U.S. DEPARTMENT OF EDUCATION
THE WANAMAKER BUILDING
100 PENN SQUARE EAST, SUITE 502
PHILADELPHIA, PA 19107

OFFICE OF
INSPECTOR GENERAL
Memorandum

DEC 3 2003

TO: Jack Martin
Chief Financial Officer
Office of the Chief Financial Officer

FROM: Bernard Tadley Bernard Tadley
Regional Inspector General for Audit

SUBJECT: Final Audit Report
Audit of Raytheon's Administration of the National Student Loan Data System Contract
Control Number ED-OIG/(A03-D0011)

You have been designated as the action official responsible for the resolution of the findings and recommendations in the attached final report. We have also provided a copy to the auditee and to your Audit Liaison Officer.

The Office of Inspector General is required to review and approve your proposed Program Determination Letter (PDL) and the Audit Clearance Document (ACD) before the PDL is forwarded to the auditee. Please provide these documents for review, electronically if you wish or by mail, to:

Bernard Tadley
Regional Inspector General for Audit
U.S. Department of Education
Office of Inspector General
The Wanamaker Building
100 Penn Square East, Suite 502
Philadelphia, PA 19107

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 number of audits unresolved. In addition, any report unresolved after 180 days from the date of issuance will be shown as overdue in our reports to Congress.

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.

If you have any questions, please contact me at (215) 656-6279.

Attachment

U.S. DEPARTMENT OF EDUCATION
THE WANAMAKER BUILDING
100 PENN SQUARE EAST, SUITE 502
PHILADELPHIA, PA 19107

OFFICE OF
INSPECTOR GENERAL

DEC 3 2003

ED-OIG/A03-D0011

Nishon R. Evans
Manager, Government Compliance
Raytheon Company
7700 Arlington Boulevard
Falls Church, VA 22042-2900

Dear Mr. Evans:

This Final Audit Report (Control Number ED-OIG/A03-D0011) presents the results of our audit of Raytheon Company's administration of the National Student Loan Data System (NSLDS) contract (Contract No. PM93015001). The objective of our audit was to determine if costs charged and deliverables provided by Raytheon Company (Raytheon) during the period July 1, 2000, through December 31, 2002, were in accordance with the terms of the contract and with applicable federal laws and regulations.

We provided Raytheon with point sheets for each finding. On June 26, 2003, Raytheon provided us with a written response for Finding No. 1 and an oral response for Finding No. 2. Because Raytheon provided comments on the point sheets and was in agreement with the findings, we did not request comments on a Draft Audit Report. We summarized Raytheon's responses after each finding, and provided a copy of Raytheon's written response for Finding No. 1 as an attachment to this report.

AUDIT RESULTS

Except for issues discussed in the findings, we found that Raytheon generally charged costs and provided deliverables during the audit period in accordance with the terms of the contract and with applicable federal laws and regulations. The exceptions discussed in our findings include incorrect cost estimates in Raytheon's NSLDS Business Proposals and a billing error that resulted in the contract's being charged a total of $78,905 in unsupported direct labor costs.

Finding No. 1 Raytheon's Business Proposal Preparation Procedures Need Improvement

As part of the process for obtaining NSLDS contract funding, Raytheon submits Business Proposals to the U.S. Department of Education (Department). Our review of Raytheon's NSLDS Business Proposals dated June 22, 2000, and December 12, 2001, for the periods July 1, 2000, through December 31, 2001, and January 1, 2002, through September 30,

2003, respectively, revealed several erroneous cost estimates. Specifically, we found that Raytheon billed the Department $73,889 in unsupported costs, over-proposed direct labor costs, and under-proposed direct labor costs. Although we did not determine a specific cause for these errors, it appears that Raytheon did not have adequate procedures in place to ensure the mathematical accuracy of its NSLDS Business Proposals.

Unsupported Direct Labor Costs

Our review disclosed that Raytheon over-billed the Department for the following NSLDS Schedule A line items: [1]

- Hardware/Software Maintenance/Enhancement Support (Contract Line Item Number 26 [CLIN 26]), and
- Customer Support (CLIN 25).

For the period July 1, 2000, through December 31, 2001, Raytheon over-billed the Department $61,433 in labor cost for the Development Database Administrator (DBA) position for CLIN 26. Also, for the period January 1, 2002, through September 30, 2002, Raytheon over-billed the Department $12,456 in labor cost for the InfoCenter Manager position for CLIN 25.

CLIN 26 – Hardware/Software Maintenance/Enhancement Support

During the period July 1, 2000, through December 31, 2001, Raytheon billed the Department $370,566 in CLIN 26 labor cost for the Development DBA position based on a salary rate through General and Administrative expense (G&A) of $122.39 per hour. The salary rate through G&A for the Development DBA position should have been $102.07 per hour, based on the documentation supporting the rate build contained in Raytheon's NSLDS Business proposal dated June 22, 2000. CLIN 26 Development DBA costs should have been calculated as follows:

Monthly Hours	Rate Through G&A	Monthly Cost	Facilities Capital Cost of Money (FCCM)	Fee 10.5%	Price	Extended Cost (x18)
152	$102.07	$15,514.64	$30.40	$1,629.04	$17,174.08	$309,133.44

CLIN 25 – Customer Support

During the period January 1, 2002, through September 30, 2002, Raytheon billed the Department $127,743 in CLIN 25 labor cost for the InfoCenter Manager position based on a salary rate through G&A of $84.28 per hour. The salary rate through G&A for the InfoCenter Manager position should have been $76.04 per hour, based on the

[1] Services provided under the NSLDS contract are billed according to the type of cost, using Schedules A and C. Schedule A costs are fixed monthly charges for maintenance, operations, technical support, systems software, documentation development, and general support for the system. Schedule C costs are billed as time and materials charges for task order enhancements to the system.

documentation supporting the rate build contained in Raytheon's NSLDS Business proposal dated December 12, 2001. CLIN 25 InfoCenter Manager costs should have been calculated as follows:

Monthly Hours	Rate Through G&A	Monthly Cost	FCCM	Fee 10.5%	Price	Extended Cost (x9)
152	$76.04	$11,558.08	$38.00	$1,213.60	$12,809.68	$115,287.12

Under Federal Acquisition Regulation (FAR) 31.201-2(d), "A contractor is responsible for accounting for costs appropriately and for maintaining records, including supporting documentation, adequate to demonstrate that costs claimed have been incurred [and] are allocable to the contract . . . . The contracting officer may disallow all or part of a claimed cost which is inadequately supported."

Under FAR 52.215-10(a)(3), "If any price, including profit or fee, negotiated in connection with this contract, or any cost reimbursable under this contract, was increased by any significant amount because . . . [a]ny of these parties [the contractor, subcontractor, or prospective subcontractor] furnished data of any description that were not accurate, the price or cost shall be reduced accordingly and the contract shall be modified to reflect the reduction." FAR 52.215-10 was incorporated as a clause to the NSLDS contract on May 6, 1998, and was in effect throughout our audit period.

Over-Proposed Direct Labor Costs

In its NSLDS Business Proposal, dated December 12, 2001, Raytheon proposed to use contract labor for the Schedule C Trainer position during the period October 1, 2002, through September 30, 2003. Raytheon's Business Manager for Enterprise Information Systems informed us that it is Raytheon's practice not to apply fringe benefit costs to positions proposed to be filled by contract employees. Our review disclosed that the Schedule C Trainer position's hourly rate through price for the period October 1, 2002, through September 30, 2003, was over-proposed by $59.59. However, we noted no monetary effect related to this error, because, as of December 31, 2002, Raytheon had not billed the Department for any hours worked on Schedule C tasks by the Trainer.

We found that Raytheon applied nine months of fringe benefits (37.6% of the base labor rate) to the Schedule C Trainer position's proposed hourly base rate, resulting in a proposed hourly rate through price of $218.99. Raytheon should have proposed the Schedule C Trainer position, without fringe benefits, at an hourly rate through price of $159.40, as calculated below:

TRAINER											
NAME	BASE RATE	FRINGE @ 0.0%	RATE THRU FRINGE	OVERHEAD (O/H) @ 25.8%	G&A BASE	G&A @ 10.0%	RATE THRU G&A	FCCM LABOR - 0.00613 G&A - 0.00038	RATE THRU FCCM	FEE @ 10.5%	RATE THRU PRICE
CONTRACTOR	103.79		103.79	26.78	130.57	13.06	$143.62	0.69	144.31	15.08	$159.40

Under FAR 31.205-6(a)(3), compensation for personal services "must be based upon and conform to the terms and conditions of the contractor's established compensation plan or practice followed so consistently as to imply, in effect, an agreement to make the payment." FAR 52.215-10(a)(3), as cited previously for Unsupported Direct Labor Costs, is also applicable to this finding.

Under-Proposed Direct Labor Costs

Our review revealed that the hourly labor rates for the following positions were under-proposed:

- Systems Analyst (for the period July 1, 2000, through December 31, 2001)
- Development DBA (for the period January 1, 2002, through September 30, 2003)

Systems Analyst

Raytheon has established seven labor category codes (LCCs), E1 through E7, for its exempt employees and four LCCs, N1 through N4, for its non-exempt employees. Exempt employees perform a defined function or job for a salary, and their performance is expected to occasionally involve more than 40 hours per week. Non-exempt employees are paid for all hours worked, in accordance with applicable federal and state laws. They receive compensated overtime for hours worked in excess of 40 hours per week. Each labor position (for example, Engineer I) is assigned an LCC depending on its requirements. The Defense Contracts Management Agency (DCMA) approves Raytheon's proposed direct labor rates for each LCC, for bidding and billing purposes.

In order to determine the proposed composite hourly base labor rate for each LCC for the period July 1, 2000, through December 31, 2001, Raytheon calculated the weighted average of its Falls Church, Virginia, office's DCMA proposed forward pricing LCC hourly rates for the contract period. This was accomplished by

1. Multiplying each proposed LCC's hourly rate for calendar year 2000 by 6,
2. Multiplying each proposed LCC's hourly rate for calendar year 2001 by 12, and
3. Dividing the sum of steps 1 and 2, above, by 18.

When calculating the Systems Analyst (LCC E3) position's proposed composite hourly base rate for the period July 1, 2000, through December 31, 2001, Raytheon used $30.11 as both the 2000 and 2001 DCMA proposed E3 hourly rates, resulting in an hourly rate through price of $85.19. The Systems Analyst's DCMA proposed 2001 hourly rate for an E3 should have been $31.46, resulting in an E3 composite hourly base rate of $31.01, and an hourly rate through price of $85.88, as calculated below.

SYSTEMS ANALYST													
NAME	2000 BASE RATE	2001 BASE RATE	BASE RATE	FRINGE @ 53.7%	RATE THRU FRINGE	O/H @ 22.2%	G&A BASE	G&A @ 11.53%	RATE THRU G&A	FCCM LABOR - 0.00220667 G&A - 0.00033667	RATE THRU FCCM	FEE @ 10.5%	RATE THRU PRICE
E3	30.11	31.46	31.01	16.65	47.66	10.58	58.24	6.72	$ 64.96	0.09	65.05	6.83	$ 71.87
E4	34.49	36.04	35.52	19.08	54.60	12.12	66.72	7.70	$ 74.42	0.10	74.52	7.82	$ 82.33
CONTRACTOR	67.01	69.36	68.57		68.57	15.22	83.80	9.66	$ 93.46	0.18	93.64	9.81	$ 103.45
								AVERAGE:	$ 77.61			AVERAGE:	$ 85.88

Consequently, in its NSLDS Business Proposal, dated June 22, 2000, for the period July 1, 2000, through December 31, 2001, the Systems Analyst position's proposed Schedule A and C hourly rate through price of $85.19 is $0.69 less than the hourly rate through price of $85.88 Raytheon should have proposed, using the composite E3 rate of $31.01.

Development DBA

In its NSLDS Business Proposal, dated December 12, 2001, Raytheon did not use the correct overhead rate when calculating the Development DBA position's Schedule C hourly rate through price. The DCMA approves Raytheon's Indirect Rate Structures for bidding and billing purposes. According to the DCMA's Comprehensive Rate Letter dated November 16, 2001, Raytheon's negotiated overhead rate for both calendar years 2002 and 2003 is 25.8 percent. For the periods January 1, 2002, through September 30, 2002, and October 1, 2002, through September 30, 2003, Raytheon erroneously used an overhead rate of 22.1 percent, resulting in hourly rates through price for the Schedule C Development DBA position of $157.34 and $161.06, respectively. Using the negotiated DCMA overhead rate of 25.8 percent, the Schedule C Development DBA hourly rates through price should have been calculated as follows:

Schedule C Development DBA for the period January 1, 2002, through September 30, 2002

NAME	BASE RATE	FRINGE @ 0.0%	RATE THRU FRINGE	O/H @ 25.8%	G&A BASE	G&A @ 9.9%	RATE THRU G&A	FCCM LABOR - 0.00604 G&A - 0.00038	RATE THRU FCCM	FEE @ 10.5%	RATE THRU PRICE
CONTRACTOR	105.65		105.65	27.26	132.91	13.16	$146.07	0.69	146.76	15.34	$ 162.10

Schedule C Development DBA for the period October 1, 2002, through September 30, 2003

NAME	BASE RATE	FRINGE @ 0.0%	RATE THRU FRINGE	O/H @ 25.8%	G&A BASE	G&A @ 0.10%	RATE THRU G&A	FCCM LABOR - 0.00611 G&A - 0.00038	RATE THRU FCCM	FEE @ 10.5%	RATE THRU PRICE
CONTRACTOR	108.07		108.07	27.88	135.95	13.60	$149.55	0.71	150.26	15.70	$ 165.96

Consequently, in its NSLDS Business Proposal, dated December 12, 2001, Raytheon's proposed hourly rate through price for the Schedule C Development DBA position for the period

- January 1, 2002, through September 30, 2002, is $4.76 less than the hourly rate through price we calculated.
- October 1, 2002, through September 30, 2003, is $4.90 less than the hourly rate through price we calculated.

Recommendations:

We recommend that the Chief Financial Officer (CFO) require Raytheon to

1.1 Refund to the Department $73,889 for unsupported CLIN 26 Development DBA and CLIN 25 InfoCenter Manager direct labor costs paid by the Department during the period July 1, 2000, through September 30, 2002.

1.2 Correct the Trainer position's hourly rate through price under Schedule C for the period October 1, 2002, through September 30, 2003, by removing the fringe costs applied to the contractor's hourly base rate. Refund to the Department $59.59 per hour for any hours billed by Raytheon during this period for Schedule C Task Order work performed by the Trainer.

1.3 Implement policies and procedures to ensure the mathematical accuracy of any future Business Proposals submitted to the Department.

Raytheon's Reply

In general, Raytheon appears to concur with our findings and recommendations. Raytheon states, "While not impossible, the size and complexity of [its] cost proposal worksheet makes a 100% pre-submission audit extremely difficult." In response to individual recommendations, Raytheon states the following:

- Recommendation No. 1.1. Raytheon "agrees that clerical errors on the proposal spreadsheet resulted in a misstatement of estimated costs equal to the IG analysis of $73,888.83."
- Recommendation No. 1.2. Though it agrees that an error in pricing was made in its Business Proposal for the Trainer position, no action needs to be taken because Raytheon has never billed the Department for the Trainer position.

- Recommendation No. 1.3. Raytheon has already instituted changes in its software, pricing methodology and oversight that will eliminate the types of errors found in its NSLDS Business Proposals. Raytheon's reply describes the changes it has implemented.

OIG's Response

We have not made substantive changes to our recommendations. Though we agree that the worksheet Raytheon used to develop its cost proposals was complex, and that ensuring accuracy may be difficult, we would not agree that ensuring mathematical accuracy is unnecessarily burdensome. Our responses to Raytheon's comments on Recommendations 1.2 and 1.3 follow:

- Recommendation No. 1.2. The Schedule C Trainer position's improper hourly rate through price of $218.99 was in effect for the period October 1, 2002, through September 30, 2003. Raytheon asserts that it noted no monetary effect related to this error; therefore no action need be taken. Raytheon's comment was provided on June 26, 2003, and does not cover the entire period during which the Department may have been improperly billed for hours worked on Schedule C tasks by the Trainer.

- Recommendation No. 1.3. Raytheon's reply does not include sufficient details for us to understand whether its revised processes fully address our recommendation.

Finding No. 2 Raytheon Over-Billed the Department for Labor Services

Raytheon over-billed the Department $5,016 in labor costs for a contract employee. Contract labor employees submit manual timecards to their supervisors on a weekly basis. The timecards are reviewed and signed by supervisory personnel and then forwarded to Raytheon's Accounting Department for processing. During our review, we noted that one contract employee, a Senior Systems Analyst, submitted two manual timecards dated for the week ending June 8, 2001. Both timecards included charges for NSLDS Task Order Number 53, one for 44 hours and the other for 36 hours. The week ending date on the timecard with 36 hours was later corrected to June 15, 2001.

The 36 hours, totaling $5,016, were charged to the Department twice on Raytheon's August 2001 NSLDS invoice. They were included in the 80 hours (44 hrs and 36 hrs) charged for the week ending June 8, 2001, and also as a separate charge for the week ending June 15, 2001.

FAR 31.201-2(d), as cited for Finding No. 1, is applicable to this finding. The duplication of labor charges appears to be an isolated incident due to human error.

Recommendation:

2.1 We recommend that the CFO require Raytheon to refund the Department the $5,016 duplicate payment.

Raytheon's Reply

In its oral comments, Raytheon concurred with this finding and recommendation.

BACKGROUND

NSLDS was implemented in 1993, under Section 485B of the Higher Education Act of 1965, as amended (HEA). NSLDS is the first comprehensive national database of information about the federal financial aid history of recipients of student financial assistance authorized under Title IV of the HEA. As the central database for all Title IV student financial aid, NSLDS stores information about loans, grants, students, borrowers, lenders, guaranty agencies, schools, and servicers. It provides an integrated view of Title IV loans and grants during all stages of their life cycle, from aid approval through disbursement, repayment, delinquency, and closure.

In January 1993, under full and open competition, the Department awarded Raytheon the original NSLDS contract, which consisted of a base period (January 1993 – September 1994) and three option years. The last option year ended September 30, 1997. Under the contract's Option to Extend Services Clause (FAR 52.217-8) (August 1989), the contract with Raytheon was extended for three months, through December 31, 1997. Under the same clause, the contract was extended with Raytheon for an additional three months, through March 31, 1998. On December 2, 1997, a Commerce Business Daily notice announced that due to the delay in issuing competitive Request for Proposals the Department intended to extend the NSLDS contract with Raytheon, on a sole source basis, until December 31, 1998.[2] To avoid a serious disruption in services provided, the NSLDS contract was extended with Raytheon, on a sole source basis, from January 1, 1999, through September 30, 2003.[3]

OBJECTIVE, SCOPE AND METHODOLOGY

The objective of our audit was to determine if costs charged and deliverables provided by Raytheon during the period July 1, 2000, through December 31, 2002, were in accordance with the terms of the contract and with applicable federal laws and regulations.

To accomplish our audit objective

- We interviewed the Department's Contracting Officer for the NSLDS contract regarding contract file documentation. We reviewed this documentation for
    - Contract invoices submitted by Raytheon, for NSLDS, to the Department during the period July 1, 2000, through December 31, 2002.

[2] On February 16, 1998, NSLDS data center operations were transferred to the Virtual Data Center contractor, Computer Science Corporation.

[3] The NSLDS contract has been renewed monthly with Raytheon, on a sole source basis, through November 30, 2003.

- Business and Technical Proposals submitted by Raytheon, for NSLDS, and approved by the Department for the period July 1, 2000, through December 31, 2002.

- Modifications to the NSLDS contract during the period July 1, 2000, through December 31, 2002.

- We reviewed the NSLDS contract and applicable sections of statutes, the FAR ,and other regulations.

- We reviewed a random sample of four Schedule A invoices, with costs totaling $3,457,762, to determine if they were adequately supported and in accordance with the contract terms. Our sample was selected from the universe of 30 Schedule A invoices, with costs totaling $26,048,085, that Raytheon submitted to the Department for services provided during the period July 1, 2000, through December 31, 2002.

- We judgmentally selected for review one task order (Task Order Number 53), with Schedule C invoices totaling $1,102,065. We selected this task order from a universe of 17 task orders, with Schedule C invoices totaling $10,583,013, that were billed to the Department for services provided during the period July 1, 2000, through December 31, 2002. We judgmentally selected Task Order Number 53 for review because the majority of its work was completed and billed within our review period, and because its Schedule C invoice cost represented approximately 10 percent of the total Schedule C invoice cost during our review period.

- We obtained a computer file, provided by Raytheon, that contained the universe of direct labor transactions, including personnel, hours, and cost, that were charged to Task Order Number 53 during the period July 1, 2000, through December 31, 2002. This universe was made up of 376 direct labor transactions, for 17 Raytheon personnel, totaling 7,469 hours and $1,097,537. We segregated this universe into two subpopulations:

  - The first subpopulation included 270 direct labor transactions, for 5 Raytheon personnel, totaling 6,313 hours (85 percent of total hours charged to Task Order Number 53) and $903,656 (82 percent of total labor cost charged to Task Order Number 53);

  - The second subpopulation included 106 direct labor transactions, for the remaining 12 Raytheon personnel, totaling 1,156 hours (15 percent of total hours charged to Task Order Number 53) and $193,881 (18 percent of total labor cost charged to Task Order Number 53).

  To provide audit coverage for at least 20 percent (1494 hours) of the total hours billed for Task Order Number 53

- From our first subpopulation, we reviewed a random sample of 60 direct labor transactions, totaling 1,281 hours (85 percent of the 1,505 total hours reviewed) and $181,693, to determine if they were adequately supported and in accordance with the contract terms.

- From our second subpopulation, we reviewed a random sample of 12 direct labor transactions, totaling 224 hours (15 percent of the 1505 total hours reviewed) and $36,493, to determine if they were adequately supported and in accordance with the contract terms.

- We reviewed the universe of other direct costs, totaling $4,528, included on Task Order Number 53 Schedule C invoices that Raytheon submitted to the Department for the period July 1, 2000, through December 31, 2002.

- We interviewed the Department's Contracting Officer's Representative for the NSLDS contract regarding the deliverables for the NSLDS contract. We identified and reviewed all of the deliverables required by NSLDS contract Task Order Number 53.

- We interviewed a DCMA Divisional Administrative Contracting Officer regarding DCMA's direct labor and indirect cost rate agreements with Raytheon's office in Falls Church, Virginia. We obtained and compared the DCMA rates applicable to this office and to the NSLDS contract for the period July 1, 2000, through December 31, 2002, to the rates used by Raytheon in its NSLDS Business Proposals.

- We reviewed related Defense Contract Audit Agency (DCAA) audits of the Raytheon Company's Strategic Systems Business Unit (SSBU), which includes its Falls Church, Virginia office location.

- We reviewed Raytheon's labor distribution and billing policies and procedures. We interviewed Raytheon personnel to obtain an understanding of these procedures.

To achieve our audit objective we relied, in part, on computer-processed data related to the NSLDS contract contained in Raytheon's Jamis Job Cost System. We verified the completeness of the data by comparing the cumulative hours and amounts invoiced by Raytheon to the Department for NSLDS Task Order Number 53, during the period July 1, 2000 through December 31, 2002, to the cumulative hours and amounts that should have been invoiced according to Raytheon's Jamis Job Cost data for Task Order Number 53. We verified the authenticity of the Jamis Job Cost data for NSLDS Task Order Number 53 by comparing the data to source records. Based on these tests, we concluded that the data were sufficiently reliable to be used in meeting the audit's objectives.

We performed onsite fieldwork at Raytheon's Falls Church, Virginia, office from April 7, 2003, through April 15, 2003. We held an exit conference on June 26, 2003. Our audit was performed in accordance with generally accepted government auditing standards appropriate to the scope of the audit work described above.

STATEMENT ON MANAGEMENT CONTROLS

As part of our review, we assessed the system of management controls, policies, procedures and practices applicable to the scope of the audit. Our assessment was performed to determine the level of control risk for determining the nature, extent, and timing of our substantive tests to accomplish the audit objective.

For the purpose of this report, we assessed and classified the significant controls into the following categories:

- Labor distribution
- Billing

Because of inherent limitations, a study and evaluation made for the limited purpose described above would not necessarily disclose all material weaknesses in the management controls. We do not consider the minor billing issue described in Finding No. 2 to be a control weakness.

ADMINISTRATIVE MATTERS

If you have any additional comments or information that you believe may have a bearing on the resolution of this audit, you should send them directly to the following Department of Education official, who will consider them before taking final Departmental action on this audit:

Mr. Jack Martin
Chief Financial Officer
Office of the Chief Financial Officer
Federal Building No. 6, Rm. 4E313
400 Maryland Avenue, SW,
Washington, DC 20202

It is the policy of the U.S. Department of Education to expedite the resolution of audits by initiating timely action on the findings and recommendations contained therein. Therefore, receipt of your comments within 30 days would be greatly appreciated.

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 given us in the review. Should you have any questions concerning this report please contact Teri Lewis, Assistant Regional Inspector General for Audit, or me at 215-656-6900.

Sincerely,

Bernard Tadley

Bernard Tadley
Regional Inspector General for Audit

Attachment

Attachment –Auditee's Response

[On June 26, 2003, via email, we received the following written response for Finding No. 1 from Raytheon's NSLDS Contract Administrator.]

Finding Number 1. Raytheon's Business Proposal Preparation Procedures Need Improvement

The Inspector General's concerns center around three elements:

A. Unsupported Direct Labor Costs
B. Over Proposed Direct Labor Costs
C. Under-Proposed direct labor costs

In all three of the above instances, Raytheon's costs were developed using a complex Excel worksheet. In two cases, the incorrect cell was referenced and in the other, a contract labor entry was inserted into a Raytheon direct labor template. While not impossible, the size and complexity of this cost proposal worksheet makes a 100% pre-submission audit extremely difficult.

At the time the instant proposal was submitted, the business area under which the NSLDS program was performed existed as a quasi-separate financial entity characterized by separate rates as well as separate processes. In this scenario, the business analyst assigned to the NSLDS program office was responsible for the pricing of NSLDS effort. The role of the pricing department was limited to review and approval.

Subsequent to the submission of this proposal, Raytheon has instituted two major changes:

1. It is now Raytheon IIS policy that all proposal pricing be performed by personnel in the Pricing organization. This results in common practices and procedures being performed by trained pricing personnel.
2. Additionally, IIS has also implemented the company-wide use of PC Pricing, Raytheon's world-class proposal pricing software. The data input requirements of PC Pricing make the type of errors found in the instant proposal impossible to duplicate.

Conclusion:

IG recommendation 1.1: Raytheon agrees that clerical errors on the proposal spreadsheet resulted in a mis-statement of estimated costs equal to the IG analysis of $73,888.83.

IG recommendation 1.2: After reviewing our records, Raytheon can find no instance of a Trainer being billed to the customer under Schedule C for the instant period. Although an error in pricing was made in the proposal, there was no harm to the Department of Education; therefore no action need be taken.

IG recommendation 1.3: It is Raytheon's contention that changes in software, pricing methodology and oversight already taken satisfy the requirements of recommendation 1.3.