Projected Costs	Actual Costs	Cost Variance	Percentage Variance
001 - Desktop Services	\$10,400,547.64	\$12,761,235.56	\$2,360,687.92	22.7%
002 - Helpdesk Support	\$2,691,456.99	\$2,312,735.41	-\$378,721.58	-14.1%
003 - Systems/Data Center	\$6,728,739.98	\$9,253,101.70	\$2,524,361.72	37.5%
004 - Email	\$3,229,932.23	\$3,306,491.18	\$76,558.95	2.4%
005 - Networks, Telecommunications, and Multimedia	\$16,340,335.12	\$16,709,419.91	\$369,084.79	2.3%
006 - Disaster Recovery Center	\$2,451,337.47	\$2,281,411.00	-\$169,926.47	-6.9%
007 - Special Services	\$2,431,099.98	\$1,956,077.82	-\$475,022.16	-19.5%
008- Printers	\$1,505,669.02	\$1,848,417.49	\$342,748.47	22.8%
	\$45,779,118.43	\$50,428,890.07	\$4,649,771.64	

Option Year 2 – FY 2010

CLIN	Projected Costs	Actual Costs	Cost Variance	Percentage Variance
001 - Desktop Services	\$10,269,193.75	\$11,901,754.78	\$1,632,561.03	15.9%
002 - Helpdesk Support	\$2,672,754.83	\$2,223,911.94	-\$448,842.89	-16.8%
003 - Systems/Data Center	\$6,716,820.99	\$10,954,894.64	\$4,238,073.65	63.1%
004 - Email	\$3,211,557.65	\$3,628,276.19	\$416,718.54	13.0%
005 - Networks, Telecommunications, and Multimedia	\$16,169,525.01	\$17,483,693.50	\$1,314,168.49	8.1%
006 - Disaster Recovery Center	\$2,446,995.28	\$2,324,015.78	-\$122,979.50	-5.0%
007 - Special Services	\$2,426,793.64	\$1,979,181.11	-\$447,612.53	-18.4%
008- Printers	\$1,503,001.94	\$3,241,841.01	\$1,738,839.07	115.7%
	\$45,416,643.08	\$53,737,568.95	\$8,320,925.87	

Acronyms/Abbreviations/Short Forms Used in this Report

ACOR	Assistant Contracting Officer's Representative
ALO	Audit Liaison Officer
BY	Budget Year
CAM	Contracts and Acquisitions Management
CAP	Corrective Action Plan
CFO	Chief Financial Officer
CIO	Chief Information Officer
CLIN	Contract Line Item Number
CO	Contracting Officer
COCO	Contractor-Owned Contractor-Operated
COR	Contracting Officer's Representative
Department	U.S. Department of Education
ED	U.S. Department of Education
EDUCATE	Education Department Utility for Communications, Applications, and Technology Environment
FMSS	Financial Management Support System
FTE	Full-Time Equivalent
FY	Fiscal Year
GAO	Government Accountability Office
GOCO	Government-Owned Contractor-Operated
IGCE	Independent Government Cost Estimate
IRB	Investment Review Board

IT	Information Technology
OCFO	Office of the Chief Financial Officer
OCIO	Office of the Chief Information Officer
OIG	Office of Inspector General
OMB	Office of Management Budget
OPEPD	Office of Planning, Evaluation, and Policy Development
OY	Option Year
PIRWG	Planning and Investment Review Working Group
PM	Project Manager
PMO	Project Management Office
PO	Principal Office
PWS	Performance Work Statement

Department Response to Draft Report



UNITED STATES DEPARTMENT OF EDUCATION

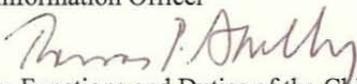
WASHINGTON, D.C. 20202-_____

MEMORANDUM

DATE: MAR 15 2012

TO: Ms. Michele Weaver-Dugan, Director
Operations Internal Audit Team
Office of Inspector General

FROM: Danny A. Harris, Ph.D. 
Chief Information Officer
Office of the Chief Information Officer

Thomas P. Skelly 
Delegated to Perform Functions and Duties of the Chief Financial Officer
Office of the Chief Financial Officer

SUBJECT: Response to Draft Audit Report, Department's Controls over EDUCATE Contract Costs (ED-OIG/A19L0003)

Thank you for providing your draft report concerning the Department's Controls over EDUCATE Contract Costs (Control Number ED-OIG/A19L0003). We sincerely appreciate the professional manner in which your staff conducted their work and find the resulting report to be insightful and useful. Though many of the issues noted in your work pertain to the absence of documentation managed under prior leadership, your recommendations appropriately note the importance of establishing necessary baseline information for audit and performance measurement purposes. The Office of the Chief Information Officer (OCIO) and the Office of the Chief Financial Officer (OCFO) will work together to address each of the Findings and Recommendations that you have provided in your report.

To fully address each of the matters that your report has brought to our attention, OCIO and OCFO propose the following corrective actions be taken:

FINDING NO. 1 – The Department's Cost Management Controls over the EDUCATE Contract Need Improvement
Recommendations

We recommend that the Chief Information Officer (CIO) and Chief Financial Officer (CFO):

- 1.1 Develop and implement appropriate controls to ensure that acquisition planning provides for the preparation and documentation of complete and adequate data by which to effectively evaluate the future performance of contracts in relation to stated goals.



OCIO and OCFO concur with this recommendation. OCIO shall implement appropriate controls utilizing respective Independent Government Cost Estimates (IGCEs) and corresponding Performance Work Statements as a baseline for effective evaluation of contract performance. OCIO shall prepare Standard Operating Procedures (SOPs) to ensure that contract IGCEs and PWSs are routinely referenced as comparative measures to assess contract performance. The SOP shall be completed and implemented no later than July 30, 2012.

- 1.2 Update policies to ensure documentation supporting business case information is maintained as required by OMB.

OCIO and OCFO concur with this recommendation. OCIO shall update the Information Technology Information Management (ITIM) Process Guide to specify storage and retention requirements for project management-related documentation. OCIO shall complete the updates to the ITIM by June 1, 2012.

- 1.3 Retain documentation for all IT costs incurred under the EDUCATE environment to ensure that comparisons can be made regarding cost savings with any future IT service contracts that may be awarded.

OCIO and OCFO concur with this recommendation. Although current controls are practiced regarding the retention of all cost data associated with the EDUCATE contract, it is in some cases challenging to use such data to assess cost savings of IT services. OCIO shall institute an SOP to ensure controls are in place regarding retention of IT cost data for assessing anticipated savings. Stated SOP shall be completed and implemented no later than June 30, 2012.

- 1.4 Formally define and emphasize roles and responsibilities for monitoring the contract's performance with respect to the cost saving objective of the contract.

OCIO and OCFO concur with this recommendation. OCIO shall modify the existing CLIN Owner Responsibilities Manual to formally define cost savings and monitoring standards. CLIN Owners shall receive training to ensure compliance with these revised standards. This effort shall be completed by June 30, 2012.

- 1.5 Develop and implement policies and procedures to ensure that necessary information is transferred to succeeding employees charged with managing EDUCATE contract costs.

OCIO and OCFO concur with this recommendation. OCIO shall establish formal Policies and Procedures to ensure that roles and responsibilities for CLIN Owners and Subject Matter Experts relating to management of EDUCATE contract costs are documented and maintained. Policies and Procedures shall represent instructions provided in the CLIN Owner Responsibilities Manual as modified, to ensure that costs of each CLIN are appropriately managed. CLIN Owners and Subject Matter Experts shall receive training to ensure their understanding of these new standards. The Policies and Procedures and corresponding instruction shall be accomplished by July 30, 2012.

- 1.6 Ensure that the EDUCATE Analysis contract's planned objectives are effectively carried out, and results are appropriately considered and applied to the management and oversight of the EDUCATE contract.

OCIO and OCFO concur with this recommendation. The report of the EDUCATE Analysis contract may provide value-added IT Services requirements and/or improved Service Level Agreements. OCIO shall ensure that the EDUCATE Analysis contract's planned objectives are effectively carried out, and that the results are appropriately considered and applied in the policies and procedures developed for CLIN Owner management of IT services costs, before May 31, 2012.

FINDING NO. 2 – The Department's Actual Costs for Multiple EDUCATE Contract Line Items Varied Significantly from Projected Costs

Recommendation

We recommend that the CIO and CFO:

- 2.1 Ensure needs assessments are adequately performed prior to award of future IT contracts.

OCIO and OCFO concur with this recommendation. OCIO shall ensure that needs assessments are adequately performed and included under Exhibit 300 A of each Business Case, as currently mandated for Major IT investments. OCIO shall expand the scope of investments subject to such requirements to include Non-Major investments. OCIO shall ensure inclusion of needs assessments in Exhibit 300 A reporting for all Major and Non-Major IT Investments beginning October 1, 2012.

OCIO and OCFO appreciate the recommendations provided by the subject Audit Report above and are aware that some historical information pertinent to the performance measurement was ineffectively managed under a previous administration. We concur with your recommendations as noted above and look forward to improved management of future EDUCATE Costs.