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Report to Sen. William Proxmire; by Robert F. Keller, Acting Comptroller General.

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The Office of Education awarded a sole source contract to North American Rockwell Corporation (now Rockwell International Corporation) in 1969 for development of a computerized management information system.

Findings/Conclusions: The sole source contract stipulated that the system be operational in 9 months at a total cost-plus-fixed-fee of \$378,174. Instead, the contract took 44 months to complete and the costs amounted to about \$3 million. Despite the amount and funds expended, the system did not function as intended and the contract was terminated before the contractor completed all the work it was to have accomplished. After abandoning the use of the system developed by the contractor, the Office of Education developed a less sophisticated system of its own at a cost of about \$20,000 that met the same needs. The contract review procedures were inadequate and agency officials did not adequately justify the continuation of contract modifications. Office of Education officials in several instances did not comply with Federal Procurement Regulations and circumvented Office internal procedures in administering this contract. (Author/SC)

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REPORT OF THE COMPTROLLER GENERAL OF THE UNITED STATES

History Of Contract Awarded To Develop A Project Grant Information System

**Office of Education
Department of Health, Education, and Welfare**

An Office of Education contract for the development of a computerized management information system increased in cost from \$378,000 to over \$2 million and in duration from 9 months to 44 months. Because of poor management of the contract and poor contractor performance, the system did not function as intended. Ultimately, the Office abandoned its use.



COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

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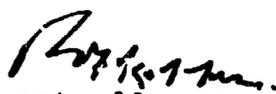
The Honorable William Proxmire
United States Senate

Dear Senator Proxmire:

As you requested on January 30, 1976, we have reviewed an Office of Education, Department of Health, Education, and Welfare contract awarded in 1969 to North American Rockwell Corporation (now Rockwell International Corporation). The contract was for the development of a computerized project grant information system.

We have obtained comments on our report from the Department and the contractor and have incorporated their comments into our report.

Sincerely yours,


ACTING Comptroller General
of the United States

REPORT OF THE
COMPTROLLER GENERAL OF
THE UNITED STATES

HISTORY OF CONTRACT AWARDED
TO DEVELOP A PROJECT GRANT
INFORMATION SYSTEM
Office of Education
Department of Health,
Education, and Welfare

D I G E S T

The Office of Education awarded a sole-source contract to North American Rockwell Corporation (now Rockwell International) in October 1969 to develop a computerized information system to enable the agency to better keep track of its grant awards.

The original contract stipulated that the system be operational by July 1970 at a total cost-plus-fixed-fee of \$378,147. But the contract was extended through June 1973 and the price increased to about \$2.2 million. According to the HEW Audit Agency, the Office of Education incurred an additional \$842,000 in costs for the system, increasing the total cost to more than \$3 million. (See p. 26.)

Despite the amount of time and funds expended, the system did not function as intended.

The contract was terminated before the contractor completed all the work it was to have accomplished. In March 1974 the Office of Education abandoned its use of the system developed by the contractor. Later it developed a less sophisticated system of its own at a cost of about \$20,000 that met the same needs that were to be met by a simplified version of North American's system. (See pp. 13 and 23.)

WHY DID THE CONTRACT GROW?

It grew because of poor Office of Education management and poor contractor performance. The Office did not take strong action to make certain that the contractor would complete work on time and within the contract price. Frequent changes in responsibility for the

contract within the Office also hindered its capability to manage the contract.

Several officials expressed reservations about the system before the contract was awarded (see pp. 4 and 5), and the development of the system was plagued with problems almost from the beginning. However, the Office approved 16 modifications which increased the contract amount to about \$2.2 million and the contract period to 44 months. (See ch. 3.)

The Office of Education was not satisfied with the contractor's progress during the original contract period but approved a contractor proposal in June 1970 to continue work when the contractor agreed to share the cost of the additional effort. (See p. 7.) Office of Education officials recommended approval of successive contractor proposals to continue work to preserve the continuity of the project in hopes of its successful completion. (See pp. 10, 12, 13, and 14.)

However, the Office of Education ultimately abandoned its efforts to make the system successful. (See p. 22.)

WHAT WAS THE NATURE OF THE CONTRACT REVIEW PROCEDURES?

The procedures were inadequate, and Office of Education officials did not adequately justify the continuation of contract modifications. The Office established a Sole Source Board in February 1972 to review all proposed sole-source actions greater than \$25,000, including contract modifications. Before the Board was established, Office of Education officials did not describe what led them to believe that the contractor would complete the work within the new constraints. The Sole Source Board required more detailed justifications for proposed sole-source modifications.

An April 1973 Board decision not to award additional funds under the contract was overruled by a high-ranking Office of

Education official. But in June 1973 the Office notified the contractor that no additional funds would be available for sole-source modifications on this contract. (See pp. 15 to 18.)

WHAT WAS THE NATURE OF AN HEW AUDIT AGENCY REVIEW OF THE CONTRACT?

The HEW Audit Agency reviewed the project to determine why the system failed to achieve its objectives. It found that poor Office of Education management and poor contractor performance contributed to the system's failure. The Audit Agency prepared a draft report but did not issue a final report because of other ongoing studies. (See p. 25.)

WHAT WAS THE ROLE OF THE GENERAL COUNSEL OF HEW?

Officials in HEW's Office of the General Counsel told GAO that the Office of the General Counsel did not play a legal role in this contract and was not asked by the Office to determine whether funds could be recouped.

WHAT LAWS AND REGULATIONS MAY HAVE BEEN VIOLATED?

In GAO's opinion, Office of Education officials in several instances did not comply with Federal Procurement Regulations and circumvented Office internal procedures in administering this contract.

The contracting officer did not approve one contract modification until the period covered by the modification had expired. The contractor thus was working without a duly executed contract. In two other instances, the Office of Education awarded the contractor additional funds by telegram pending negotiation of a formal modification within 60 days. In both instances, the formal modification was not approved within 60 days and the contractor was working without a duly executed contract. (See p. 19.)

The Office of Education should have placed greater emphasis on criteria outlined in Federal Procurement Regulations requiring consideration of past contractor performance in determining contract fees, including those on contract modifications. (See pp. 19 and 20.)

The proposal which the Office of Education accepted was handled as an unsolicited proposal, although it was actually a follow-on effort to earlier contract work. As such, it did not meet Office of Education criteria for an unsolicited proposal. (See p. 20.)

The contract was awarded on a sole-source basis. Contrary to an Office directive, Office of Education officials did not inform the contracting officer of other sources considered for the proposed sole-source procurement. (See p. 21.)

In March 1973 the Office of Education circumvented internal procedures by committing \$32,000 to the contractor without Sole Source Board approval. (See p. 21.)

HEW AND CONTRACTOR COMMENTS

HEW stated that the concept of the system was sound but too large for its state of the art at the time it was undertaken. Further, HEW stated that the project was a case study of a systems failure but that lessons were learned which are being applied to avoid similar situations. (See p. 28.)

The contractor disagreed that its performance was poor and felt it should be judged in light of difficulties it had in dealing with the Office of Education. (See p. 29.)

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ABBREVIATIONS

GAO	General Accounting Office
HEW	Department of Health, Education, and Welfare
OE	Office of Education
PGIS	project grant information system

CHAPTER 1

INTRODUCTION

In January 1976 Senator William Proxmire requested that we review a contract between the Office of Education (OE), Department of Health, Education, and Welfare (HEW), and North American Rockwell Corporation for a computer system known as the project grant information system. (See app. I.)

The purpose of the system was to consolidate management information on about 40 OE programs to enable OE to better monitor its discretionary grants. It was to provide both current and historical information from when a proposal (grant application) was received through the term of the grant. When the contract to develop this system was awarded, OE did not have an OE-wide management information system to monitor grants it awarded. Individual bureaus within OE had their own computerized or manual management systems. The project grant information system was an attempt to consolidate information on discretionary grants awarded by all OE activities to make the grant-awarding process more visible at all management levels.

The system was to provide information to help management (1) plan and select new projects, (2) award and control grants, (3) administer programs and individual projects, (4) control and forecast program budgets, and (5) obtain information on educational trends. The system was to generate numerous reports, some on a regular basis but most only on request. Reports to be generated included:

- Educational intelligence reports showing programs authorized and current proposals.
- Financial reports showing information on budgets and committed and obligated program funds.
- Reports showing the status of proposals and projects by stage of processing.
- Letters notifying applicants of approval or disapproval of their proposals.

The contract for the system was actually between OE and a subsidiary of North American Rockwell Corporation--North American Rockwell Information Systems Company--and was awarded on a sole-source basis in October 1969. The

sole-source award was made because North American Rockwell Corporation had successfully designed two other computer systems for OE under a prior contract.

Under the original contract terms, the project grant information system was to be operational by July 1970 and the total price--cost-plus-fixed-fee--was about \$378,000. However, the contract period was extended through June 1973 and the price increased to about \$2.2 million. The HEW Audit Agency estimated that OE incurred an additional \$842,000 cost, making the total cost of the system over \$3 million.

Despite the additional time and funds expended, the system did not function as intended. Therefore, although the contractor had not completed all the planned work, OE terminated the work in June 1973. OE later developed a less sophisticated system, on its own and at less cost, to meet the same needs that were to be met by a simplified version of the project grant information system.

Senator Proxmire asked us to determine:

- Why the contract grew from 9 months and \$378,000 to about 4 years and over \$2 million.
- The nature of OE's internal review of each of the major contract modifications.
- The nature of the HEW Audit Agency's review of the contract, its findings, and why the review was terminated.
- The role, if any, of HEW's legal staff in this case.
- What laws and regulations, if any, were broken by individuals involved in this situation.

SCOPE OF REVIEW

Our review included an analysis of the contract award and each of the contract modifications. We also reviewed events preceding the award which had an impact on contract results. We reviewed OE's contract file and documents obtained from persons with whom we discussed the contract.

We interviewed OE officials; contractor personnel; and HEW General Counsel, HEW Audit Agency, and Defense Contract Audit Agency officials. We contacted the Defense Contract

Audit Agency because that agency was responsible for reviewing the contractor's payment vouchers and certifying that the charges were correct.

In addition, we reviewed an HEW Audit Agency draft report and the related workpapers on an audit of the contract and a report on a review of the contract by the House Committee on Appropriations staff.

CHAPTER 2

AWARD OF THE CONTRACT

Under a contract awarded in 1966 North American Rockwell Corporation developed two computerized information systems for the Office of Education. The experience and knowledge gained in developing these two systems was a key factor in the Office of Education's decision to award the October 1969 contract to the Corporation's subsidiary on a scale-source basis.

The purpose of the first system the Corporation developed under the 1966 contract was to compile results of educational research done under OE grants. The second system was to provide information needed to monitor grants awarded by OE's Bureau of Research.

In April 1969 the Corporation submitted an "unsolicited" proposal to develop--by August 31, 1969--a conceptual design for an expanded version of the second system and a plan to implement the system. The expanded version, which became known as the project grant information system, was to provide OE-wide information similar to that provided on Bureau of Research grants by the earlier system. In May 1969 OE authorized the Corporation to begin the work on the design and plan with \$47,000 provided under a modification to the 1966 contract.

The Corporation submitted a conceptual design and an implementation plan for the project grant information system on September 5, 1969. It informed OE that certain elements of the first system developed under the 1966 contract could be adapted to meet the requirements of the project grant information system. Four days later, on September 9, the Corporation submitted an "unsolicited" cost-plus-fixed-fee proposal to implement the system. In the proposal the Corporation notified OE that as of October 1, 1969, its newly formed subsidiary--North American Rockwell Information Systems Company--would be doing the work on the system. The Corporation submitted a proposal on October 10, 1969, to revise some of the milestones in the September 5, 1969, implementation plan. OE contract documents show that exhibit B to the September 9 proposal was a statement of work to be done. We were unable to obtain a copy of the statement of work from OE or the contractor.

At least eight OE employees, including data processing personnel, reviewed the contractor's conceptual design. In September 1969 five of the eight reviewers expressed reservations about the proposed system.

Some specific concerns were (1) whether a totally automated system, such as the project grant information system, was needed or was cost-effective, (2) whether the system would meet OE needs, and (3) whether using the Bureau of Research system as a basis for developing the new system distorted the information and functional requirements to be met by the new system. Several officials who reviewed the conceptual design also expressed concern about the amount of data preparation and system maintenance that OE personnel would have to perform in operating the system.

In addition to the reservations about the system itself, some OE officials were concerned about the qualifications of the contractor personnel who would be assigned to the contract. The officials were aware that the contractor personnel who had designed the system under the earlier contract would not be assigned to implement the system and some expressed concern about the qualifications of the contractor personnel who would replace the design team. One OE official in an October 15, 1969, memorandum questioned whether the contractor would be capable of continued high-quality performance. He said that the newly assigned personnel were not completely cognizant of all the intricate ramifications concerning the proposal. Despite these reservations, he recommended that OE award the implementation contract to the Corporation.

On October 21, 1969, OE's Deputy Assistant Commissioner for Administration (Management Information), who was assigned overall responsibility for administering the proposed contract, recommended that the Corporation be awarded the contract to implement the new system. In a memorandum to OE's Contracts and Grants Division, he gave the following reasons:

1. The Corporation designed and implemented the system for OE's Bureau of Research and was knowledgeable about OE's needs to expand that system.
2. The contractor could adapt part of the first system developed under the 1966 contract to the new system.
3. The contractor had knowledgeable personnel with which to meet a critical schedule.
4. It would require about 2 months to get another contractor and it would take any other contractor approximately 2 months longer to complete the work.

The official said in the memorandum that representatives of OE's bureaus thoroughly reviewed the conceptual design and that all agreed the proposed system fulfilled OE requirements.

On October 24, 1969, OE awarded the contract to North American Rockwell Information Systems Company.

CHAPTER 3

GROWTH OF THE CONTRACT

The project grant information system was not completed within the time and cost constraints of the original contract--to be operational by July 1970 and to cost about \$378,000. Sixteen modifications extended the contract period from July 1970 to June 1973 and increased the total price to about \$2.2 million. The provisions of each modification are described briefly in appendix II.

EARLY PROBLEMS IN ACHIEVING CONTRACT OBJECTIVES

The Office of Education continued to award additional funds even though deficiencies in contractor performance became evident early in the contract period and the contractor was behind schedule. According to OE officials, contract modifications were awarded to the original contractor to maintain project continuity.

Changes in contractor personnel hindered early progress. Personnel who were designing the system resigned before the design was approved by OE and new "key personnel" were assigned to complete the design and implement the system. The new key personnel were replaced by a third project team in December 1969, about 2 months after the contract was awarded. According to the OE official who was project officer until February 1970, the contractor's second and third teams lacked the expertise to perform the tasks outlined in the contract. The project officer said the contractor, lacking the expertise to do the work as originally agreed, wanted to make some changes to the system. He also said he could foresee cost overruns by the time he left the project.

The contractor also had difficulties in delivering products which met with OE approval. Originally the contractor proposed to complete an OE-approved system design by mid-April 1970. To meet that deadline the contractor proposed to begin delivering design documents for review in November 1969. As of the end of April 1970, not all the required design documents had been submitted and those that had been submitted were judged unsatisfactory by OE.

In May 1970 the Office of Education rejected a contractor request for an additional \$158,000--\$93,000 to

cover a cost overrun and \$65,000 for additional work. OE told the contractor that the entire amount was a cost overrun because the work for which the \$65,000 was requested was within the scope of the original contract. OE added that the contractor could demonstrate a commitment to the successful completion of the system by sharing the cost of additional effort and by providing reasonable management support.

The contractor notified OE that it would not share the cost of additional effort required to complete the system. Therefore, on June 12, 1970, the official responsible for administering the contract sent the contractor a telegram outlining OE's problems. Specifically

- OE had awarded funds under an earlier contract for identifying the system objectives and providing an implementation plan,
- the contractor assigned the contract to an executive unfamiliar with OE practices, and
- the contractor changed management and continuously changed technical personnel and did not provide enough experienced personnel or onsite support.

The official further said in the telegram that the lack of technical and managerial continuity was not what OE had expected when it awarded the contract on a sole-source basis. The official added that the contractor's actions were a misapplication of expensive personnel and that OE had approved the management changes only because of the contractor's assurance of increased support for the system. The official requested a meeting with the contractor to develop a plan to meet contract requirements, consider contractor financial responsibility, and negotiate additional funding if justified.

The telegram was sent, according to the official, to force the contractor to meet its obligations and he did not intend to cancel the contract. He said the system was still needed, and he believed that the contractor, because of its experience, should continue working on the system.

In response to the June 12, 1970, telegram, the contractor agreed to assume some financial responsibility to meet contract requirements. The contractor notified OE it would transfer management of the contract from its California office to its Virginia office and assign

overall contract responsibility to an executive who had helped develop two systems for OE under the 1966 contract.

FIRST MAJOR CONTRACT CHANGE

As a result of agreements reached with OE, the contractor submitted a proposal on June 30, 1970, entitled "Project Grant Information System Implementation for the Office of Education." The contractor proposed to complete the system design by mid-August 1970 and to implement the system by February 28, 1971. It requested an additional \$80,000, or half of the estimated additional \$160,000 needed to perform the work.

OE's contracting officer notified the contractor on June 30, 1970--the date of the proposal--that it had been awarded the requested \$80,000. The funds were to cover costs only and did not include any fixed fee. This change increased the contract price from \$378,000 to \$458,000 and extended the contract period from 9 months to 16 months through February 1971.

Approval of proposal

We could find no evidence in OE's contract file that officials involved in the project had reviewed the contractor's proposal before the contracting officer's award of the additional \$80,000. A memorandum in the file dated August 11, 1970, showed only that the project officer had accepted the proposal. The contracting officer approved the formal contract modification on September 1, 1970.

SECOND MAJOR CONTRACT CHANGE

OE approved the system's design in September 1970. The contractor's effort then shifted to system implementation which was to be completed by February 28, 1971. By January 1971, however, implementation had begun in only two of OE's eight bureaus, and the contractor proposed a 16-month extension to June 30, 1972, at an additional cost of \$702,000. This proposal was entitled "Project Grant Information System Implementation, Support, and Control." The contractor proposed to complete system implementation and to incorporate into the system the information requirements of OE's Contracts and Grants Division--including statistics and reports on all contracts and grants under OE jurisdiction.

In addition, the contractor's expanded role in assisting OE in controlling system operations was a major increase in contractor effort from that anticipated in the June 30, 1970, change to the original contract.

OE was to establish (1) a central control group to insure standard system operation and (2) control groups within each bureau to provide input data for the system. OE and contractor personnel would be assigned to both the central control group and the bureau control groups. Contractor personnel would provide assistance and limited informal training to OE bureau personnel in data preparation and system operation.

The contractor also proposed to assign contractor personnel to the central control group to prepare proposal or project descriptive data--that is, to code the proposals and projects according to common, fixed categories. It also was to develop common definitions for these categories and common procedures for assigning this descriptive data to all proposals and projects. Ninety-four of the total 330 staff-months of proposed contractor effort outlined in this proposal was for preparing this descriptive data--a task the contractor had not anticipated in its June 30, 1970, proposal.

Internal review and approval of proposal

The OE project officer told us that OE personnel in the two bureaus where system implementation was begun had been preparing this descriptive data but that this task was too technical and difficult for these persons who lacked expertise in automatic data processing. Having bureau personnel coding proposals and projects caused too many errors and inconsistencies in data preparation. Therefore, OE agreed that it would be more efficient for contractor personnel to perform this task at the central control group.

On February 22, 1971, officials in OE's Office of Management Information recommended that the contracting officer approve this proposal. They mentioned the advantages of centralizing system operations and said that successful system implementation might depend on establishing a central group to monitor day-to-day operations.

The officials based their recommendation on the contractor's experience in developing the system, including initial implementation in two bureaus. They said any other contractor would need substantial orientation, which would

seriously delay the installation and increase the cost of this much needed system. However, they did not tell the contracting officer why the contractor had been unable to complete the work described in the previous proposal on time nor why they expected the contractor to be able to complete the work outlined within the time and cost constraints proposed.

The contracting officer approved two contract modifications for the work outlined in this proposal. However, instead of the proposed \$702,000 increase and 16-month extension, the contract price was increased by \$360,000 (see modifications 5 and 7 in app. II) and the contract period was extended by 9 months, through November 1971. Two additional modifications totaling about \$65,000 for other proposed work were awarded. (See modifications 4 and 6 in app. II.) These four modifications increased the total contract price to \$883,000 and extended the contract period to 25 months.

THIRD MAJOR CONTRACT CHANGE

On November 29, 1971, the contractor submitted a proposal to continue work for an additional 10 months at an additional cost of \$954,000.

The contractor proposed improvements for more efficient and simplified system operation. However, almost two-thirds of the total amount of this cost-plus-fixed-fee proposal--\$630,000 of the \$954,000--was for the contractor to continue performing ongoing tasks. When this proposal was submitted, five bureaus had begun using the system and the contractor had added the information requirements of the Contracts and Grants Division.

In this proposal, entitled "Project Grant Information System Support and Major System Improvements," the contractor stated that system implementation was being hindered by (1) difficulties in getting all bureaus to fully accept and use the system, (2) system production problems, including key-punching problems, lost jobs, and software errors, and (3) system changes and improvements occurring before they could be implemented. Several OE officials we contacted agreed that the first two problems did hinder system implementation.

The contractor proposed that an on-line computer system be installed--a system which would allow users to enter data directly into the system and would reduce delays in data

entry and editing. An OE official told us that the on-line system was never installed. He said the volume of data to be provided was not sufficient to justify installing such a sophisticated system.

The contractor also proposed to perform a study to determine current system requirements in an attempt to simplify the system. OE officials told us they had found the system as previously proposed too complex. It required too much data preparation and input and provided reports OE management did not use.

Internal review and approval of proposal

In a January 25, 1972, memorandum the contracting officer, OE's Deputy Assistant Commissioner for Administration, who was responsible for administering the contract, recommended that this proposal be approved. He said that the proposal described the remaining work necessary to successfully implement the system. He also said that using this contractor's experience to insure the continuity of this project was in the Government's best interest.

The Deputy requested that OE fund the remaining work in phases starting with \$300,000 for December 1, 1971, through March 31, 1972. On January 28, 1972, the contracting officer notified the contractor by telegram that it had been awarded an additional \$300,000.

On February 7, 1972, OE established a Sole Source Board to review all proposed sole-source contract actions, including contract modifications, greater than \$25,000 before fund commitment. Decisions of the Board were to be binding on the Contracts and Grants Division but could be appealed by any OE official to OE's Deputy Commissioner for Planning, Evaluation and Management.

On March 8, 1972, the Board reviewed and approved the additional \$954,000 and the time extension through December 1972. The Board's files did not contain any documents on its discussion of the proposal but did contain the January 25, 1972, memorandum by the OE official administering the contract recommending approval. The official contract modification for \$300,000 to cover work through March 31, 1972, was not signed by the contracting officer until April 3, 1972. The total contract price was now \$1,183,000, and the contract period was now 29 months.

In May 1972 OE approved a contract modification which provided an additional \$200,000 for the contractor to continue work through July 15, 1972. The work to be done was included in the November 29, 1971, proposal, and the \$200,000 was included in the \$954,000 approved by the Sole Source Board on March 8, 1972. Therefore, no further justification for the award was given to the contracting officer. The contracting officer approved the additional funding and time on May 9, 1972. This increased the contract price to \$1,383,000 and extended the total contract period to 33 months.

FOURTH MAJOR CONTRACT CHANGE

On May 2, 1972, the contractor proposed to develop a new, streamlined project grant information system. The contractor proposed to delete unused portions of the system, revise some existing forms, and add some reports to the output. In addition to making the system more simple, these changes were supposed to provide more timely and current reporting. According to OE, the simplified system did not include the grant-tracking system in the original system and became basically a computerized system to provide listings of contracts and grants awarded.

Internal review and approval of proposal

OE estimated that the proposed improvements would cost \$160,000. On June 20, 1972, the Acting Assistant Commissioner for Administration recommended that OE issue a contract modification to allow the contractor to make the improvements because they were necessary for successful system operation. He added that it was in the Government's best interest because the modification would allow continuity of the project and capitalize on the contractor's experience. The official recommended that \$160,000 of the \$954,000 approved by the Sole Source Board on March 8, 1972, be used to fund the additional work. This left a balance of \$294,000 which the official recommended be provided so that the contractor could continue work previously approved through December 1972. 1/

A contracting official told us that the Sole Source Board did not have to approve the May 1972 contractor proposal because the proposal did not increase the funding beyond the previously approved \$954,000.

1/The \$954,000 was awarded in three phases, under contract modifications 8, 10, and 11, as described in app. II on p. 33.

On June 28, 1972, the contracting officer signed the modification to provide the \$160,000 and the \$294,000, or \$454,000, and to extend the contract period through December 1972. This increased the contract price to \$1,837,000 and extended the contract period from 33 to 38 months.

FIFTH MAJOR CONTRACT CHANGE

In early 1972 overall responsibility for administering this contract was transferred from the Office of Management Information to the Contracts and Grants Division. On December 11, 1972, the OE project officer (now in the Contracts and Grants Division) requested that the Sole Source Board approve a proposal solicited from the contractor. The project officer said that the proposal was for work necessary to improve and operate the project grant information system and that the system would probably collapse if OE tried to secure a new contractor to complete the system.

On December 12, 1972, the contractor--at OE's request--submitted a cost-plus-fixed-fee proposal for \$249,000 and an extension of the contract period through June 30, 1973. About \$60,000 of the \$249,000 was to allow the contractor to continue work that was to have been completed by December 31, 1972.

As outlined in this proposal, the new version of the system first proposed in May 1972 was to be operational by January 15, 1973, if sufficient computer time was available. The contractor said that its participation in the project grant information system would be reduced during the proposed contract period and that future system operation would have a different emphasis.

Internal review and approval of proposal

On December 11, 1972, the Sole Source Board approved the procurement, but not without reservations. Official minutes of the hearing revealed that one member objected to the continuation. He said the system should have been completed and operational on January 1, 1973, in accordance with the Board's March 8, 1972, decision to extend this contract through December 31, 1972. However, according to Board minutes, after a discussion of the advantages and disadvantages of the proposed continuation, the Board voted unanimously to approve the continuation, provided that no further funds be spent on this system with this contractor.

After the Board approved the proposal, the contracting officer on December 19, 1972, signed the official contract modification to award the contractor the \$249,000 and to extend the contract period to June 30, 1973. This modification increased the total contract price to \$2,086,000 and the contract period to 44 months.

FINAL MAJOR CONTRACT CHANGES

On January 17, 1973, the contractor notified OE that the \$249,000 awarded in December 1972 would last only through March 10, 1973, rather than June 30, as planned. The contractor stated that it would cease work on March 10, 1973, unless the Government provided additional funds. Instead of approving the request for additional funds, OE issued a contract modification effective February 12, 1973, terminating the contractor's responsibility for preparing and reviewing input data and providing bureau support. The contracting officer said in the modification, which he signed on February 22, 1973, that all costs of doing these tasks would be borne by OE after February 11, 1973.

The contractor, however, continued to perform the terminated tasks and in a telegram dated March 12, 1973, requested an additional \$32,000 for providing bureau support from February 12, 1973, through March 31, 1973. The funds were requested for work which was to have been done within the \$249,000 awarded in December 1972. The contracting officer signed the request for the additional \$32,000 on March 30, 1973. He did so after an OE official had told him on March 15 that OE would be unable to do the work that had been reassigned from the contractor until April 2, 1973.

The Sole Source Board did not review the request for \$32,000 even though it was supposed to approve all contract actions in amounts greater than \$25,000.

On March 21, 1973, the contractor, at OE's request, submitted a budgetary and planning estimate for an additional \$46,200 to continue performing required contract tasks through June 30, 1973, and an additional \$12,000 to \$15,000 in contingency funds. The Acting Director of OE's Automatic Data Processing Division, who was appointed project coordinator, prepared the required information for the Sole Source Board hearing held on April 2, 1973. He requested that the Board approve an additional \$65,000 to cover projected cost overruns from April 2 through June 30, 1973.

In his memorandum, the project coordinator made the following points.

1. Weaknesses in contractor performance and OE oversight contributed to the contractor's failure to complete the work within the established cost constraints.
 - a. The contractor's previous project manager was inexperienced and did not use professional system development practices nor employ project control techniques.
 - b. The contractor did not submit progress reports, nor did OE periodically review the contractor's performance.
2. OE was instituting a standard that would require technical reviews after each phase of system development.
 - a. OE was tracking the contractor's progress weekly.
 - b. The contractor would be required to submit a detailed project plan and monthly progress reports, delineating actual versus planned progress and cost.
3. The contractor had demonstrated commitment to the project by assigning a new manager.

The project coordinator told the Board that an OE committee established in January 1973 to review project performance had determined, after considering several alternatives, that continuing the cost reimbursement contract represented the lowest cost to the Government. This committee had also considered (1) entering into a fixed-price contract with the present contractor and (2) terminating the contractor's system development activities, with OE assuming responsibility for completing the work. The committee included officials from the Office of the Commissioner, the Contracts and Grants Division, the Automatic Data Processing Division, and the Systems Planning and Control Division.

The Sole Source Board denied the request for the additional \$65,000. Its decision was appealed to the Acting Deputy Commissioner for Planning, Evaluation and Management

on April 9, 1973, and the project coordinator prepared a memorandum justifying the appeal. He included the information presented to the Board earlier and the following additional information.

1. Temporary Department of Health, Education, and Welfare regulations on hiring delayed OE from assuming the data preparation and bureau support it had agreed to assume. The contractor should be provided \$32,000 for this work.
2. The cost overrun of \$46,200 should be paid because it was for the new, streamlined version of the system.
3. A new contractor could eventually complete the system only at a substantial increase in cost and time.
4. The proposed amendment for the cost overrun would not exceed \$46,200.
5. Continuation of the cost reimbursement contract was the only feasible way to successfully complete the project.

The revised submission was for \$78,200 rather than the \$65,000 presented to the Sole Source Board. The \$78,200 consisted of the \$32,000 which had already been committed for bureau support in March 1973 and \$46,200 for the additional cost overrun.

On April 11, 1973--before a decision on the appeal was made--the project coordinator requested that the contracting officer issue a modification for \$46,200.

On April 19, 1973, the Acting Deputy Commissioner for Planning, Evaluation and Management overruled the Sole Source Board's April 2, 1973, decision to deny the additional funds. He authorized a contract modification awarding the contractor \$78,200.

On April 23, 1973, the contracting officer signed the modification for \$78,200. This was the last contract modification which awarded the contractor additional funds. The contract totals were now \$2,164,000 and 44 months.

OE REFUSAL TO AWARD ADDITIONAL FUNDS

On May 23, 1973, the contractor notified OE that it had suffered delays because of computer downtime at the HEW Data Management Center, and on May 31 the contractor requested an additional \$5,629 because of the delays.

On June 6, 1973, the contracting officer notified the contractor that no additional funds were available for further sole-source contract modifications. He told the contractor that the "causes for the Office of Education's failure to receive its money's worth on this contract go deeper than a few days of computer downtime"; that only because of the "downtime" was the contractor able to attempt to complete system documentation. He added that OE was concerned that such documentation had been absent or behind schedule throughout the life of the contract.

CHAPTER 4

OE ADMINISTRATION OF THE CONTRACT

APPLICABLE LAWS AND REGULATIONS

The laws and regulations applicable to the administration of this contract are the Federal Property and Administrative Services Act of 1949 and its implementing regulations set forth in chapters 1 and 3 of title 41 of the Code of Federal Regulations, referred to as the Federal and HEW Procurement Regulations, respectively. Noncompliance with some regulations and internal procedures, as well as judgmental errors by OE officials administering the contract, contributed to the contract's growth.

NONCOMPLIANCE WITH FEDERAL PROCUREMENT REGULATIONS

In several instances, we believe OE did not comply with Federal Procurement Regulations in its contracting procedures. The regulations (41 C.F.R. 1-1.208) state that all contracts and contract modifications must be in writing. The contracting officer did not approve one contract modification until the period covered had expired. The contractor thus was working without a duly executed contract. The modification covered work to be performed from December 1, 1971, to March 31, 1972, but was not approved by the contracting officer until April 3, 1972. In two other instances, OE awarded the contractor additional funds by telegram pending negotiation of a definitive contract modification within 60 days. In both instances, the formal modification was not signed within 60 days and the contractor was working without a duly executed contract.

The regulations (41 C.F.R. 1-3.808.2(g)) also state that, in determining what constitutes a fair and reasonable profit or fee, the contractor's past and present performance should be evaluated in such areas as quality of product, meeting of delivery schedules, and timely compliance with contractual provisions. The regulations state that a poor record in this regard should be considered in determining the profit or fee. Because the available contract documents did not always delineate the costs of individual tasks to be performed in each proposal, we could not determine the amount of funds awarded to cover cost overruns versus increases in the contractor's scope of work nor whether the overruns were

the fault of OE or the contractor. However, we believe OE failed to adequately consider past contractor performance in awarding contract modifications including fees.

NONCOMPLIANCE WITH OE DIRECTIVES

In addition to the Federal and HEW Procurement Regulations, OE had internal directives related to procurement. OE directives applicable to this contract outlined criteria for determining what constitutes an unsolicited proposal and requirements for a sole-source procurement.

Proposal

The contract was awarded on a sole-source basis as a result of an "unsolicited" proposal submitted to OE on September 9, 1969. An OE Contracts and Grants Administration directive dated May 1, 1969, states in part:

"An unsolicited proposal * * * is a research or development proposal made to the Government by an organization or an individual acting on its own behalf without prior formal or informal solicitation from a Federal procuring activity. The content of unsolicited proposals must be the product of original thinking by the organization or individual presenting them."

Although the September 9 proposal was characterized as unsolicited, it was proposed as a follow-on effort to earlier contract work. Discussions regarding the nature of the proposal had transpired between OE and the contractor for several weeks before September 9, 1969. The proposal was regarded as phase II in the development of the system and was intended to cover detailed design, total system development, system implementation, and project management of the design and implementation. Phase I, provided for under a modification to an earlier contract, covered the requirements analysis, conceptual design of the system, and the preparation of an implementation plan.

Award

The contract was awarded under the authority of 41 U.S.C. 252(c)(10) which states that purchases and contracts may be negotiated without formal advertising "for property or services for which it is impracticable to secure competition."

An OE directive dated May 1, 1969, covers sole-source procurement justifications. Item A in the directive states that a sole-source recommendation shall be in writing and shall be submitted concurrently with the procurement action request as a separate document entitled "Justification for Sole Source Procurement." We were unable to locate such a document in the contract file.

However, a memorandum justifying the sole-source award to the contractor did apparently accompany the procurement action request. The memorandum contents did comply, for the most part, with the requirements of the May 1 sole-source directive. But item D of the directive states that each justification shall reflect the degree of consideration given to other sources in the particular field and the reasons they lack the capability which the recommended source evidences. Such information was not included in the memorandum, nor could we locate it in the contract file.

Other

In March 1973, OE circumvented internal procedures by committing \$32,000 to the contractor without the required Sole Source Board approval.

FREQUENT CHANGES IN OE ADMINISTRATION

Responsibility for administering this contract was assigned to five OE project officers and three organizational entities during the contract period.

The Office of Management Information had responsibility for administering the contract from its inception through early 1972, when the Contracts and Grants Division was assigned such responsibility. The Director of the Contracts and Grants Division became concerned about the transfer of the responsibility. In October 1972 he expressed concern about being responsible for the system in memorandums to the Deputy Commissioner for Planning, Evaluation and

Management who had assigned the contract to his Division. He stated that his Division was not involved in developing the system and that he had no control over OE bureaus which were responsible for initiating and entering data and all corrections into the system. He said that placing operating responsibility for the system in his Division was not a workable approach as long as he had no such control over the bureau personnel. He added that later efforts to use contractor personnel to enter data into the system were also ineffective.

The Director of the Contracts and Grants Division was also concerned about the usefulness of the system and on October 2, 1972, informed the Deputy Commissioner for Planning, Evaluation and Management that:

"* * * several key members of my staff have been attempting to convince you * * * that the probability of PGIS [project grant information system] ever working is so small that serious thought should be given to abandoning the system or severely reducing its scope of operation and high operating costs. No one in OE receives anything of value from PGIS after more than a year of operation and six months of intense action to make the system work."

He also informed this official on October 31, 1972, that fundamental design problems inherent in the system and delays associated with the use of the HEW Data Management Center's computer system were the principal causes of the system's poor performance; these conditions existed in spite of continuing efforts by OE and contractor personnel to make the system work.

Later, on January 19, 1973, the Acting Commissioner of Education, the official to whom the Director of the Contracts and Grants Division sent the above memorandum, assigned overall responsibility for developing and implementing an OE-wide management system--including responsibility for analyzing the capability of the project grant information system--to two project managers reporting directly to him.

INDEPENDENT EVALUATIONS OF THE PROJECT GRANT INFORMATION SYSTEM

After the contractor discontinued its work, OE continued its efforts to make both the "original" and "streamlined" versions of the project grant information system successful.

In June 1973, at the end of the contract period, the simplified version of the system was incomplete. OE contracted with the RNS Technology Center to attempt to make the system operational. The Center submitted weekly status reports outlining deficiencies in the simplified system.

Based on the Center's reports, an OE official on July 25, 1973, notified the project coordinator that the system was "in terrible, terrible shape." He said that program testing by North American Rockwell was in far worse shape than had been reported. He said the Center reported that, if any testing of the new system had been performed, no one had bothered to look at the results. He recommended that OE (1) stop work on the simplified system and "write the system off" as a bad experience, (2) shift the Center effort to the original system to find ways to improve its efficiency without major modification, and (3) start designing a new grant processing system to an OE-prepared requirement specification.

In its final report, issued in August 1973, the Center said that the computer programs which the contractor turned over to them were in various stages of completion, ranging from "barely adequate to useless" and that much work would be required to improve the programs so that overall system testing could be done. The Center's effort was the end of the simplified system.

In August 1973 OE instructed Infodata Systems, Inc.-- a firm it already had under contract--to analyze the original system in an attempt to improve its operation. In its September 1973 analysis, Infodata found serious deficiencies in the original system and recommended that OE make a fundamental decision on the adequacy of the system to meet its needs. OE discontinued its use of the original system in March 1974 because it was unreliable and too costly to operate.

In November 1973 OE was planning to develop a system on its own to meet some requirements not being met by the project grant information system. This system was implemented in early 1974. The Director of the Grant and Procurement Management Division told us in July 1976 that the system developed by OE provides him with the same information that the simplified version of the project grant information system was supposed to provide. Furthermore, he said that the system developed by OE provides more accurate information. Two OE officials estimated the cost of OE's system; one estimated \$18,000, the other \$20,000. Another official said that OE

incorporated only minor elements of the project grant information system design into its system and did not incorporate any of the computer programming or computer operation aspects which he said represent most of the work in developing a computer system.

CHAPTER 5

ROLES OF THE HEW AUDIT AGENCY,

THE DEFENSE CONTRACT AUDIT AGENCY,

AND THE HEW OFFICE OF THE GENERAL COUNSEL

HEW AUDIT AGENCY

In September 1973 the HEW Audit Agency started a review of the project grant information system. The audit included a review of the Office of Education's contract file, financial data and correspondence relating to the contract, and interviews with OE officials. The Agency prepared a draft report on its findings but did not issue a final report.

The Audit Agency was concerned primarily with OE's administration of the project and why the system failed to accomplish its goal. Its audit did not include reviews of

- OE's treatment of the proposal as unsolicited,
- the validity of awarding the contract on a sole-source basis, and
- the contractor's costs or vouchers submitted for payment under the contract.

In its draft report the Agency concluded that the project grant information system did not provide OE with the information that it was supposed to provide. The Agency attributed this primarily to the following problems which it stated were evident during the entire contract period.

- OE did not have a formal action plan to follow.
- The leadership in OE was changed frequently.
- The responsibilities of OE and other HEW components were fragmented.
- The contractor's performance was inadequate.

The Agency also said in the draft that the problems in implementing the system should have been presented to higher level OE automatic data processing and systems experts to obtain their opinions on whether to continue, expand, or curtail the contract.

The Agency estimated that, in addition to the total contract price of \$2.2 million, OE incurred costs of \$842,000 in developing the system.

It did not distribute the draft report outside the Agency for comment and did not prepare a final report. An official said that no report was issued because:

--The Investigative Staff of the House Committee on Appropriations included the project grant information system contract in a review it was doing of OE contracts. The Committee staff issued a report in November 1973 about the same time the Agency completed its audit. In its report, the Committee staff noted a number of deficiencies, some of which were similar to deficiencies noted in the Agency report. The staff reported that (1) OE personnel assigned to the project were continually rotated, (2) the contractor failed to deliver a workable system, and (3) OE did not examine the original estimate very carefully.

--The problems identified with the project grant information system were considered symptoms of problems with HEW management information systems in general. At the time the Agency completed the audit of the project grant information system, it was beginning a broader scale audit of HEW management information systems in general.

A final report dealing with HEW's management of information systems was issued in January 1977. The report does not go into detail about the project grant information system or other OE systems but acknowledges that a survey of the system had been made. The report contains numerous recommendations for improving HEW's management of information systems.

According to an Audit Agency official, the Agency did not do sufficient audit work on the project grant information system to determine whether OE had justification for recoupment of funds from North American Rockwell Corporation. He emphasized that OE accepted the contractor's work in spite of known problems and that it would have been better for OE to have terminated funding on the contract at an earlier date than to attempt to recoup funds now.

DEFENSE CONTRACT AUDIT AGENCY

We discussed this contract with the Defense Contract Audit Agency to determine the extent and status of its work on the contract. This Agency was responsible for reviewing the contractor's vouchers for provisional payment under the contract. It must also issue a final report certifying whether the charges to OE were correct before the contract can be officially closed. An official told us in December 1976 that the contractor had not yet submitted its final voucher for payment on the contract because final overhead rates for fiscal year 1973 had not yet been negotiated. For this reason, the Defense Contract Audit Agency had not issued a final report on the contract. The official told us there was no basis for the Agency to comment on the possibility of OE recouping funds under this contract. He said the Agency would have to do additional audit work before issuing its final report on the contract. Based on its findings, if justified, it would make a recommendation to OE that it attempt to recoup funds. However, the final determination on recouping funds is OE's responsibility.

HEW OFFICE OF THE GENERAL COUNSEL

We also contacted officials in HEW's Office of the General Counsel to determine if that Office had been involved in the contract for the project grant information system. They told us that the Office of the General Counsel did not play a legal role in this contract and was not asked by OE to determine whether funds could be recouped.

CHAPTER 6

AGENCY AND CONTRACTOR COMMENTS

AND GAO EVALUATION

In letters dated February 25, 1977, HEW and Rockwell International Corporation commented on this report. (See appendixes IV and V.)

HEW

According to HEW, the report accurately presents the history of the contract but does not show that the concept of the system was sound although probably too large for HEW's state of the art at the time. HEW stated that the size and complexity of the job undertaken were not adequately comprehended by OE.

We are not in a position to make a value judgment as to whether the state of the art in 1969 or what was or was not comprehended by OE was the basic cause of the system failure. We believe, however, that on pages 4 and 5, the report clearly shows that before the contract was awarded several OE employees reviewed the proposal and expressed reservations about the practicality of the system and the capability of contractor personnel to implement the proposed system because of the intricate ramifications of the system.

HEW commented that our comparison of the system developed by OE for \$20,000 with the project grant information system is an "overstated comparison". We do not mean to imply that the \$20,000 system is as complex as the original project grant information system was intended to be. However, as stated on page 23, the Director of the Grant and Procurement Management Division told us that the \$20,000 system provides the same information that the simplified version, described on page 13, was supposed to provide.

HEW further commented that the project grant information system is a case study of a systems failure but that lessons were learned which are being applied to prevent similar situations from occurring. HEW stated that changes are being made at both the Department level and at OE to improve the procurement and management control of computer systems.

ROCKWELL INTERNATIONAL CORPORATION

The contractor disagreed that its performance under the contract was poor and stated that its performance should be judged in light of initial contract requirements and the difficulties in dealing with OE.

We state in the report that both poor OE management and poor contractor performance contributed to contract growth. We could not evaluate the contractor's performance in light of initial contract requirements because we were unable to obtain the original statement of work from OE or the contractor.

The contractor commented that relocations of its place of performance, made at OE's insistence, hindered its progress on the system. However, it was not until the original contract period had nearly expired that the contractor was asked to relocate. As discussed on page 8, OE wanted the contractor to relocate because of poor performance under the original contract. We believe that the contractor's relocation can be seen as corrective action necessitated by failure to deliver an operational system during the original contract period and should not be viewed as a problem that delayed the contractor.

The contractor further commented that a basic problem with the project grant information system was that it was a "batch processing system" and required constant updating to be of any value. The contractor stated that it urged OE to adopt an on-line system to resolve the problem.

We recognize on pages 11 and 12 that the contractor recommended an on-line system to improve the project grant information system. However, the recommendation was made in November 1971, 2 years after the contract award and after the system had been installed in several bureaus. Also, an OE data processing official stated an on-line system was not justified.

The contractor felt that our comparison of the \$20,000 system developed by OE and the project grant information system was misleading. Also, it stated that the report did not indicate that the project grant information system data base was an essential element in the development of the OE system.

As stated earlier we did not mean to imply that OE's system is as sophisticated as the original project grant information system; however, it did meet the objectives of the simplified version at a nominal cost.

An OE official involved in developing the \$20,000 system told us that OE used only minor elements of the project grant information system design in its system. He said OE did not use any of the project grant information system computer programming or computer operation aspects which he said represent most of the work in developing a computer system.

The contractor also stated that he was unable to locate any current employees that we interviewed and suggested we interview the former president of the subsidiary responsible for the contract, who is still employed by the contractor.

During our review we interviewed contractor personnel who had been directly involved with the contract for a substantial period of time. When we contacted the former president of the subsidiary responsible for the contract, he said that he would not be the one to comment on our report because his involvement with the contract was limited and indirect.

JOHN L. MCCLELLAN, ARK., SENIOR
 WARREN G. MACDONALD, WASH.
 JOHN G. STUBBS, MISS.
 JOHN G. PATYRE, R.I.
 ROBERT C. BYRD, W. VA.
 GALE W. ICE, CALIF., SENIOR
 MIKE MANCINI, MISSY.
 WILLIAM PROSSER, WYO.
 JOSEPH R. MOYNIHAN, N. CAROL.
 DANIEL K. BOULDER, HAWAII
 ROBERT F. WILLIAMS, D.C.
 BRUCE BART, ILL.
 THOMAS F. DAVY, TEXAS, SENIOR
 LAWTON CHALICE, FLA.
 J. BENNETT JOHNSON, LA.
 WALTER C. MONDLETON, KY.

MILTON R. YORK, N. CAROL.
 ROSSAN L. HERRIN, MISS.
 CLIFFORD F. BARR, N.J.
 HERMAN L. FERGUSON, HAWAII
 EDWARD W. BRODIE, MASS.
 MARK S. BENTLEY, CALIF.
 TED STEVENSON, ALABAMA
 CHARLES H. C. BENTON, JR., MISS.
 EDWARD S. CROWDER, PA.
 HENRY SELLERS, CALIF.

United States Senate

COMMITTEE ON APPROPRIATIONS
WASHINGTON, D.C. 20510

January 30, 1976

JAMES H. CALLAGHY
CHIEF COUNSEL AND STAFF DIRECTOR

The Honorable Elmer B. Staats
Comptroller General of the United States
General Accounting Office
441 G Streets, NW
Washington, D. C. 20548

Dear Elmer:

A number of disturbing facts surrounding an Office of Education contract to the North American Rockwell Corporation have come to my attention recently and I am therefore requesting a full investigation of this matter by the General Accounting Office.

The contract in question was awarded in 1969 on a sole source basis to the North American Rockwell Corporation for the design of a computer system which would have enabled the Office of Education to better check the work of its contractors. The original contract called for a nine-month work period at a cost of \$378,000. The Office of Education and Rockwell agreed to 16 modifications of this contract, which result in the project taking 57 months at a cost of over \$2 million.

According to my information the material developed by Rockwell was found to be useless and yet the HEW Audit terminated an investigation of the contract and no money has been returned by the contractor to the Office of Education.

I am requesting the General Accounting Office determine the following:

1. Why did this contract grow from nine months and \$378,000 to almost five years and \$2 million?
2. What was the nature of the Office of Education's internal review of each of the major modifications of the contract?

The Honorable Elmer B. Staats
January 30, 1976
Page Two

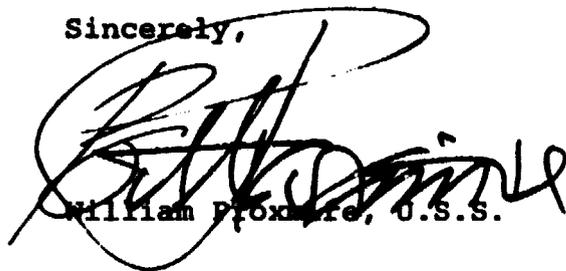
3. What was the nature of the HEW Audit Unit's investigation; what did they find; and why was their investigation terminated?

4. What role, if any, did the legal staff of the Office of Education have in this case?

5. What, if any, regulations or laws were broken by individuals involved in this situation?

I would appreciate receiving a report on this contract by May 1. Mr. Morton Schwartz of my staff will be available to answer any questions your staff may have concerning this request.

Sincerely,



William Proxmire, U.S.S.

WP:msm

MAJOR PROVISIONS OF CONTRACT MODIFICATIONS

<u>Modification number</u>	<u>Funds approved</u>	<u>Period extended to</u>	<u>Major provisions</u>
1	-	-	Modify certain contract clauses. No change in scope of work.
2	-	-	Designate new Office of Education project officer.
3	\$ 80,000	February 28, 1971	Contractor to perform work outlined in "PGIS Implementation for the Office of Education," dated June 30 and July 10, 1970. Designate new Office of Education project officer.
4	\$ 6,299	Not available	Contractor to review all major Office of Education data processing systems related to the project grant information system, as outlined in its December 11, 1970, proposal.
5	\$160,337	June 30, 1971	Contractor to perform work outlined in "PGIS Implementation, Support, and Control," dated January 13, 1971, and January 29, 1971.
6	\$ 58,500	Not available	Contractor to conduct a feasibility study of using on-line computer terminals for the project grant information system, as outlined in its August 17, 1971, proposal.
7	\$200,000	November 30, 1971	Contractor to continue work in "PGIS Implementation, Support, and Control."
8	\$300,000	March 31, 1972	Contractor to perform work outlined in "PGIS System Support and Major System Improvements," dated November 29, 1971.
9	-	April 22, 1972	Contractor to continue work in "PGIS System Support and Major System Improvements."
10	\$200,000	July 15, 1972	Contractor to continue work in "PGIS System Support and Major System Improvements."
11	\$454,192	December 31, 1972	Contractor to continue work in "PGIS System Support and Major System Improvements" and additional tasks outlined in its May 2, 1972, letter.
12	-	-	Correct clerical error in modification #11.
13	\$249,000	June 30, 1973	Contractor to perform work outlined in December 12, 1972, proposal.
14	-	-	Office of Education to assume all costs directly for bureau support activities and preparing and reviewing fiscal year 1973 input as of February 12, 1973.
15	\$ 78,200	-	Increased contract amount by \$78,200 to allow for continuation of work until Office of Education personnel can perform support functions for the project grant information system.
16	-	-	Incorporated negotiated final overhead rates for contractor's fiscal year 1970.

ESTIMATED CONTRACT COST PLUS FIXED FEE

	<u>Estimated cost</u>	<u>Fixed fee</u>	<u>Estimated cumulative cost-plus-fixed-fee</u>
Original contract	\$ 343,770	\$ 34,377	\$ 378,147
Modification 3	80,000	-	458,147
4	5,726	573	464,446
5	145,761	14,576	624,783
6	53,186	5,314	683,283
7	181,818	18,182	883,283
8	272,727	27,273	1,183,283
10	181,818	18,182	1,383,283
11	412,902	41,290	1,837,475
13	226,364	22,636	2,086,475
15	<u>71,734</u>	<u>6,466</u>	2,164,675
Total	<u>\$1,975,806</u>	<u>\$188,869</u>	



DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE
OFFICE OF THE SECRETARY
WASHINGTON, D.C. 20201

February 25, 1977

Mr. Gregory J. Ahart
Director, Human Resources Division
United States General
Accounting Office
Washington, D.C. 20548

Dear Mr. Ahart:

The Secretary asked that I respond to your request for our comments on your draft report entitled, "History of Contract Awarded to Develop a Project Grant Information System." The enclosed comments represent the tentative position of the Department and are subject to reevaluation when the final version of this report is received.

We appreciate the opportunity to comment on this draft report before its publication and transmittal to Congress.

Sincerely yours,

A handwritten signature in cursive script that reads "John D. Young".

John D. Young
Assistant Secretary, Comptroller

Enclosure

Comments of the Department of Health, Education, and Welfare on the
General Accounting Office Draft Audit Report, "History of Contract
Awarded to Develop a Project Grant Information System"

The report is an accurate presentation of the events which occurred during the period from 1969 to 1973 related to the contract for the Project Grant Information System (PGIS). What the report does not show, however, is that the concept of PGIS was sound but probably too large for HEW's state of the art at the time. This we feel was the basic problem.

PGIS attempted to do too much at one time. As originally conceived, it would not only monitor discretionary grants, but also provide abstracting, indexing, and cross-referencing capabilities. These attributes were (and are) desirable for such a system. Unfortunately, a similar system did not exist in OE at the time. The size and complexity of the job undertaken was not adequately comprehended. There was an attempt made to design and put together a system that satisfied all sorts of management purposes.

The report puts much emphasis on the grant information system developed later by OE at an estimated cost of \$20,000 (versus PGIS's cost of nearly \$3 million). But, the new system is barely a skeleton of the original intent for PGIS; the innuendo left by the GAO report is that OE for 1% of the cost, successfully designed for itself what it paid a contractor to fail to do. This is at best an overstated comparison.

PGIS is a case study of a systems failure, but one from which HEW has drawn lessons which we are applying to prevent similar cases.

Changes have been made at the Department level. While our work in this area is not specifically an outgrowth of PGIS; it does arise from general factors which lead to conditions under which the mistakes which surrounded PGIS could happen in HEW.

o First, we have already established an inventory of systems within HEW. (This is the basis for any other initiatives we will be taking in the area of management of systems. We have to know what is there before we can begin to grapple with its management.) Funding for a system may not proceed until the developing agency registers it in the inventory.

o Second, we are about to initiate a long-range planning process for computerized systems which directly links these initiatives with programmatic objectives and requires justifications for all systems resources on the basis of programmatic needs. This should help ensure that the program managers, rather than the systems designers, take responsibility for systems resources.

o Third, we are working with a Departmental task force to define a "life-cycle" approach to systems management which will assure that each level of management will know what its responsibilities are in the conceptualization, planning and budgeting, development, implementation, and evaluation of systems. Our intent is to provide a model of management control which permits decentralized decision making on systems, but assures that systems efforts are under management control.

The Office of Education has taken many steps in recent years to improve its performance in soliciting, evaluating, awarding and monitoring procurement activities. The following are examples of such improvements:

o Organization - Since 1973, the grant and procurement management function in the Office of Education has been elevated to report directly to the Deputy Commissioner for Management and has been organized to more effectively administer agency procurement activities in accordance with Federal and Departmental policies and regulations.

o Staffing - During the past three years the staffing of the Grant and Procurement Management Division in OE has been increased to provide needed support to the administration of procurement activities. A supplemental budget request which includes additional staffing in this area has been approved by the Office of Management and Budget and is currently awaiting action by Congress.

o Recruitment and Training - Increased emphasis has been placed on recruiting highly qualified contracts officers in OE and on upgrading the skills of existing staff. Relevant training courses in Federal procurement procedures offered by the Civil Service Commission and other Federal and non-Federal sources have been identified and made available to personnel responsible for OE procurement activities. During the past two years approximately 300 programs and procurement personnel have received such training.

o Role of Contracting Officer - Because the Contracting Officer is most knowledgeable about and directly responsible for procurement activities it is essential that this officer be fully involved in all facets of the procurement planning and execution process. Procurement procedures in OE now call for the contracts officer to work directly with program personnel in the development, award and administration of all procurement actions. This process which was not fully in place during the 1969 - 1973 period, assures compliance with existing procurement policies and regulations from the earliest stages of the contracting activity.

o Sole Source Review Procedure - As the report points out, Office of Education procedures for sole source contracting were not formalized until 1972, with the establishment of the Sole Source Board. Since that time, officials at all levels and in all programs in the agency have become more familiar with sole source procurement regulations and policies and are now better aware of the proper use of sole source contract authority.

o Contract Justification and Review - The process by which funds are made available for major contract activities has been strengthened greatly in recent years. Because of an increased concern for effective and efficient utilization of OE's financial resources, stronger and more detailed justification is now required prior to allocation of funds for initial contracts and for contract extensions or modifications. Strengthening of this process serves to identify potential mismanagement of resources and to insure that desired results are achieved from investment of contract funds.

The HEW Audit Agency report dealing with the Department's management of its information systems--discussed on page 32 of the GAO draft report--was released in January 1977. The report contains numerous recommendations for improving the management of the Department's information systems.



2230 East Imperial Highway
El Segundo, California 90245

**Rockwell
International**

February 25, 1977

Mr. Gregory J. Ahart, Director
Human Resources Division
General Accounting Office
Washington, D.C. 20548

Re: Letter B-185845 dated January 31, 1977

Dear Mr. Ahart:

This is in response to the draft report transmitted by subject letter on a contract between North American Rockwell Information Systems Company and the Office of Education, Department of Health, Education and Welfare, to develop a computerized project grant information system.

The contractor cannot agree with the general allegations of poor performance on its part set forth in the report. Its performance must be judged in the light of the requirements of the initial contract and the difficulties encountered in trying to work with different segments within the Office of Education which had conflicting views about the objectives of the program. Internal disagreements within the Government over what the system was to accomplish are noted in the report, as are the numerous shifts in Government management of the program. These problems must be taken into consideration in reaching any conclusions with respect to the contractor's performance.

About a year after work on the program commenced, the place of performance was moved at the instance of the Government from Anaheim to the contractor's offices in Arlington, Virginia. Shortly thereafter, the Government required another relocation from Arlington to the Office of Education Building in Washington, D.C. These developments naturally resulted in a disruption in program employment, cost increases and schedule delays.

Another basic problem with the PGIS system was that it was a "batch processing system" and required constant updating to be of any value. Most of the additional money funded for the program was spent updating the programs so

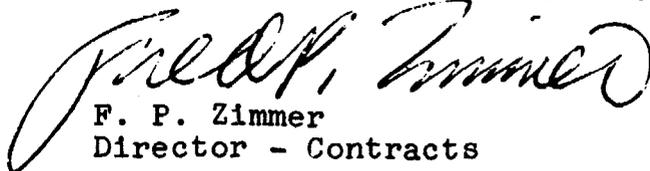
the system would be of some value to the Office of Education. The contractor urged the Office of Education to adopt an "on-line" system. Such a system requires a standard input format. The Office of Management Information Computing Center of the Office of Education could not, however, agree on such a standard format to apply to the seven Bureaus. At the time of the proposal and awarding of the contract, the type of system to be used was not specified but had been left to subsequent determination.

It is felt that the concluding paragraph of the report is misleading. It is stated that a system was developed by the Office of Education to provide the same information that the original system was to provide, but at a very low cost. This obviously is not the type of system Rockwell was asked to develop, nor is there any indication that the data base developed under the Rockwell contract was an essential element in the development of this low cost system. This leaves the reader with the impression that the highly mechanized and sophisticated system that was contracted for could in effect have been accomplished for \$18,000 to \$20,000. The contractor believes that such a conclusion is not supported by the facts and is grossly unfair.

The draft report states on page 3 that current contractor personnel were interviewed by representatives of the GAO. We have been unable to find any current Rockwell employees who were interviewed. In any event, we believe before issuing its final report the GAO should interview the former President of NARISCO, S. L. Hasin. He is currently employed by Rockwell International Corporation at its Information Systems Center, 2201 Seal Beach Boulevard, Seal Beach, California 90740. His telephone number is Area Code 213/594-3057.

Very truly yours,

ROCKWELL INTERNATIONAL CORPORATION



F. P. Zimmer
Director - Contracts

FPZ:kt

PRINCIPAL HEW OFFICIALS RESPONSIBLE
FOR ADMINISTERING ACTIVITIES
DISCUSSED IN THIS REPORT

	<u>Tenure of office</u>	
	<u>From</u>	<u>To</u>
SECRETARY OF HEALTH, EDUCATION, AND WELFARE:		
Joseph A. Califano, Jr.	Jan. 1977	Present
David Mathews	Aug. 1975	Jan. 1977
Caspar W. Weinberger	Feb. 1973	Aug. 1975
Frank C. Carlucci (acting)	Jan. 1973	Feb. 1973
Elliot L. Richardson	June 1970	Jan. 1973
Robert H. Finch	Jan. 1969	June 1970
ASSISTANT SECRETARY FOR EDUCATION:		
Philip Austin (acting)	Jan. 1977	Present
Virginia Y. Trotter	June 1974	Jan. 1977
Charles B. Saunders, Jr. (acting)	Nov. 1973	June 1974
Sidney P. Marland, Jr.	Nov. 1972	Nov. 1973
COMMISSIONER OF EDUCATION:		
William F. Pierce (acting)	Jan. 1977	Present
Edward Aguirre	Oct. 1976	Jan. 1977
William F. Pierce (acting)	Aug. 1976	Oct. 1976
Terrel H. Bell	June 1974	Aug. 1976
John R. Ottina	Aug. 1973	June 1974
John R. Ottina (acting)	Nov. 1972	Aug. 1973
Sidney P. Marland, Jr.	Dec. 1970	Nov. 1972
Terrel H. Bell	June 1970	Dec. 1970
James E. Allen, Jr.	May 1969	June 1970