



UNITED STATES DEPARTMENT OF EDUCATION
OFFICE OF INSPECTOR GENERAL

OPERATIONS INTERNAL AUDIT TEAM

November 29, 2006

Control Number
ED-OIG/A19G0007

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Lawrence Warder
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Dear Messrs. Clark and Warder:

This **Final Audit Report**, (Control Number ED-OIG/A19G0007) presents the results of our audit of the Department of Education (Department or ED) *Fiscal Year 2005 Information Technology Equipment Inventory*. The objective of our audit was to evaluate the process and results for the Fiscal Year (FY) 2005 Information Technology (IT) equipment inventory.

BACKGROUND

Section 202(b) of the *Federal Property and Administrative Services Act of 1949*, as amended (40 U.S.C. 524(a)) requires that each executive agency maintain adequate inventory controls and accountability systems for property under its control. To assist in fulfilling these requirements, the Department conducts an annual physical inventory of accountable assets.

According to the Department's Principal Office (PO) functional statements, the Office of Management (OM), Facilities Services (FS), is responsible for planning, establishing, directing, controlling, and implementing policy, standards, and procedures governing all aspects of property management and inventory. The OM functional statement further states the Property Management and Inventory Team (PMIT) is responsible for asset and property management. This includes administering the Department's asset management system and maintaining an auditable agency-wide asset management process to validate all accountable government property.

The Department acquired the services of an inventory services contractor (ISC) to assist in performance of the physical inventory for FY 2005. The inventory was to be conducted at Department Headquarters buildings in Washington, DC, and 10 regional offices, under the guidance of the Contracting Officer's Representative (COR), who was also the Property and Inventory Team Leader (P&ITL) for PMIT. According to the FY 2005 physical inventory contract, the purpose of the inventory was to collect and/or validate data on all applicable equipment, and to provide computerized files to the Department for the purpose of updating its inventory system to ensure its data is current, complete, and accurate.

The Department provided the ISC with data for 30,578 items from its Asset Management System (AMS) for use in the inventory process.¹ The ISC then performed a wall-to-wall physical inventory by recording equipment bar code tags with scanning equipment. Comparing this data to that provided from the AMS, the ISC developed final electronic deliverables, including listings of equipment scanned with a matching AMS record, and equipment with AMS records that were not scanned during the inventory.

PMIT contractors subsequently utilized the ISC deliverables to perform a final reconciliation. This included matching AMS items that were not scanned by the ISC to documentation, such as property passes, equipment sign-out logs, and equipment disposal records. Once these reconciliations were completed, a final report was prepared and provided to the Office of Chief Financial Officer (OCFO).

AUDIT RESULTS

The Department could not support the results reported for the FY 2005 IT equipment inventory. The Department had not established detailed procedures for reconciling the ISC results to Department records. Documentation did not exist to support the process followed. We also found the Department also did not effectively manage contracts

¹ The Department formerly referred to its Asset Management System (AMS) as the Asset Management Database (AMD). For the purposes of this document, the terms are considered interchangeable. OIG is using the current term, AMS, throughout this document, except where quoting from policy or the contract that refers to the AMD.

relating to the FY 2005 IT Equipment Inventory and PMIT contractor support. Requirements established by the Department did not ensure that the FY 2005 inventory met stated goals, and monitoring and documentation of contractor oversight was not adequate.

As a result, the Department lacks assurance that the inventory and reconciliation processes were conducted appropriately and that inventory results were accurate. The Department also lacks assurance as to the accuracy of data in the Department's AMS and full accountability for Department IT equipment.

In a combined response to the draft audit report, OM and OCFO concurred with the findings and provided corrective actions to address each of the recommendations included in our report. The complete text of the combined response is included as an attachment to this report.

FINDING 1 – The Department Could Not Support the Results Reported for the FY 2005 IT Equipment Inventory

The Department could not support the results reported for the FY 2005 IT equipment inventory. The ISC reported 5,037 items as not found during the inventory process. Of these, 2,259 items represented desktop/laptop computers or servers. Other items not found included IT related equipment, such as printers, monitors, and scanners. These items were not necessarily missing, as the items may have been located in areas the contractor did not gain access to during the inventory, such as alternate work sites, items on property passes, or items that were transferred or excessed. In addition, these items could represent data errors from the bar code scanning process employed by the contractor or original database provided to the contractor. After reconciliation, the Department reported 98.9 percent of the total items were accounted for in the inventory. Overall for the Department, 411 items were reported as "unassigned" or not found. We attempted to validate the process for reconciling the 5,037 items initially not found by the ISC to the 411 items in the final results reported and found that the Department's results were not supported.

Department Handbook (Handbook), OM-05, *Property Management Manual*, dated December 31, 2002, Procedure 6, Section 1.1, states one of the purposes of a physical inventory is to:

. . . [V]erify the accuracy of the information in the asset management system (AMS). The physical inventory and accompanying reconciliation verifies that the assets actually exist, the descriptive data are accurate, they are assigned to an "owner" and they are located where the AMS says they are. The information collected and reconciled is then used to update the database.

Handbook, Procedure 6, Section 7.1, "Reconciliation," states:

1. The Physical Inventory Reconciliation is the most important phase of the inventory. Inventory counts will produce assets expected but not found, found but not expected and assets located in different locations than the database has indicated or under the control of a different organization than that indicated in the database.
2. The [Quality Assurance] QA effort provides limited reconciliation during the course of the count so the status of the inventory is monitored as it is conducted. Normally, if scanners and asset tracking software are used, the inventory file collected is reconciled against the asset management system. Standard reports are run to determine discrepancies and second counts are conducted in areas where errors are found exceeding the acceptable standard.

We attempted to evaluate the process and results reported for the Department's FY 2005 inventory. We found that the Department had not established detailed procedures for the reconciliation of the ISC's results to Department records. The only information on the process was that included in the Handbook quoted above. We also found that documentation did not exist to support the process followed.

We held discussions with the P&ITL who provided an overview of the process as follows:

- The list of items not found by the ISC was compared to property passes, property transfer records, excess property records, and quality assurance testing performed during the physical inventory. Items initially reported as not found by the ISC were not considered missing if the items were documented in these other records.
- PMIT staff and contractors performed quality assurance testing while supervising the ISC during the inventory process. PMIT staff and contractors also used bar code scanners to scan approximately 10 percent of the items. At the time of the FY 2005 inventory, the scanners were not connected to the Department's system, so PMIT staff and contractors manually transferred the data collected to worksheets.
- When PMIT contractor staff members completed the reconciliation process for a PO, an Inventory Completion Worksheet and the PO file was submitted to the P&ITL for review and approval. The P&ITL signed the worksheet to indicate her approval and acceptance of the results.
- Documentation of the entire process would be included in each PO file.

However, we reviewed the PO files and found that documentation did not exist to support the process followed or the final results reported. The files did not contain adequate

information to support the process. In addition, the P&ITL could not provide the missing information. Specific issues noted included the following:

- Worksheets to document the quality assurance process performed by PMIT staff and contractors were not included in all PO files,
- Annotations to document resolution of the listings of items not found by the ISC were incomplete,
- Inventory Completion Worksheets completed by PMIT contract staff were not always fully completed. Only 1 of the 22 worksheets was signed by the P&ITL to indicate her approval of the results.
- Property passes, transfer records, etc., contained in the files or provided by the P&ITL did not fully support the reconciliation, and/or did not agree with the annotations made on the listing of items not found by the ISC.

The P&ITL was not able to explain how the final report of the 411 items that could not be located by the Department was developed, although she was responsible for oversight of the PMIT contractor who prepared the report. The P&ITL could also not provide a listing of the 411 items, either in total or by PO. The current PMIT contractor who is acting as the database administrator for the AMS stated he is not aware of any indicator in the AMS by which a report of items that were found or not found in the FY 2005 inventory could be generated.

PMIT files did not always document whether missing equipment was referred to PO staff for followup. We confirmed this with three PO asset managers who stated they did not receive lists of items that could not be accounted for. In two of these cases, PO asset managers stated that they had asked PMIT staff for this information but did not receive a response.

We discussed the inventory process with the PMIT contractors and received varying explanations of the process. From one contract staff member, we obtained the results submitted for two of the POs. We found that these results did not agree with the final results reported for these POs as follows:

- The PMIT contractor's spreadsheet listed 234 items as initially not found for one PO. The PMIT contractor was able to account for 132 of these items, leaving 102 still missing. However, only two items were reported as missing for this PO on the Department's final report.
- The PMIT contractor's spreadsheet listed 114 items as initially not found for another PO. The PMIT contractor was able to account for 19 items, leaving 95 still missing. Only one item was listed as missing for this PO on the Department's final report.

The Department lacks assurance that the inventory and reconciliation processes were conducted appropriately. Since results were not referred to PO asset managers for validation, there is no assurance that reported results were accurate, that actions were

being taken to locate missing items, or to correct information for items that were not actually missing. The reliability of the data in the Department's inventory system is questionable since lists of items not found in the last inventory could not be generated.

We issued an Interim Audit Memorandum regarding this issue on July 28, 2006. In its response, OM agreed with our findings and proposed corrective actions to address each recommendation. On September 8, 2006, OM provided an update of the corrective actions in process to conduct a Department-wide inventory and reconcile the list of items not found by the ISC during the FY 2005 inventory. OM stated:

In August 2006, the Department launched an extensive review of its asset management system. This review was divided into two tracks, a generalized effort for 85% of the Department's assets, and a more in-depth review of the remaining 15% of the assets assigned to Federal Student Aid.

The generalized effort is being directed by the Office of Management and will be completed by September 12, 2006. Principal Office Asset Managers are working in teams along with Office of Management government staff to complete a physical inventory of all non-Federal Student Aid assets. Inventory teams are using hand held scanners to document the bar code and location (building and room number) for all assets. Data from the scanners, as well as additional documentation obtained during the site visits (assets properly checked out of the building or surplus), is being analyzed and compared with data in the current Asset Management System. In addition, this data is being compared to the FY 2005 list of missing equipment provided by the inventory support contractor.

Federal Student Aid assembled five independent teams to conduct the 2006 annual inventory of Federal Student Aid's information technology (IT) asset management equipment. With the exception of several remote offices comprising only approximately 2% of the inventory and validation of some remaining off-site items, the teams completed their inventory at headquarters and in the regional offices for assets in AMS as of August 7, 2006. Following consistent procedures and populating identical templates, the teams were required to validate the barcode number, serial number, location, condition of the equipment, user, manufacturer, and model number. In addition, the teams obtained documentation to support equipment previously surplus, or available to be surplus. Property passes were obtained for off-site equipment that was not available at the respective sites for scanning at the time of the physical inventory. The teams were then required to certify the results and submit supporting documentation to a senior manager for consolidation.

Federal Student Aid is currently reconciling and analyzing their consolidated data. The reconciliation is expected to be completed by September 30, 2006. The methodology and physical inventory results will be audited by Federal Student Aid's [Office of Management and Budget Circular] A-123 contractor [sic] will perform tests of the design and operating effectiveness of the controls.

Recommendations:

We recommend the Assistant Secretary for Management take action to:

- 1.1 Resolve the items reported as not found by the ISC during the FY 2005 inventory. At a minimum, or as the highest priority, we recommend that the Department resolve the 2,259 computers and servers reported as not found. We further recommend that the Department utilize staff and/or contractors who were not involved in the FY 2005 inventory reconciliation process to provide independent results.
- 1.2 Ensure that for any items that cannot be found, reports of survey and other documents are generated and submitted to appropriate authorities.
- 1.3 Update and implement policy and procedures for the inventory reconciliation process, including requirements that adequate records are maintained to support inventory reconciliations, and that results are referred to PO managers for validation.
- 1.4 Consider the Department's IT equipment inventory management system an internal control significant deficiency until improved controls are in place and operating, subsequent inventories are taken and fully reconciled to records, and the results of the inventories are within acceptable standards.

OM/OCFO Response:

In a combined response, OM and OCFO concurred with the finding and provided corrective actions to address each of the four related recommendations included in our report. OM stated it will work with the Principal Offices to reconcile the final FY 2005 report from the ISC. OM also stated it will complete Reports of Survey and related forms for any items listed as not found in the final FY 2005 report. OM stated it plans to update the ACS Handbook OM-05, *Property Management Manual*, and that it already reported the property management and inventory control process as a reportable condition on the OM Senior Officer Certification form for the FY 2006 Federal Managers' Financial Integrity Act (FMFIA) Report to the President and Congress.

Finding 2 – Contract Management Was Not Effective

The Department did not effectively manage contracts relating to the FY 2005 IT equipment inventory and PMIT contractor support. We noted weaknesses in several areas including the adequacy of requirements to meet the goals of the inventory, documenting oversight and evaluations of contractor performance, determining incentive payments, and tracking contract costs.

As stated in Finding 1, the Department's *Property Management Manual* states that one of the purposes of a physical inventory is to verify the accuracy of information in AMS, including that descriptive data are accurate, and that assets are assigned correctly and located where noted in the AMS.

The Statement of Work (SOW) for the FY 2005 inventory services contract, Section C, "Scope of Work," states the following among the required services:

1. Conduct a physical inventory of accountable property at specified locations and provide the results to the Department. At the conclusion of the physical inventory, the contractor shall:
 - i. Develop a file of accurate information on all accountable assets sighted by the inventory team and validate through documentation (at home, property pass, self-inventory, etc.) . . .
 - ..
3. Update the ED Asset Management Database:
 - i. Provide current, accurate information on Department assets needed to correct and/or complete required fields in the ED official property records.
 - ii. Conduct reconciliation by matching the collected data against the AMD to update the asset records.

Departmental Directive (Directive), OCFO: 2-108, *Contract Monitoring For Program Officials*, dated September 16, 2004, Section VII.K.1-3, "Documenting All Significant Actions and Conversations," states:²

1. The purpose of detailed record-keeping is to build a complete history of each project so that information is not lost or forgotten, and so that others – e.g., one's supervisor, a new COR assigned to the project, an auditor or perhaps a court of law – can get a clear picture of what has occurred during the life of the contract. (If a dispute occurs, it could be several years between the event and its resolution.

² The Directive dated September 16, 2004, was in effect during the scope of our review. The Directive has since been updated; effective March 30, 2006, and all requirements cited in this report also appear in the revised Directive.

- The COR and the program office file could be called upon at a very late date.) Files and records should be maintained in an orderly fashion with an index noting documents contained in files.
2. The COR should document every significant action taken or conversation held in the course of monitoring or administering a contract. The judgment of what is significant is left to the COR although too much documentation is usually better than not enough.
(Emphasis in original.)
 3. Any monitoring action or conversation, which discloses that the contractor is either failing to perform as required or is failing to make sufficient progress, must be documented . . .

Directive Section VI.E.5, “Responsibilities,” states the COR:

Reviews and makes timely recommendations to the CO [Contracting Officer] as to the approval, disapproval, or other action to take concerning a contractor’s submission of (or failure to submit) payment requests, deliverables, interim or final progress and financial reports, or any other requirements of the contract. Maintains a record/summary of payments to date to ensure that short-term progress is viewed as part of the whole to help monitor payment expenditures against total obligations.

Directive Section VI.C.7, “Responsibilities,” states the CO, “Ensures proper payments are made and contract record accurately reflects payment history.”

Adequacy of Requirement to Meet Inventory Goals

We found that prior to receiving bids, the Department provided direction that reduced the scope of work to be completed relative to the SOW, thereby limiting the effectiveness of the inventory in meeting the Department’s stated goals. These instructions were provided as part of the FY 2004 IT equipment inventory competition. The reduced scope of work carried forward to the FY 2005 IT equipment inventory, as the FY 2004 contract with the ISC was extended through the execution of an option period. Specifically, the Department instructed prospective ISCs that it was not necessary to validate AMS information, such as equipment category, manufacturer, model, and serial number for items with existing barcodes. The Department further indicated to prospective ISCs that Department employees would obtain documentation for off-site equipment and provide the documentation directly to the COR. As stated in Finding 1, PMIT staff and contractors subsequently used this documentation to perform their own reconciliation to items not scanned by the ISC. However, the SOW was not modified by the Department to reflect these changes and to ensure there were no misunderstandings regarding the scope of work to be performed.

Documenting Oversight and Evaluations of Contractor Performance

As part of its oversight of the FY 2005 inventory, PMIT conducted quality assurance testing of ISC performance. Specifically, the P&ITL stated PMIT contractors inventoried a sample of equipment as part of a process designed to evaluate the ISC's results. However, the results of this testing were not maintained to facilitate evaluation of the ISC's performance.

The COR was not familiar with certain aspects of the PMIT contractors' performance in the inventory reconciliations and determination of the final results reported by PMIT, although as the P&ITL she was responsible for oversight of these contractors. For example, she stated that the PO files would contain documentation of the inventory reconciliation process, but we found that only 11 of the 22 PO files we reviewed relating to the FY 2005 inventory contained any evidence that reconciliation work regarding missing items was performed. As stated in Finding 1, we found only one of the files included a signed Inventory Completion Worksheet. PMIT contract employees also described different procedures to complete inventory reconciliations, indicating a lack of oversight and consistent guidance. Finally, the COR could not explain how a PMIT contract employee generated the final inventory results that were reported by the Department, and could not provide a listing of the 411 items that were determined as not found during the inventory.

Determining Incentive Payments

Contract files did not include supporting documentation to show the basis for approval or disapproval of incentive payments. We also found the Department made an incentive payment for a task where no provision for an incentive payment existed. The Incentive Fee Plan for the FY 2005 IT Equipment Inventory contract included performance thresholds, such as compliance rates, accuracy percentages, and timeliness, to be achieved by the ISC to obtain incentive payments. However, documentation supporting incentive payments was limited to a statement that incentives were approved or disapproved in each category. We asked the P&ITL how she determined the ISC met the 99 percent performance threshold for applying inventory labels to equipment, and she was not able to provide documentation to support this determination. The ISC was provided a \$5,000 incentive for meeting this threshold.

We also found that the Incentive Fee Plan did not include an incentive for timely submission of an acceptable physical inventory plan and inventory and travel plan updates. However, a \$1,000 incentive was paid for this item.

Tracking Contract Costs

The total contract value for the FY 2005 IT Equipment Inventory included a fixed price of \$74,050.96 for basic inventory services, a not-to-exceed amount of \$49,238.64 for travel and material costs, and up to \$21,000.00 for incentives. Contract files and the Department's payment system did not include any evidence that the contractor billed the

Department for its travel and material costs. An unliquidated balance remained for the travel and materials portion of the contract.

The contract was not effectively managed because staff responsible for contract monitoring did not fulfill their roles. We found that the COR did not effectively perform all responsibilities of her position. Specifically, the COR did not:

- Ensure the SOW met the goals of the inventory and clearly reflected the Department's intent regarding the duties that were the responsibility of the ISC. If the SOW did not reflect the Department's intent, the COR should have recommended to the CO that a modification be issued.
- Ensure that documentation was prepared to show the results of quality assurance testing related to contractor performance.
- Effectively monitor performance of PMIT contractors.
- Prepare documentation to support contractor performance levels achieved relative to the requirements of the Incentive Fee Plan.
- Comply with the terms of the Incentive Fee Plan to ensure that payments were made in justified categories, and that adequate support was maintained for incentives granted.
- Track contract expenditures.

We also noted that the CO was not aware that the contractor had not billed for travel and materials costs, and that incentives were paid in a category for which incentives were not allowed by the Incentive Fee Plan.

Because AMS data was not validated for equipment, the FY 2005 inventory did not achieve the stated goal to ensure the accuracy of AMS data. Further, the Department does not have true accountability for the equipment in the AMS, only for the bar codes on the equipment. By not including reconciliation of inventory results in the scope of the ISC, and having this function performed by PMIT staff and contractors, the Department does not have the assurance of independent results for the inventory.

Since contractor performance was not effectively documented, the Department cannot support whether the ISC earned the incentive payments made. In addition, the weaknesses in the oversight of the Incentive Fee Plan resulted in payment in a category for which no incentive was established. Because the work of PMIT contractors was not effectively monitored, the methodology to generate the final results reported by the Department could not be explained and the results cannot be supported.

In its update on corrective actions provided on September 8, 2006, OM stated the in-depth review being conducted for Federal Student Aid IT equipment included validation of serial numbers, locations, user, manufacturer, model numbers, and equipment condition, in addition to the bar codes. According to OM, this PO represents about 15 percent of the total IT equipment items in the Department.

Recommendations:

We recommend the Assistant Secretary for Management take action to:

- 2.1 Ensure that contracts for future inventories provide accountability for equipment, to include validation of AMS information, at least on a sample basis, and appropriate reconciliation of inventory results to records.

We recommend the Assistant Secretary for Management and the Chief Financial Officer take action to:

- 2.2 Through additional training or other means, reinforce the importance the COR's responsibility in contractor oversight and documenting performance monitoring and incentive payment justification.
- 2.3 Ensure a contract monitoring plan is developed and implemented for current PMIT contracts to ensure appropriate monitoring.

We recommend that the Chief Financial Officer:

- 2.4 Resolve the unliquidated balance remaining for the travel and materials portion of the FY 2005 IT Equipment Inventory. From any future payments, withhold the amount of incentive payment erroneously made in the category where no incentive was authorized.

OM/OCFO Response:

In a combined response, OM and OCFO concurred with the finding and provided corrective actions to address each of the four related recommendations included in our report. OM and OCFO stated they will develop a contract/statement of work that clearly outlines the process and provides measurable performance standards for each task within the process, and include requirements for the contractor to reconcile differences between the physical inventory and the AMS. OCFO stated it will lead the discussion to clarify related roles and responsibilities. OM stated it will lead discussions and conduct training sessions for OM government staff overseeing the asset management program on the COR's responsibility in contractor oversight and documenting performance monitoring and incentive payment justification. OM stated it will develop and implement a formal contract monitoring plan for the PMIT contracts. Finally, OCFO stated it will resolve the unliquidated balance for travel expenses and recover the amount of the erroneous incentive payment.

OBJECTIVE, SCOPE, and METHODOLOGY

The objective of our audit was to evaluate the process and results for the FY 2005 IT Equipment Inventory. To accomplish our objective, we performed a review of internal control applicable to the Department’s FY 2005 inventory. We reviewed applicable laws and regulations and Department policies and procedures. We performed a review of FY 2005 inventory files maintained by PMIT, FY 2005 physical inventory final deliverables provided by the ISC, FY 2005 physical inventory reconciliations performed by PMIT, and final FY 2005 inventory results reported by the Department. We conducted interviews with Department and contractor officials responsible for conducting the physical inventory and the reconciliation of items not accounted for during the physical inventory. We performed reviews of FY 2003 through FY 2005 contract files for the ISC and for the two other contractors that provided support services to PMIT.

The scope of our audit was limited to the review of documentation and data to support the processes followed and results reported for the FY 2005 IT Equipment Inventory. This included the contents of individual PMIT files associated with 22 POs. To evaluate the final inventory results, we judgmentally selected seven POs to validate the reconciliation performed and the results reported for the FY 2005 IT Equipment Inventory. These POs provided review of offices with varying amounts of equipment on hand. The Department reported 12,302 assets assigned to these 7 POs in its FY 2005 inventory results. Overall, these POs accounted for 40 percent of the 30,578 assets reported for the entire Department. The selected POs are provided in the table below:

Principal Office	Number of Assets Within the Principal Office as Reported in FY 2005 Inventory Results
IES	1,142
FSA	6,627
NAGB	107
OCFO	1,504
OGC	462
OIIA	878
OIG	1,582
Total	12,302
Department-wide Total	30,578

To achieve our objective, we relied on computer-processed data initially obtained from the ISC to identify items not accounted for during the FY 2005 inventory. An alternative data source was not available to directly test the completeness or accuracy of the ISC data. This data was used by PMIT as a starting point for its reconciliation process. In

conducting this audit, we attempted to reconcile the ISC results to the Department's final report, but we found that sufficient documentation did not exist to support the Department's results (see Finding 1 for further discussion of this issue). Nor did the COR have documentation to compare quality assurance testing with the ISC results to provide a level of assurance for the ISC data (see Finding 2 for further discussion of this issue). As a result, we were not able to assess the reliability of the computer-processed data provided by the ISC. However, when the ISC data is viewed in context with other available evidence, we believe the opinions, conclusions, and recommendations in this report are valid.

We conducted fieldwork at Department offices in Washington, DC, during the period May 2006 through August 2006. We provided our audit results to Office of Management and Office of the Chief Financial Officer staff on August 30, 2006. Our audit was performed in accordance with generally accepted government auditing standards appropriate to the scope of the review described above.

ADMINISTRATIVE MATTERS

Corrective actions proposed (resolution phase) and implemented (closure phase) by your office will be monitored and tracked through the Department's Audit Accountability and Resolution Tracking System. 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.

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

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

In accordance with the Freedom of Information Act (5 U.S.C. § 522), reports issued by the Office of Inspector General are available to members of the press and general public to the extent information contained therein is not subject to exemptions in the Act.

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

Sincerely,

Helen Lew /s/
Assistant Inspector General for Audit Services

Attachment

cc: Jeanie Banks, Audit Liaison Officer, OM
Glenn Perry, Director, Contracts and Acquisition Management (CAM), OCFO
Cynthia Bond-Butler, Audit Liaison Officer, CAM/OCFO



UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF MANAGEMENT

NOV 15 2006

ASSISTANT SECRETARY

TO: Helen Lew
Assistant Inspector General for Audit Services
Office of Inspector General

FROM: Michell C. Clark
Assistant Secretary for Management

Lawrence Warder
Chief Financial Officer

SUBJECT: DRAFT AUDIT REPORT: Fiscal Year 2005 Information Technology Equipment Inventory, Control Number ED-OIG/A19G0007

Thank you for your draft audit report, *Fiscal Year 2005 Information Technology Equipment Inventory*, ED-OIG/A19G0007, dated October 11, 2006. We are in the process of reconciling the Fiscal Year (FY) 2005 inventory report from the inventory services contractor (ISC) that you reviewed in your audit. To date, we have validated the disposition of 2,066 of the 2,259 desktops/laptops and servers referenced in your report. We expect to validate the disposition of the remaining 193 in the coming weeks. We will complete a full reconciliation of the entire list of potentially missing 5,037 assets. To date, we have validated the disposition of 3,882 of these assets.

The Office of Management (OM) and the Office of the Chief Financial Officer (OCFO) have no comments on the objectives, scope, methodology or findings in this report. We concur with your two findings and related recommendations, and present the following proposed corrective actions for implementing the OIG recommendations.

Finding 1: The Department Could Not Support the Results Reported for the FY 2005 IT Equipment Inventory.

Recommendation 1.1: Resolve the items reported as not found by the ISC during the FY 2005 inventory. At a minimum, or as the highest priority, we recommend that the Department resolve the 2,259 computers and servers reported as not found. We further recommend that the Department utilize staff and/or contractors who were not involved in the FY 2005 inventory reconciliation process to provide independent results.

Proposed Corrective Action: OM will work with the Principal Offices to reconcile the final FY 2005 report from the ISC. We will not use the ISC, the current Property Management and Inventory Team (PMIT) contractor, the software vendor, or the government staff overseeing the previous reconciliation for this new effort. OM will submit a final reconciliation report for the FY 2005 inventory report from the ISC to Chief Financial Officer. A copy of the report, along

with evidence of its submission to the Chief Financial Officer, will be placed in the audit file as evidence that this action has been completed.

Proposed Completion Date: December 31, 2006

Contact: Norma Duncan, OM

Recommendation 1.2: Ensure that for any items that cannot be found, Reports of Survey and other documents are generated and submitted to appropriate authorities.

Proposed Corrective Action: OM will work diligently to document Reports of Survey and related forms for any items listed as not found in the final FY 2005 report from the ISC, and will submit this documentation to the appropriate authorities. Copies of these forms and other documents will be placed in the audit file as evidence that this action has been completed.

Proposed Completion Date: December 31, 2006

Contact: Norma Duncan, OM

Recommendation 1.3: Update and implement policy and procedures for the inventory reconciliation process, and include requirements that adequate records are maintained to support inventory reconciliations.

Proposed Corrective Action: OM will update the ACS Handbook OM-05, *Property Management Manual*, dated December 2002, to include policy and procedures for the inventory reconciliation process and requirements that adequate records are maintained to support inventory reconciliations. Updates to the Handbook shall also incorporate all business rules and business processes established over the course of AMS adjustment activities. This action will be completed when the updated Handbook is signed and fully authorized through the ACS process. A copy of the updated Handbook will be placed in the audit file as evidence that this action has been completed.

Proposed Completion Date: March 31, 2007

Contact: Paula Martin, OM

Recommendation 1.4: Consider the Department's IT equipment inventory management system an internal control deficiency until improved controls are in place and operating, subsequent inventories are taken and fully reconciled to records, and the results of the inventories are within acceptable standards.

Proposed Corrective Action: The property management and inventory control process was reported as a reportable condition on the OM Senior Officer Certification form for the FY 2006 Federal Managers' Financial Integrity Act (FMFIA) Report to the President and Congress.

Completed: September 22, 2006

Finding 2: Contract Management Was Not Effective

Recommendation 2.1: Ensure that contracts for future inventories provide accountability for equipment, to include validation of AMS information, at least on a sample basis, and appropriate reconciliation of inventory results to records.

Proposed Corrective Action: OM and OCFO/Contracts and Acquisitions Management (CAM) will develop contract language for the new inventory contract that will require the contractor to ensure an accurate inventory and provide accountability for equipment. The contract/statement

of work will clearly outline the process and provide measurable performance standards for each task within the process. The contract will require the contractor to conduct an inventory to independently (i.e., not relying on AMS data) obtain an accurate and complete count of accountable assets. Performance standards in the contract will measure the accuracy and completeness of the count as well as the proper application of appropriate asset tags and/or temporary barcode labels. The verification and validation of the accuracy of the count will be performed through random sampling. The contract will then require the contractor to reconcile differences between the physical inventory and the AMS. This step will validate and, as necessary, correct the information in the AMS, as well as possibly identify errors in the physical inventory. Performance standards in the contract will measure the accuracy and completeness of the reconciliation. The Quality Assurance Surveillance Plan (QASP) and the contract monitoring plan will document the steps to measure and monitor contractor performance. If multiple contracts are involved, clear lines of responsibilities will be identified.

Proposed Completion Date: March 31, 2007

Contact: John King, OCFO/CAM

Recommendation 2.2: Through additional training or other means, reinforce the importance of the COR's responsibility in contractor oversight and documenting performance monitoring and incentive payment justification.

Proposed Corrective Action: OCFO/CAM staff will lead the discussion on clarification of roles and responsibilities concerning the asset management inventory efforts with the PMIT program manager and COR, to occur concurrent with the award of the new asset management inventory contract. The contract monitoring plan and the QASP will be used as the basis for discussion, to include discussion on the process for recommending and approving incentive payments. If support from multiple contractors is required, all CORs will be brought together to discuss contract requirements and clarification of roles and responsibilities. OCFO proposes to hold discussions with the COR and program manager by March 31, 2007.

OM staff will lead discussions and training sessions for the OM government staff overseeing the asset management program on the COR's responsibility in contractor oversight and documenting performance monitoring and incentive payment justification. A copy of the training session material, along with a list of participants, will be placed in the audit file as evidence that this action has been completed.

Proposed Completion Date: March 31, 2007

Contact: John King, OCFO/CAM

Recommendation 2.3: Ensure a contract monitoring plan is developed and implemented for current PMIT contracts to ensure appropriate monitoring.

Proposed Corrective Action 1: OM will develop a formal contract monitoring plan for the PMIT contracts. OM will submit this plan to the Contracting Officer for approval. A copy of the contract monitoring plan and evidence of the Contracting Officer's approval of this plan will be placed in the audit file as evidence that this action has been completed.

Proposed Completion Date: December 31, 2006

Contacts: John King, OCFO/CAM

Paula Martin, OM

Proposed Corrective Action 2: The OM COR for the PMIT contracts will implement the contract monitoring plan approved in the first corrective action for this recommendation. Documented results of the monitoring plan will be placed in the audit file as evidence that this action has been completed.

Proposed Completion Date: March 31, 2007

Contacts: John King, OCFO/CAM
Paula Martin, OM

Recommendation 2.4: Resolve the unliquidated balance remaining for the travel and materials portion of the FY 2005 IT Equipment Inventory. From any future payments, withhold the amount of incentive payment erroneously made in the category where no incentive was authorized.

Proposed Corrective Action: OCFO/CAM will resolve the unliquidated balance for travel expenses. The amount of the erroneous incentive payment will be recovered.

Proposed Completion Date: December 31, 2006

Contact: John King, OCFO/CAM

Thank you again for this opportunity to respond. Should you have any questions, please contact Donna Butler, OM at 401-8530, or Cynthia Bond-Butler, OCFO at 245-6221.