

Review of Information Technology Contracts
Report No. 00-15, September 6, 2000

BACKGROUND

The RRB has used various contractors to install, maintain, and upgrade systems software and hardware. The agency has endorsed the use of contractor assistance on specific projects in which agency staff either lacks the necessary expertise or is unable to perform the work within the designated timeframe. During the fiscal year 2000-2004 period, the RRB expects to consider the use of contractors for several IT capital initiatives, including IT architecture design, system integration and support services, computer security vulnerability assessment, document imaging, communications upgrades, and local area network server review and assessment.

In general, the contracting process can be divided into three phases: pre-award, award, and post-award. In the pre-award phase, the agency defines user requirements, approves projects, and estimates the benefits and cost. During the award phase, tasks such as submitting a request for proposal, determining the type of contract, and selecting a contractor are included. The post-award phase includes tasks such as monitoring the contractor's performance, cost, and schedules.

The Director of Supply and Service is the RRB's Contracting Officer (CO). The CO has the responsibility of satisfying valid user requirements promptly, economically, and in accordance with applicable laws and regulations. The CO has the authority to issue determinations and findings as required by the Federal Acquisition Regulations (FAR); issue solicitations for offers; execute, modify, and administer contracts and purchase orders; and, with the advice of the General Counsel, render decisions on questions of fact or law arising from contractor disputes.

The CO also designates a Contracting Officer's Technical Representative (COTR) for each contract, as appropriate. The duties of the COTR include monitoring technical compliance, handling administrative and funding matters, resolving technical differences, and assisting in the closeout of the contract. The CO issues a letter to the COTR advising of these duties. Also, the user organization management, depending on the nature and size of the project, sometimes appoints a Project Director to assist the CO with the procurement project.

In addition to following the FAR, both the CO and COTR also follow the RRB's Board Orders, specifically Basic Board Order No. 5 (B.B.O. #5) - Procurement, Property, Supplies, and Service. They also follow Administrative Circulars, including Circular IRM-12 - Benefit-Cost Analyses, and Office of Management and Budget Circulars. The Board Orders are the authoritative guidance for RRB personnel.

The RRB's Automated Data Processing (ADP) Steering Committee approves all requisitions for IT equipment and outside services costing more than \$2,500. In fiscal year

1999, the Bureau of Supply and Service issued contracts totaling \$7.7 million for those contracts costing \$25,000 and more. This includes \$3.3 million for IT contracts.

This audit addresses the third and fourth goal of the RRB's fiscal years 1997-2002 Strategic Plan. The third RRB goal is to align resources to effectively and efficiently meet the agency's mission. An objective within this goal is to use outside sources and partnerships, when appropriate. The fourth goal calls for the expanded use of technology and automation to achieve the agency's mission. An objective within this goal is to ensure that the technology infrastructure supports achievement of the agency's Strategic Plan.

OBJECTIVE, SCOPE, AND METHODOLOGY

The audit objective was to determine whether the RRB is complying with Federal regulations, as well as the RRB's Administrative Circulars and the Board Orders concerning IT-related contracts. The review also assessed the adequacy of the agency's contractual oversight efforts.

The audit scope covered the active contracts during fiscal year 1999 and planned contracts in fiscal year 2000. The review included contracts selected from pre-award, award, and post-award phases based on relative risks of each phase.

To accomplish the audit objective, the following audit steps were performed:

- Interviewed auditees to obtain a general understanding of the IT contracting process;
- Reviewed flowcharts developed for the Procurement of Goods and Services assessable area, which are submitted to the RRB's Management Control Review Committee;
- Evaluated the risk assessment rating assigned to the Procurement of Goods and Services area;
- Developed questionnaires for detailed understanding of the IT contracting process;
- Selected 12 specific contracts in different phases of the contracting process; and
- Tested these 12 contracts for compliance with FAR, RRB's Board Orders and Administrative Circulars.

The fieldwork was performed at the RRB's headquarters in Chicago, Illinois during the period January 2000 through July 2000. This audit, included in the OIG's Fiscal Year 2000 Annual Work Plan, was performed in accordance with generally accepted government auditing standards appropriate for this type of review.

RESULTS OF REVIEW

Our review determined that improvements are needed to fully comply with Federal regulations, as well as the RRB's Administrative Circulars and the Board Orders. The RRB should improve contractual oversight efforts. Specifically, our review determined that the RRB did not always comply with requirements in RRB's Administrative Circular IRM-12 for performing benefit-cost analyses. The RRB should perform a post-implementation review for the RRB Data Center Modernization Plan and the Wide Area Network project, which were two important initiatives for the agency. In addition, we determined that the RRB should update B.B.O. #5 to include the procedures for acceptance of goods and services, certifying invoices, and defining responsibilities of the COTR.

The details of our review are discussed below.

Benefit-Cost Analysis Required by Administrative Circular IRM-12

The Office of Programs and the Bureau of Information Services management did not perform a benefit-cost analysis for the Wide Area Network contract or seek an exemption for performing the analysis from the ADP Steering Committee. The Wide Area Network project installed a communication link between the RRB headquarters and all field offices. It cost approximately \$755,000, and was started in April 1999 and implemented in April 2000.

The ADP Steering Committee approved the Wide Area Network project to proceed without asking for the benefit-cost analysis. The Project Director for the Wide Area Network project stated that not enough time was available to conduct the benefit-cost analysis due to discontinuation of telecommunications services by AT&T. AT&T informed the RRB in late 1998 that it would discontinue telecommunications services on September 30, 1999.

RRB's Administrative Circular IRM-12, Benefit-Cost Analyses, requires that a benefit-cost analysis should be prepared when projected costs are expected to exceed 1% of the agency's fiscal year technology and automation obligations. The Wide Area Network project met the established financial criteria. The Circular also states that the ADP Steering Committee can exempt a project from a benefit-cost analysis if special circumstances warrant. The Circular states that only projects approved by the ADP Steering Committee will be allowed to proceed.

In the absence of benefit-cost analysis, the RRB management could not know whether the project's benefits exceed costs. There is also a risk that resources may be spent on unworthy projects or that all feasible alternatives may not be considered.

Recommendation:

The Bureau of Information Services and the ADP Steering Committee should ensure that, for all future IT projects meeting the established financial criteria (1% of IT obligations),

either the required benefit-cost analysis be completed or an exemption obtained from the ADP Steering Committee (Recommendation 1).

Management's Response:

The Bureau of Information Services and the ADP Steering Committee concur with our recommendation.

Post-Implementation Reviews

The Bureau of Information Services management did not compare actual results with estimated costs, schedules, benefits, and performance for a major project costing approximately \$2.3 million. This project was the Data Center Modernization Plan, which was implemented in November 1998.

RRB management did not perform this analysis because they have not completed a post-implementation review of this project. A post-implementation review would compare the estimated results that were determined in the benefit-cost analysis against the actual results. The RRB revised Administrative Circular IRM-12 in February 1999 to include a new requirement for a post-implementation review.

Although a post-implementation review was not required at the time the RRB initiated the Data Center Modernization Plan, it would be a good business practice to perform this review for the following reasons:

- The Bureau of Information Services had prepared a benefit-cost analysis for the major components of the Data Center Modernization Plan.
- The ADP Steering Committee had approved the Plan as an important initiative for the agency.

In addition, even though RRB management did not perform a benefit-cost analysis for the \$755,000 Wide Area Network contract, a post-implementation review documenting the actual performance, cost, schedule and benefits of this important project would provide useful information to RRB management.

RRB management agrees that post-implementation reviews would be beneficial for both projects. In the absence of a post-implementation review, the RRB management would not know how a project's actual performance compares to the original estimates.

Recommendations:

The Bureau of Information Services should:

- perform a post-implementation review for the Data Center Modernization Plan

(Recommendation 2), and

--direct that a post-implementation review documenting actual performance, cost, schedule, and benefits be conducted for the Wide Area Network project (Recommendation 3).

Management's Response:

The Bureau of Information Services concurs with both recommendations and will complete corrective action by December 31, 2000.

Acceptance of Goods and Services

Our review of sampled IT projects showed inconsistencies in acceptance of goods and services, and certification of contracts. Some contracts had detailed acceptance procedures while other contracts did not. In addition, the Project Manager certified invoices for some contracts and the COTR certified invoices for other contracts.

The RRB's B.B.O. #5 does not contain specific guidance and procedures on acceptance of hardware, software, and services, and on invoice certification activities dealing with the information technology purchases. Although the FAR discusses various acceptance criteria for goods and services, the B.B.O. #5 has not fully adapted the FAR's criteria to meet specific agency needs.

In the absence of specific guidance and procedures in B.B.O. #5, the RRB may improperly accept goods/services, certify invoices, and make payments for unsatisfactory goods/services.

Recommendation:

The Bureau of Supply and Service should modify the RRB's Basic Board Order No. 5 to include specific guidance and procedures for accepting hardware, software, and service acquisitions, and certifying invoices for payments (Recommendation 4).

Management's Response:

The Bureau of Supply and Service has agreed to provide the specific guidance and procedures in an Administrative Circular rather than in Basic Board Order No. 5. Corrective action will be completed by November 30, 2000.

OIG Response:

The Bureau of Supply and Service's alternative corrective action is acceptable.

Responsibilities of the Contracting Officer Technical Representative

Our review revealed the inconsistencies in the responsibility for the COTR. Sampled contracts revealed the following:

--The CO's need to appoint a COTR was not clear;

--In one contract, a staff person in the Office of Programs assumed the role of the COTR without being appointed by the CO; and

--In another contract, an Office of Programs manager assumed the role of the Project Director and appears to have negotiated with various vendors directly.

The RRB's B.B.O. #5 does not contain specific duties and responsibilities for the COTR or define the conditions when a COTR is needed. Instead, B.B.O. #5 defines the duties and responsibilities of the Project Director. The FAR discusses policies and procedures to ensure that supplies and services acquired under a contract conform to the contract's requirements. While these policies and procedures are similar to the COTR's duties, B.B.O. #5 has not fully adapted the FAR's criteria to meet specific agency needs.

In the absence of specific criteria and clearly delineated responsibilities for a COTR in B.B.O. #5, RRB staff can improperly assume role of the COTR. This action could lead to confusion, duplication, and frustration, which could impact the quality of contract performance. Also, we believe that the RRB could be exposed to potential legal liability because of unauthorized communication of RRB staff with the contractor and misunderstanding of the contractor concerning responsibility.

Recommendations:

The Bureau of Supply and Service should modify Basic Board Order No. 5 to:

- include the duties and responsibilities of the Contracting Officer Technical Representative (Recommendation 5),
- establish criteria to appoint the Contracting Officer Technical Representative (Recommendation 6), and
- remove all references made to the Project Director (Recommendation 7).

Management's Response:

The Bureau of Supply and Service agreed with all three recommendations and will complete corrective action by October 15, 2000.