



UNITED STATES DEPARTMENT OF EDUCATION
OFFICE OF INSPECTOR GENERAL

AUDIT SERVICES

June 1, 2010

FINAL ALERT MEMORANDUM

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

Thomas Skelly
Acting Chief Financial Officer
Office of the Chief Financial Officer

FROM: Keith West /s/
Assistant Inspector General for Audit

SUBJECT: Desktop Services Pricing Under the EDUCATE Contract
Control Number ED-OIG/L19K0004

While responding to allegations received by the Office of Inspector General's (OIG) Hotline regarding the U.S. Department of Education's (Department) management of the Education Department Utility for Communications, Applications, and Technology Environment (EDUCATE) contract, we became aware that the Department may not have effectively assessed the reasonableness of the EDUCATE contractor's proposed prices for desktop services over the life of the contract. Specifically, the Department may not have effectively:

1. Validated aspects of the Independent Government Cost Estimate (IGCE) pertaining to desktop services prices;
2. Performed market research regarding desktop services costs; and
3. Resolved potential weaknesses identified in the contractor's proposed pricing for desktop services.

As a result, the Department may be paying the EDUCATE contractor unreasonable prices for these services. The purpose of this alert memorandum is to bring our concerns to your attention in order to expedite corrective action.

Contract Background

Under the EDUCATE contract, the Department migrated from a Government-Owned Contractor-Operated Information Technology (IT) environment, to a Contractor-Owned Contractor-Operated (COCO) IT environment. This required the contractor to provide the total IT platform and infrastructure to support Department employees in meeting the Department's

Source Selection Information in this memorandum is redacted. See FAR 2.101 and 3.104

mission. The contract was awarded in September 2007 as a 10-year, performance-based, indefinite delivery/indefinite quantity contract with fixed unit prices.

The contracted services are performed under eight operational areas known as contract line item numbers (CLIN). The CLINs consist of desktop, helpdesk support, systems/data center, e-mail, network, disaster recovery, printer, and other special services. Desktop services, identified as CLIN 1 in the contract, includes asset inventories and management, hardware refreshes based on a 4-year life cycle, desktop engineering, image control and maintenance, ticketing management, install moves, adds, changes, and associated reporting.

The Department estimated the costs of the EDUCATE strategy by developing an IGCE by CLIN and conducting market research. The contractor's proposed pricing was evaluated by a team of Department officials known as the Price Evaluation Panel (PEP). The OIG also evaluated the contractor's proposed prices during its performance of pre-award work requested by Contracts and Acquisition Management (CAM).¹

IGCE Validation

During this review, we became aware that the contractor's proposed price for desktop services over the 10-year life of the contract was [REDACTED]. Specifically, the contractor's proposed price for desktop services totaled [REDACTED].

The Department awarded a task order to an independent contractor to review the Department's existing contracts and statements of work likely to be a part of EDUCATE's scope and compare their cost to the IGCE. However, the contractor reported it was unable to validate the IGCE's cost justifications because it did not have access to relevant business cases it considered necessary to support it. In addition, the contractor's report stated the Fiscal Year 2007 acquisition plan's cost for desktop services validated as belonging in the EDUCATE scope (baseline) was \$6.2 million (37 percent) less than the IGCE. To address this and other variances, the report suggested options that included reducing the IGCE or reducing the EDUCATE scope. However, the contractor's report did not include a variance analysis of the cost discrepancies between the baseline and IGCE costs. As a result, the information offered limited value to the Department.

Officials from CAM and other participants on the EDUCATE acquisition team were unable to provide significant detail on the IGCE. The Contract Specialist stated that revisions were made to the initial IGCE because the cost estimates were too high. The Director of Operations and Maintenance Services of the Office of the Chief Information Officer (OCIO) confirmed the

¹ The scope of OIG's evaluation was limited to the determination of whether the contractor's proposed pricing was in line with comparable contracts, sales pricing, and direct labor rates. In conducting the evaluation, OIG was not engaged to express an opinion on the contractor's proposal and therefore did not. OIG did provide information regarding variances in the contractor's desktop services pricing and limitations in its supporting data for proposed pricing to assist CAM with the negotiation of price, terms, and conditions of the proposal. The scope of OIG's evaluation did not include a review of the IGCE.

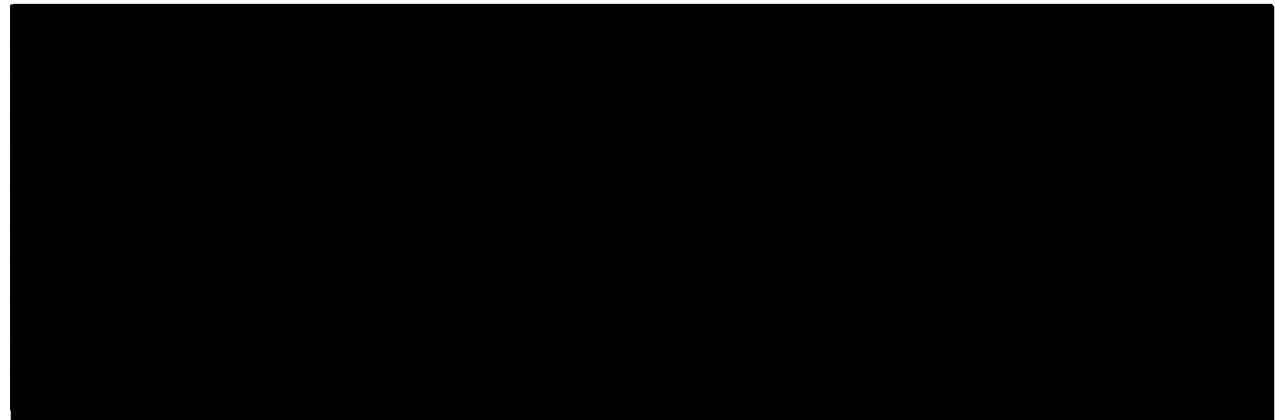
Contract Specialist's statement that there were multiple revisions made to the IGCE. However, he indicated that he was not engaged in its development and identified another OCIO official as the appropriate point of contact for that area, but the OCIO official also indicated that he did not participate in the IGCE development. A former Deputy Chief Information Officer stated that he had some involvement in the development of the IGCE. However, he did not recall specific information.

Market Research Limitations

The independent contractor also conducted market research under the task order cited above. However, the market research presented in its report was limited to the identification of the scope of services for seven other Federal agencies that acquired managed services or outsourced aspects of IT services and an estimate of related per user cost. The estimated per user costs were reported as an aggregate total for the scope of services provided under each contract. We found the scope of each acquisition differed from the EDUCATE scope, therefore the information likely offered limited value to the Department. In addition, the independent contractor did not make recommendations or draw conclusions in its report based on the market research presented. Participants of the EDUCATE acquisition team were unable to provide significant details regarding the market research conducted by the Department.

Potential Weaknesses in Desktop Services Pricing

The Department's PEP used the IGCE to evaluate the EDUCATE contractor's proposed prices over the 10-year life of the contract and followed the applicable criteria established in the Request for Proposal (RFP). The RFP stated that the Government would conduct evaluations of (a) proposed prices to determine if they were valid, realistic, and consistent with the technical proposal and cost model; and (b) proposed unit prices and supporting data to verify that they were reasonable, realistic, balanced, and consistent with the Performance Work Statement.



The OIG also evaluated the EDUCATE contractor's proposed prices during its performance of pre-award work requested by CAM to assist with the negotiation of price, terms, and conditions of the proposal. [REDACTED]

[REDACTED]

[REDACTED] We requested similar information during this review; however, the Department could not provide documentation outlining the underlying support for these costs. A Department official indicated that the Department had previously requested this information, but the EDUCATE contractor refused to provide this data and was not contractually required to do so.

During the course of our review, we attempted to assess the reasonableness of certain per unit costs charged under desktop services. [REDACTED]

[REDACTED] However, we noted that at the time of our review, a comparable unit could be purchased for \$1,765.35. Although the Department furnished the equipment it already owned to the contractor, such as laptops and desktops, the contractor proceeded to bill the Department for the full monthly per unit equipment costs. [REDACTED] it would appear the Department was being billed for its own equipment up until the time of replacement.

In response to our inquiries regarding the overall reasonableness of the above costs, a CAM official indicated that the desktop services costs included items beyond the hardware profile, such as desk-side support including parts and labor associated with equipment repairs. The official also noted that the commercial unit price was not specific to hardware and reflected the commercial price for providing the service, to include labor. Finally, the official noted that CAM had reviewed proposed contract pricing to determine price reasonableness that included comparisons at the CLIN and total price levels and determined that no proposal was lowest across the board on all CLINs. [REDACTED]

The Federal Acquisition Regulation (FAR) 15-404-1(g), Unbalanced Pricing, states

- (1) Unbalanced pricing may increase performance risk and could result in payment of unreasonably high prices. Unbalanced pricing exists when, despite an acceptable total evaluated price, the price of one or more contract line items is significantly over or understated as indicated by the application of cost or price analysis techniques...
- (2) All offers with separately priced line items or subline items shall be analyzed to determine if the prices are unbalanced. If cost or price analysis techniques indicate that an offer is unbalanced, the contracting officer shall—

² The Principal/Mobile package included a laptop (80GB hard drive), battery, docking station, keyboard, mouse, monitor, desk phone, and roller case.

- (i) Consider the risks to the Government associated with the unbalanced pricing in determining the competitive range and in making the source selection decision; and
- (ii) Consider whether award of the contract will result in paying unreasonably high prices for contract performance.

Based on the information outlined in this memorandum, the EDUCATE contractor's proposed prices for desktop services may not be fair and reasonable. The Department did not appear to take appropriate actions prior to awarding the contract to address concerns raised by the PEP and OIG which may have indicated unbalanced pricing. The lack of effective IGCE and market research processes as tools for price analysis may have limited the Department's ability to evaluate proposed desktop services pricing. As a result, the Department may be paying the contractor unreasonable prices for desktop services over the life of the contract.

Recommendations

We recommend that the Chief Information Officer and Chief Financial Officer:

- 1.1 Instruct the CO to review the estimated costs for desktop services over the remaining life of the EDUCATE contract and consider re-negotiating pricing for the services before the next option year of the contract is exercised.
- 1.2 Ensure that in future acquisitions the Department's IGCE and market research processes result in a meaningful contribution to the overall acquisition process.

Department Comments

A draft of this memorandum was provided to OCIO and the Office of the Chief Financial Officer (OCFO) for comment. In its response to the draft alert memorandum, OCIO/OCFO concurred with our recommendations and described planned corrective actions. The response is included in its entirety as an attachment to this memorandum.

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

For further information, please contact Michele Weaver-Dugan, Director, Operations Internal Audit team, at (202) 245-6941.

Attachment



UNITED STATES DEPARTMENT OF EDUCATION

MEMORANDUM

DATE: April 27, 2010

TO: Keith West
Assistant Inspector General for Audit

FROM: Thomas P. Skelly
Delegated to Perform Functions of the Chief Financial Officer
Office of the Chief Financial Officer

Danny A. Harris
Chief Information Officer
Office of the Chief Information Officer

SUBJECT: Response to Draft Alert Memo Entitled Desktop Services Pricing Under the
EDUCATE Contract (Control Number ED-OIG/L-19K0004)

The Department has received and reviewed the subject Alert Memo, dated April 12, 2010, and appreciates the opportunity to respond to the alert.

The Department's comments regarding specific recommendations are as follows:

Recommendation 1.1: Instruct the CO to review the estimated costs for desktop services over the remaining life of the EDUCATE contract and consider re-negotiating pricing for the services before the next option year of the contract is exercised.

The Department concurs with this recommendation. The Contracting Officer (CO) will review the CLIN 0001 Desktop Services prices prior to exercising option periods. Should the review of the prices for the upcoming option period find the prices unfair and unreasonable the CO will pursue re-negotiating the prices for desktop services with the contractor.

As mentioned in the Alert Memo, the EDUCATE Contractor is required to provide all hardware necessary to fulfilling the requirements set forth under Contract Line Item Number (CLIN) 0001 (Desktop Services) of the Performance Work Statement (PWS). However, the Department would

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like to emphasize that the PWS further requires the EDUCATE Contractor to supply the labor in order to satisfy the following requirements:

1. A single point of contact for “How to” support calls
2. Level 2 and Level 3 *desk side* support
3. All maintenance, operational, functionality, and software support for the Education Performance Appraisal System (EDPAS)
4. Change/configuration management requests
5. Inventory management
6. Installation and patch management signature files
7. License management
8. Equipment and software warranties
9. Equipment and software maintenance agreements
10. Electronic alert notifications

[REDACTED]

[REDACTED]

[REDACTED] It should be further noted that the contract has an established 15% minimum and maximum “seat” ordering threshold of 4,500 and 6,100 based on the solicited number of 5,300 seats. [REDACTED]

[REDACTED]

[REDACTED] In order to ensure that the proposed and agreed-to pricing accounts for market changes that could not be predicted at the time of award, the contract further contains an economic price adjustment clause that applies to all hardware and software costs during Option Periods V-IX.

The Department would like to further emphasize that, regardless of the acquisition, proposed costs and associated prices are highly dependent upon the proposed solution that are unique to each offer and are independent of the assumptions posed during the formulation of the

government's cost estimate. This is especially the case as it relates to solutions that are innovative and cutting edge, or offerors that are experienced within their respective industry.

Recommendation 1.2: Ensure that in future acquisitions the Department's IGCE and market research processes result in a meaningful contribution to the overall acquisition process.

The Department concurs with this recommendation. The Department will ensure that the acquisition workforce is aware of the importance of the meaningful contribution to the overall acquisition process of independent government cost estimates and market research. The Department believes that the market research performed as part of the EDUCATE acquisition process was meaningful. There were a limited number of agencies that operated under a seat management model and the Department could not locate any agencies operating under a contractor owned contractor operated computer network model. As a result, it was difficult to compare the prices other agencies were paying for the services being acquired under the EDUCATE contract.

Again, the Department appreciates the opportunity to respond to the associated recommendations. We look forward to our continued relationship with your office and are available to discuss this matter further if you feel necessary.