U.S. DEPARTMENT OF EDUCATION
OFFICE OF INSPECTOR GENERAL
75 Park Place, 12th Floor
New York, New York 10007

MAR 28 2003

Control Number
ED-OIG/A02-D0005

Mr. Wendell Knox
President and Chief Executive Officer
c/o Mr. Nicholas Piccirillo
Director of Compliance and Internal Audit
Abt Associates Inc.
55 Wheeler Street
Cambridge, MA 02138

Dear Mr. Piccirillo:

This **Final Audit Report** presents the results of our audit of a contract between Abt Associates Inc. (Abt) and the U. S. Department of Education (ED) for the *Reading Excellence Act School and Classroom Implementation and Impact Study.* The objective of our audit was to determine whether costs claimed and products and/or services provided from the period September 19, 2000, through November 20, 2002, were in accordance with the terms of the contract and applicable federal laws and/or regulations.

Background

Abt provides research based services for businesses and governments. Abt's clients include federal, state, and foreign governments, international companies, financial services, healthcare, pharmaceutical, biotechnology, telecommunications, and agribusiness industries. Abt currently has seven contracts with ED totaling approximately $23 million.

Abt's contract with ED's Office of the Undersecretary for the *Reading Excellence Act School and Classroom Implementation and Impact Study*, (contract number ED00CO0090), is for the period September 19, 2000, through September 30, 2005. The aggregate amount of the contract was initially $11.2 million. However, the contract had a major modification effective September 26, 2002, that reduced the contract amount to $2.6 million. The modification was based on ED's focus on the Reading First program and the phase out of the Reading Excellence Act. ED has paid Abt $1,475,757 through November 20, 2002 for the contract, including $25,000 for incentive fees.

Audit Results

We concluded that costs claimed, based on our sample, and products provided during the audited contract period were in accordance with the terms of the contract and applicable Federal laws and/or regulations.

Objective, Scope, and Methodology

The objective of our audit was to determine whether costs claimed and products and/or services provided for the period of September 19, 2000, through November 20, 2002, were in accordance with the terms of the contract and applicable Federal laws and/or regulations.

To accomplish our audit objective, we reviewed the population of 25 public vouchers, and randomly selected three public vouchers for testing. These three vouchers represented 10 percent of the total amount of the contract invoiced. For these three vouchers, we tested costs associated with labor, travel, consultants, subcontractors, computer networking costs, and communication charges. We also judgmentally selected three additional public vouchers for testing of subcontractor fees. This judgmental sample was based on the last three public vouchers submitted. We verified that indirect cost rates were appropriately applied to the applicable bases. In addition, we tested to ensure deliverable dates associated with the contract were met. We reviewed Abt's Finance and Accounting Policies and Procedures Manual regarding subcontract monitoring, internal audit, bidding procedures, and billing procedures. We also conducted interviews of Abt, Defense Contract Audit Agency (DCAA), the Environmental Protection Agency, and ED officials. To meet audit objective we did not use electronic data from Abt or ED.

We performed on-site fieldwork at Abt's headquarters in Cambridge, Massachusetts from January 9, 2003, through January 23, 2003. We held an exit conference on February 12, 2003. Our audit was performed in accordance with generally accepted government auditing standards appropriate to the scope of the review described above.

Statement on Management Controls

We did not assess the adequacy of Abt's management control structure. Rather, we relied on information from DCAA, our review of Abt's policies and procedures, and our testing of three public vouchers. DCAA stated that as of their most recent review, Abt's accounting system's ability to accumulate costs for government contracts and its internal control system are adequate. We reviewed Abt's Finance and Accounting Policies and Procedures Manual to gain assurance that Abt's policies and procedures were being followed. Our testing disclosed no instances of noncompliance that led us to believe a material weakness existed in Abt's controls for this contract.

Administrative Matters

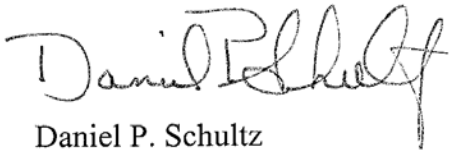
Since there are no findings that require resolution, you are not required to respond to this audit report. However, if you wish to comment on any items in this report, please contact the following person directly:

Charles Miller
Director
Financial Improvement & Post Audit Operations
U.S. Department of Education
Office of the Chief Financial Officer
400 Maryland Ave, SW, Room 4C135
Washington, D.C. 20202

In accordance with the Freedom of Information Act (5 U.S.C § 552), reports issued by the Office of Inspector General are available, if requested, to the 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 and assistance extended by your staff during the audit. If you have any questions or if you wish to discuss the contents of this report, please contact me at (212) 637-6271. Please refer to the control number in all correspondence related to the report.

Sincerely,



Daniel P. Schultz
Regional Inspector General for Audit

cc: electronic copies
Hugh Walkup, Director, Planning and Performance Management Service
C. Todd Jones, Associate Deputy Secretary, Office of the Deputy Secretary
John Danielson, Chief of Staff
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