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MANAGEMENT INFORMATION REPORT
STATE AND LOCAL NO. 03-02

SEP 18 2003

TO: Jack Martin
Chief Financial Officer

FROM: Richard J. Dowd
Regional Inspector General for Audit

SUBJECT: *Audit of the Department's Ability to Identify and Monitor High-Risk Contracts*
Control Number ED-OIG/X05-D0022

The purpose of this memorandum is to inform you of the results of our work while auditing the Department's ability to identify and monitor high-risk contracts. The objective of our audit was to determine whether selected Department program offices designate contracts as high-risk and, if so, adequately monitor those contracts. Step 260 of the Department's 2002-2003 Annual Plan states "Review the Department's contract monitoring process to evaluate its ability to identify and monitor high-risk contracts." The Department does not define a high-risk contract or provide guidelines for program offices to use in monitoring high-risk contracts. Because the Department does not define a high-risk contract, we terminated our audit.

Department of Education Directive OCFO:2-108, "Contract Monitoring for Program Officials," dated January 12, 1987, suggests that contract characteristics such as a cost-type, a technically complex project, large dollar size, or contractors with a history of performance or management problems may require increased monitoring. However, the Directive does not describe these characteristics or define increased monitoring. For example, the Directive suggests a large dollar contract may require more monitoring, but does not define "large" or describe specific procedures necessary to adequately monitor a large dollar contract. In addition, the Directive does not require the program offices to increase the amount of monitoring performed on contracts with the characteristics mentioned above.

We obtained a listing of the Department's active contracts as of November 2002 from the Office of the Chief Financial Officer's web site, and identified 15 program offices as having more than one active contract. We sent a questionnaire to the 15 program offices, and asked them how they define a high-risk contract and to describe any guidelines used to identify and monitor high-risk contracts. After receiving responses to the

questionnaires, we requested additional information from officials in five program offices. Specifically, we interviewed one or more officials from Federal Student Aid, the Institute of Education Sciences, the Office of Elementary and Secondary Education,[1] and the Office of the Under Secretary, and obtained additional written comments from the Office of Special Education and Rehabilitative Services. The five program offices had the most active contracts, with a dollar value that represented over 92 percent of active contracts as of November 2002.

With one exception, program offices did not identify high-risk contracts, and none had procedures for monitoring such contracts. Several program offices described contract characteristics that would require a higher level of monitoring; however, those characteristics varied among program offices and were general, rather than specific. For example, similar to the 1987 Directive, program offices stated that a large dollar contract would require additional monitoring, but they did not provide a dollar limit used to make this determination or a description of the additional monitoring necessary.

The Office of the Chief Financial Officer is currently updating the 1987 Directive. We suggest that the revised Directive include a definition of a high-risk contract and specific guidelines instead of general suggestions for identifying and monitoring high-risk contracts. Doing so would promote consistent contract monitoring among the Department's program offices, and provide a more efficient use of each program office's resources and taxpayer's dollars. In addition, guidelines for monitoring high-risk contracts could minimize wasted resources, higher costs, delays, and risk of fraud.

We performed our field work at our headquarters and regional offices from May through July 2003. Our audit work was performed in accordance with generally accepted government auditing standards appropriate to the scope of audit described.

We thank you for your response to the draft of this memo that concurs with our suggestion. A copy is included as an attachment. No further response from your office is necessary regarding the information contained herein. If you would like to discuss the information presented in this memorandum or obtain additional information, please contact me at (312) 886-6503.

Attachment

[1] The Office of Elementary and Secondary Education has not provided us with a management representation letter, therefore we cannot be sure its representative answered our questions fully and provided all requested documents.

Attachment

UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF THE CHIEF FINANCIAL OFFICER

THE CHIEF FINANCIAL OFFICER

SEP 10 2003

TO : Richard J. Dowd
Regional Inspector General for Audit

FROM : Jack Martin

SUBJECT : Draft Management Information Report, *Audit of the Department's Ability to Identify and Monitor High-Risk Contracts*
Control Number ED-OIG/X05-D0022

This memorandum responds to the Office of the Inspector General (OIG) subject Draft Management Information Report, dated August 7, 2003. The OIG fieldwork was performed between May and July 2003. The OIG found that the Department does not define a high-risk contract or provide guidelines for program offices to use in monitoring high-risk contracts. As a result, the OIG terminated the audit.

To address this issue, the OIG recommends that the revised ACS Directive, *Contract Monitoring for Program Officials*, include a definition of a high-risk contract and specific guidelines instead of general suggestions for identifying and monitoring high-risk contracts.

OCFO concurs with your recommendation. Based on our preliminary research thus far, we have been unable to precisely define a high-risk contract, as there appears to be no standard definition available; and, that determining an individual contract's risk level involves making a judgment after assessing a contract's risk factors. However, OCFO will continue its research and incorporate sufficient language in the ACS Directive to address this issue consistent with federal policy and practices.

Thank you for the opportunity to respond to this draft audit.