

# MANAGEMENT ALERT

ENSURING PROPER OVERSIGHT OF  
MAJOR CONTRACTS TO AVOID  
SIGNIFICANT COST OVERRUNS

SEPTEMBER 26, 2024





**AmeriCorps**  
**Office of Inspector General**

**Stephen H Ravas**  
**Acting Inspector General**

September 26, 2024

**TO:** Michael Smith, Chief Executive Officer  
AmeriCorps

**FROM:** Stephen Ravas  
Acting Inspector General

**SUBJECT:** **Management Alert:** Ensuring Proper Oversight of Major Contracts to Avoid Significant Cost Overruns  
(OIG Case I24HQ00216)

The AmeriCorps Office of Inspector General (OIG) has identified concerns regarding the award, management, and oversight of a contract for AmeriCorps' new grants management system. Specifically, this alert identifies several factors contributing to cost overruns that will likely exceed \$9 million—more than double the amount of the original contract—including the choice of a firm-fixed price contract for a project with uncertain requirements, a lack of technical expert involvement in contract oversight, and the descoping of contract tasks to accommodate cost overruns. While the OIG has not yet undertaken a full review of the allegations received, information collected to date warrants alerting AmeriCorps leadership of these concerns so that management has timely information to mitigate these risks in its ongoing management of this and other major contracts. AmeriCorps oversees many contracts, including other contracts related to IT modernization. As set forth below, AmeriCorps OIG suggests specific steps that AmeriCorps take to improve its contract management practices and avoid wasteful contract overruns.

**Cc:** Jenny Mauk, Chief of Staff  
Gina Cross, Chief Operating Officer and Acting Chief Modernization Officer  
Prabhjot Bajwa, Chief Information Officer  
Andrea Grill, Acting General Counsel  
James Harris, Director, Office of Procurement Services  
Rachel Turner, Audits and Investigations Program Manager, CEO Immediate Office  
Meliha Tokay, Special Assistant to the Chief of Staff and Assistant to the Board



# Management Alert: Ensuring Proper Oversight of Major Contracts to Avoid Significant Cost Overruns

OIG Case I24HQ00216

## BACKGROUND

### Original Contract

One of AmeriCorps' top challenges is modernizing its outdated grants management and member management systems.<sup>1</sup> Under a prior AmeriCorps leadership team, the agency attempted to develop a grants and member management software platform. In 2019, that initial effort resulted in \$33.8 million expended and no viable product.<sup>2</sup> In November 2022, the agency undertook a new effort to update the grants management system. This effort included a firm-fixed price contract (GS-00F-290CA) of approximately \$9 million, which AmeriCorps awarded to Ernst & Young (EY) on November 4, 2022, to develop and host a new grant management system through customization of EY's commercial off-the-shelf (COTS) Grants Accelerator software. It was procured by the Department of the Treasury's Bureau of the Fiscal Service, Administrative Resource Center (ARC), on behalf of AmeriCorps.<sup>3</sup> ARC awarded the contract based on the independent government cost estimate (IGCE) and scope of work prepared by AmeriCorps. The contract amount included:

- \$4,932,572.13 for EY to modernize AmeriCorps' grants management system, eGrants, over the course of the contract base year and option year 1. Under the contract, the grants management system would be developed and fully implemented, including system configuration, integration of activities, user acceptance testing, and the ability to collect and award applications no later than September 30, 2024.
- \$4,050,889.53 for EY to host the software and data collected on a cloud-based system it operated and maintained over the course of option years 2 through 4, from September 30, 2024 through November 3, 2027. See Figure 1.

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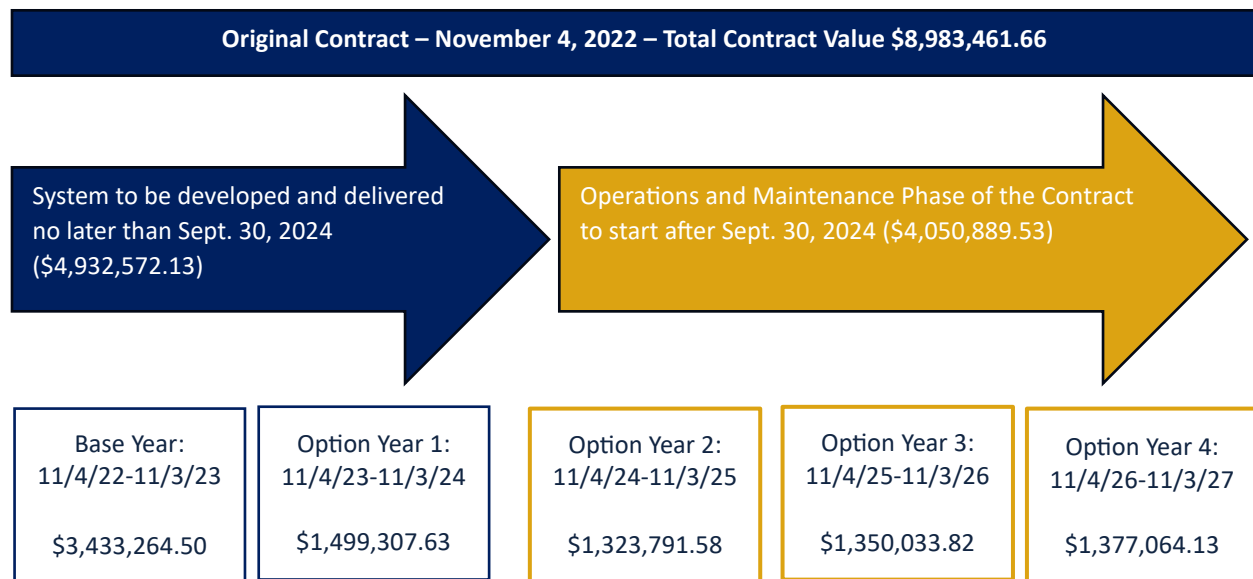
<sup>1</sup> AmeriCorps Management Challenges Report, p. 13 (2023), available at <https://www.oversight.gov/sites/default/files/oig-reports/AmeriCorps/20231115-AmeriCorps-Management-Challenges.pdf>.

<sup>2</sup> Audit of the Corporation for National and Community Service's (CNCS) Fiscal Year 2019 Consolidated Financial Statements (OIG Audit Report 20-01), pg. 23, available at <https://www.americorpsoig.gov/reports/audit/audit-corporation-national-and-community-services-cnccs-fiscal-year-2019-consolidated>.

<sup>3</sup> ARC is a unit of the Department of Treasury and AmeriCorps' partner that manages and handles its procurements.

The total value of the contract for the base and all option years was \$8,983,461.66.

**Figure 1**

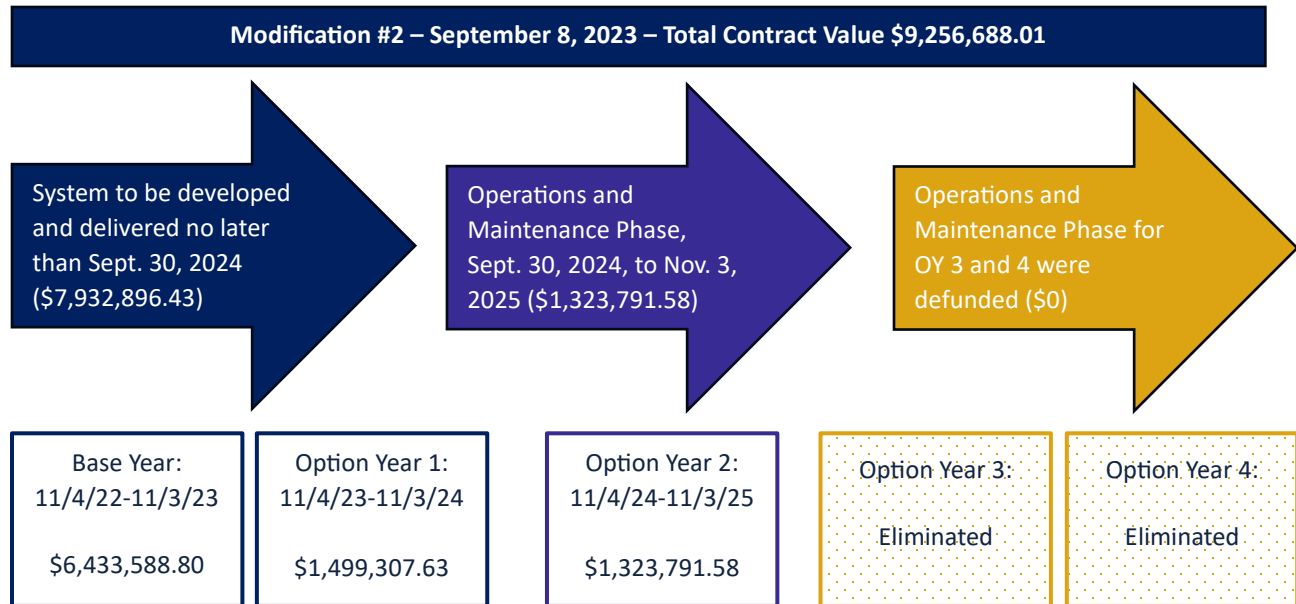


#### **Contract Modification P00002**

At a point prior to September 2023, AmeriCorps determined that it needed a modification (P00002) to address requirements from ARC's Oracle financial management systems platform<sup>4</sup> that AmeriCorps did not know at the time the contract was awarded and to obtain the Federal Risk and Authorization Management Program (FedRAMP) certification for EY. Under a bilateral contract modification (P00002), AmeriCorps and EY agreed on September 8, 2023 to eliminate option years 3 and 4 and move those funds (\$2,727,097.95) to the development phase covered under the base year. It also added an additional \$273,226.35 to the base year for development of the system. Essentially, this was a re-obligation of funding from later years to the base year for services performed during the base year by removing two future option years intended to cover operation and maintenance of the system. Thus, at this point, the total cost of the development of the system increased from \$4,932,572.13 to \$7,932,896.43. See Figure 2.

<sup>4</sup> ARC's Oracle financial system is one of the systems with which the new grants management system needs to integrate in order for AmeriCorps to allocate grant money to awards.

Figure 2



### Contract Cost Overruns

In or around January 2024, EY notified AmeriCorps and ARC that EY had spent the base year and option year 1 funding (\$7,932,896.43) allocated under modification P00002 before the end of the option year 1 performance period. EY had yet to produce a fully implemented grant management system despite being required to do so by the firm-fixed price contract. In consultation with AmeriCorps, the ARC Contracting Officer (CO) provided EY oral approval to continue work on the firm-fixed price contract notwithstanding EY's depletion of the funds for option year 1. The CO relied upon AmeriCorps' representation that funds would be available, and his own assumption that any additional costs would not surpass 10% of the value of the contract.<sup>5</sup>

After the CO's oral approval, between February and July 2024, EY's continued work incurred additional costs, which EY later estimated at \$3,996,300.16—approximately 50% of the modified contract. This amount exceeded the original amount of the contract base year in just six months. EY also requested an additional \$1,402,184.06 for work that it planned to do between August 2024 to November 2024, and \$1,142,586.33 for work from November 2024 through February 2025, all of which was needed to finish developing the grant management system. ARC issued a stop-work order (modification P00005<sup>6</sup>) in July 2024 to allow time to update the contract's

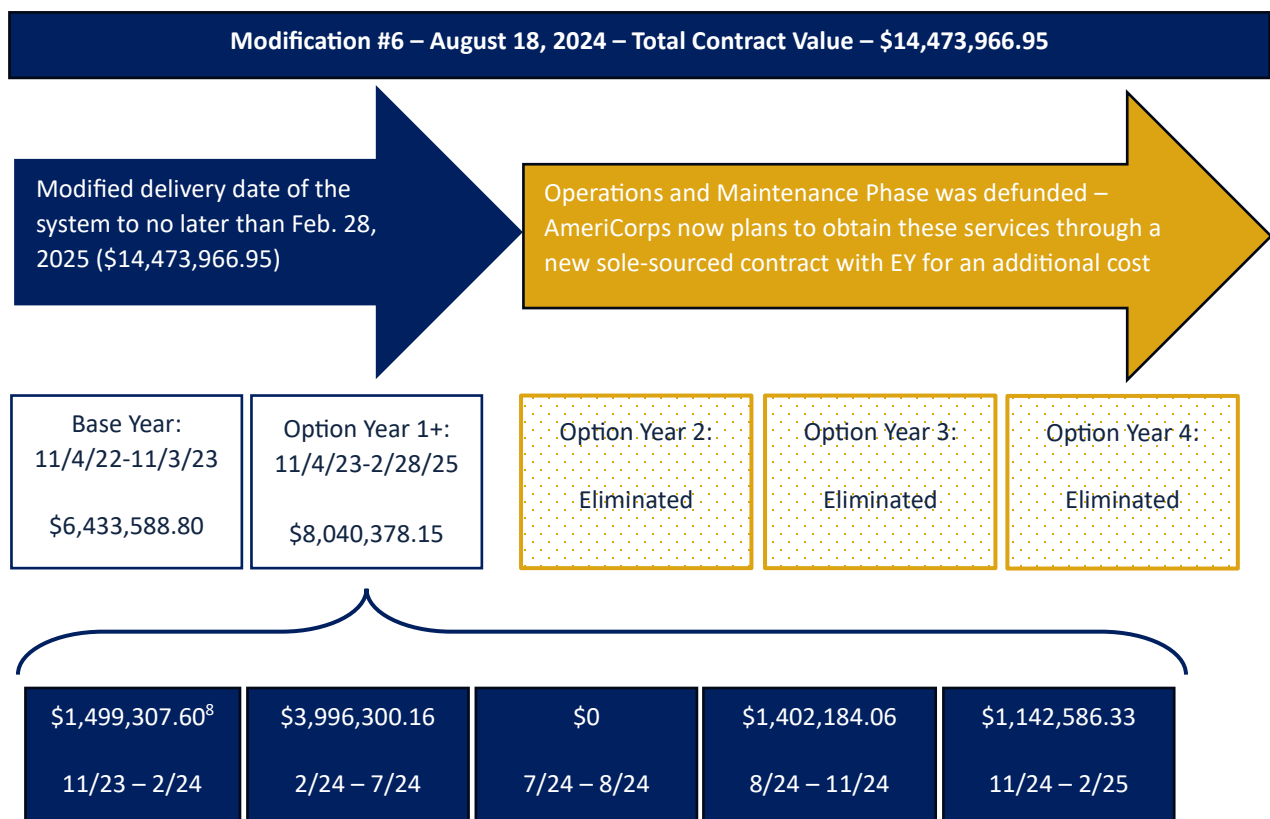
<sup>5</sup> The CO stated that ARC's policy allows for COs to increase the value of a contract by up to 10% without going through a formal internal approval process if funding is available.

<sup>6</sup> Modification P00003 exercised option year 1 and modification P00004 updated the funding string for option year 1.

performance work statement, cancel option year 2 in its entirety, incorporate a timeline for remaining deliverables, and increase the total contract value.

On August 18, 2024, AmeriCorps added \$6,541,070.52<sup>7</sup> to the contract for the development phase of the system, based on EY's estimated costs for work completed through July 2024 and anticipated work between August 2024 and February 2025, as part of modification number 6 (P00006). Modification P00006 lifted the stop-work order and was anticipated to cover completion of development of a useable grants management system by February 2025. Including this latest modification, the total cost for the design and delivery of the grants management system rose to \$14,473,966.95. See Figure 3.

**Figure 3**



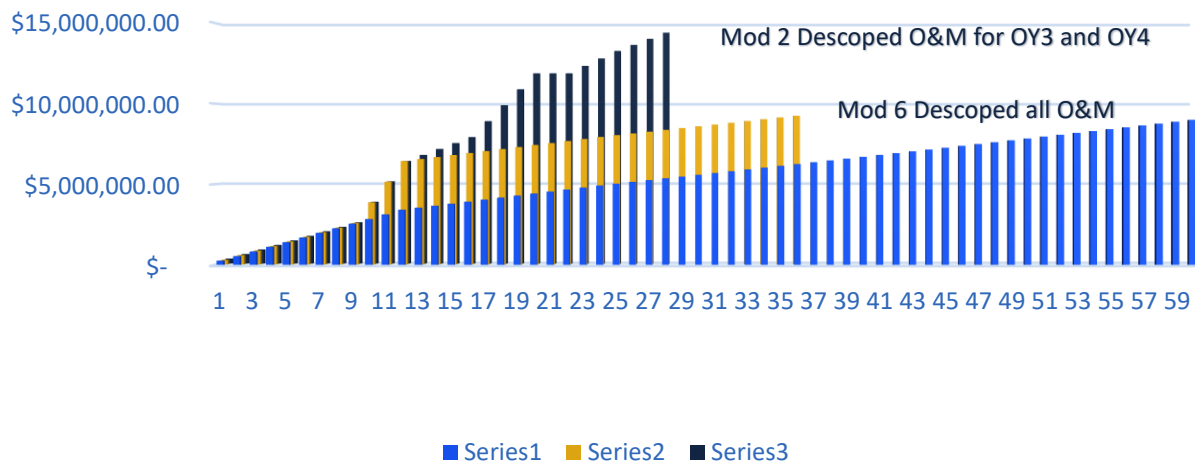
Modifications made to the existing contract now necessitate that AmeriCorps negotiate a new, separate sole-source award with EY to cover the operation and maintenance of the system once it is delivered and goes live. This work was previously covered under option years 2-4 of the original contract, but is not covered by the costs of the existing contract due to modification P00006. This new contract will result in an additional cost, which AmeriCorps has not yet

<sup>7</sup> There is a \$0.03 discrepancy between the additional \$6,541,070.55 requested by EY for option year 1 in EY's pricing sheet and the actual value added with modification P00006 (\$6,541,070.52).

<sup>8</sup> Numbers as reported in EY's pricing sheet for modification P00006.

determined, but which is likely to be more than the \$4 million forecasted in the original contract when this work was supposed to be completed during option years 2 through 4. With the new sole source contract for operation and maintenance of the system once delivered, the total price for services in the original contract will increase from \$9 million to at least \$18 million.

**Figure 4 – Comparison of Original Contract versus Subsequent Modifications**



## ANALYSIS

The following factors appear to have led to the significant increase in funds necessary to carry out the work contemplated under the original contract for an updated grant management system.

- AmeriCorps did not rely on its experience from past contracting mismanagement. While we are providing this information in the context of the grant management system contract, we are cognizant of the wasteful spending in the agency's prior attempt to modernize its IT systems that resulted in a \$33.8 million write-off in 2019 and the significant IT modernization challenges currently facing the agency. As OIG identified in our 2023 Top Management Challenges Report, AmeriCorps underinvested in its information systems over many years, requiring personnel to work with antiquated systems that necessitate work arounds or manual entries, and that fail to capture necessary data. AmeriCorps also faces issues with capturing and retaining accurate data, outdated data systems, and safeguarding data and information systems. It is imperative that management understand and learn from prior and current missteps and take appropriate action to address concerns in managing ongoing major contracts and before undertaking future contracts. This includes an anticipated \$15 million investment to create a new AmeriCorps member management system, which is being awarded in modules. AmeriCorps awarded the first module for \$4 million. Integrating lessons learned from the past will help ensure that taxpayer dollars are being spent appropriately

and that AmeriCorps is receiving the contracted goods and services it needs to fulfill its mission in an efficient and cost-effective manner.

- Lack of active involvement by technical experts. Information gathered during this inquiry raises concerns about the lack of consistent and active involvement by technical experts in the oversight of the contract and may not align with the intent of the Federal Acquisition Regulation (FAR). The FAR emphasizes the importance of assigning qualified personnel to oversee government contracts.<sup>9</sup> The contract listed an Assistant Contracting Officer's Representative (ACOR) from AmeriCorps' Office of Information Technology (OIT) to provide this technical oversight. However, the ACOR's reassignment to another project shortly after contract execution left a gap in technical expertise during critical phases of the project. The absence of an actively engaged OIT representative likely hindered effective agency oversight of the contract and contributed to the cost overruns. An engaged ACOR with the necessary technical experience could have provided valuable insights during system development discussions, offered realistic estimates for technical tasks, and helped ensure the project stayed on schedule and within budget.

AmeriCorps' August 16, 2024 decision memo approving modification P00006 outlined the concerns raised by OIT leadership regarding the additional funding. Among other issues, OIT expressed a lack of confidence in the value determinations EY prepared to justify the increase in contract costs. Despite OIT likely being the most technically qualified office within AmeriCorps to opine on the work required to complete the system and associated costs, the modification went through without fully addressing OIT's concerns.

Finally, our review found that AmeriCorps overlooked significant technical issues, such as requirements related to the integration of a COTS system with ARC's Oracle financial system and the requirement for the COTS system to be FedRAMP certified prior to any integration. This misstep led to contract modification P00002, which added over \$3 million to the work.

- A firm-fixed price contract was not the appropriate type of contract for this work. It is apparent even at this early stage of review that the type of contract chosen for the contract and the resulting contract modifications on both costs and deliverables resulted in the significant cost overruns. A firm-fixed price contract was not the appropriate contract type for the grants management system. Per the FAR, firm-fixed price contracts are suitable for acquiring commercial products when a contracting officer can establish fair and reasonable prices at the outset, such as when available cost or pricing information permits realistic estimates of the probable costs of performance or when performance uncertainties can be identified and reasonable estimates of their cost impact can be made, and the contractor is

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<sup>9</sup> 48 C.F.R. § 1.602-2 (Responsibilities), available at <https://www.acquisition.gov/far/1.602-2>.

willing to accept a firm fixed price representing assumption of the risks involved.<sup>10</sup> Here, AmeriCorps was not able to identify a reasonable cost and reasonable pricing in pre-award planning. Based on AmeriCorps' prior failed attempt to design and implement a grants and member management system, AmeriCorps knew or should have known that the costs and requirements of such a project were likely to change due to the size and complexity of the system modernization and the existence of unknown requirements. In addition, although this is a firm-fixed price contract, AmeriCorps and ARC did not hold the vendor to the amount of the contract for delivery of the end product: a useable updated grant management system. The inability to accurately estimate costs and requirements at the outset, coupled with the subsequent modifications that significantly altered both the scope and price of the contract, underscores the unsuitability of this contract type.

- Descoping contract tasks allowed costs to balloon. The initial lack of long-term planning and the subsequent one-off modifications, considered in isolation, led to significant increases in the total project cost. The modifications that reallocated funds designated for other work to supplement the development budget could be considered constructive changes under the FAR. These changes necessitated additional funding to complete the originally contracted work, such as hosting the system. If AmeriCorps was unwilling to hold the contractor to the agreed-upon firm-fixed price, it could have formally modified the contract to increase its value and cover the additional development costs without eliminating the option years for system operation and maintenance. This would have locked in the costs associated with the system's actual use and potentially avoided the need for a costly follow-on contract.

## SUGGESTED ACTIONS FOR AMERICORPS

To address these serious concerns, improvements are needed in AmeriCorps' oversight of major contracts. For both current and future contracts, AmeriCorps should take the following steps to ensure improvements are made to the pre-award process, selection, modification, and oversight of major contracts:

1. Select the appropriate type of contract for the work to be conducted. If costs and specific requirements are unknown or are likely to change, a firm-fixed price contract should not be considered.
2. Ensure that the total impact of contract modifications on costs and deliverables is included in the decision-making process. If necessary tasks are removed from a contract that will require the creation of an additional contract, estimate and consider the costs of

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<sup>10</sup> 48 C.F.R. § 1.602-2 (Responsibilities), available at <https://www.acquisition.gov/far/1.602-2>.

the additional required contract as part of the total project cost and the potential delay of deliverables prior to modifying the contract.

3. Ensure adequate technical and fiscal oversight of contracts by relevant experts at the beginning of the contracting process and throughout the life of the contract. Leverage the expertise of subject matter experts (SMEs) when reviewing contract requirements and costs. Ensure the project management team includes and actively engages SMEs. For software development projects, confirm that project personnel have substantial experience in leading agile projects for IT acquisitions.
4. Require Contracting Officers to provide written approval for decisions that may have significant financial impacts. If such an approval is given, ensure that the approval is documented in writing as soon as possible and shared with all relevant parties.

## METHODOLOGY

We prepared this management alert to bring to AmeriCorps' attention serious issues with its contracting process and oversight identified during our initial review of AmeriCorps' contract for the new grants management system. We reviewed federal publications, regulations, and applicable guidance. We also met with AmeriCorps officials and staff to discuss the contract process for the system.

This management alert is in alignment with OIG's quality control standards and the CIGIE Quality Standards for Federal Offices of Inspector General, which require that we conduct our work with integrity, objectivity, and independence.

# AMERICORPS MANAGEMENT'S RESPONSE TO THE MANAGEMENT ALERT



**AmeriCorps**

**TO:** Stephen H Ravas, Acting Inspector General, AmeriCorps OIG

**FROM:** Michael D. Smith, Chief Executive Officer, AmeriCorps

**DATE:** September 24, 2024

**SUBJECT:** AmeriCorps Response to AmeriCorps OIG Management Alert:  
Ensuring Proper Oversight of Major Contracts to Avoid Significant Cost  
Overruns (OIG Case I24HQ00216)

AmeriCorps appreciates the independent review and concerns outlined in the Office of Inspector General's (OIG) draft Management Alert provided on September 17, 2024: Ensuring Proper Oversight of Major Contracts to Avoid Significant Cost Overruns. As with any project of this scope and scale, we have faced challenges throughout the modernization effort but remain dedicated to improving oversight and contract management practices. AmeriCorps responded on September 24, 2024, to the concerns identified by the OIG regarding the award, management, and oversight of the contract for AmeriCorps' new grants management system. Specifically, the alert highlights factors that the OIG presumes contributed to cost overruns on the original grants management contract awarded in November 2022.

This system is critical to improving our operational efficiency and addressing the long-standing limitations of our legacy system, which was built on a 30-year-old database using Oracle Forms and lacks the ability to integrate with federal systems or user engagement tools. Despite the complexity of this modernization project, we are committed to learning from these challenges and refining our approach as we move forward.

AmeriCorps would like to acknowledge and respond to the factors the OIG believes to have led to the significant increase in funds to carry out this work:

**1. AmeriCorps did not rely on its experience from past contracting mismanagement.**

AmeriCorps does not concur with the OIG's assessment that the agency did not incorporate learnings from past contracting concerns. While the agency has had contract management challenges in the past, over the last few years, AmeriCorps has implemented robust oversight and due diligence protocols.

AmeriCorps has partnered with the Department of Treasury's Bureau of Fiscal Services (ARC), and we've expanded access to specialized knowledge in government standards and procurement processes that provide technical assistance to the agency's Office of Procurement Services and project teams. ARC offers a range of support from basic acquisition to awarding and administering complex, large-dollar contracts like the grants management system modernization contract and this partnership has greatly enhanced our capabilities. Lessons from



previous experiences have been instrumental in shaping our approach to governance, and we have made continuous improvements to address complex contracting needs.

## **2. Lack of active involvement by technical experts.**

AmeriCorps agrees that technical expertise is critical to effective oversight, and the agency maintains that technical experts, both from within the agency and externally, have been involved consistently throughout the modernization process. AmeriCorps actively collaborated with the Technology Modernization Fund (TMF) and the Grants Quality Services Management Office (QSMO), to ensure that our modernization efforts were informed by industry expertise. In addition, the agency has a dedicated project team comprised of staff with subject matter expertise to represent the relevant lines of business.

TMF and QSMO have played an integral role in guiding AmeriCorps through each phase of grants management modernization through weekly and monthly engagements with our project teams which are made up of representatives from both information technology and agency lines of business. Weekly and monthly engagements have fostered ongoing dialogue, helping us identify areas for improvement as we work to upskill our teams and strengthen project oversight.

The AmeriCorps project team is an interdisciplinary team that includes the Modernization Office staff that are dedicated to representing the lines of business needs for grantmaking and management, as well as financial grants management, in addition to key staff from the Office of the Chief Data Officer. Moreover, the Chief Modernization Officer and the Chief Information Officer established a structure for qualified personnel, an OIT Project Manager to work collaboratively with a COR level 3 from the Modernization Office to support effective communication across both Modernization and OIT teams and the contracted vendor. All project team members engage in the domain-focused standups, working sessions involving contractor staff, project status reviews, and weekly syncs with team members and representatives from procurement and staff from AmeriCorps' Office of General Counsel to maintain awareness of decisions involving interdependent systems and contracted vendors.

## **3. A firm-fixed price contract was not the appropriate type of contract for this work.**

AmeriCorps acknowledges that a firm-fixed price contract was not ideal for the complexity of this project. However, based on the information available at the time, a firm-fixed price contract was the best option available to the agency.

A firm-fixed price contract was selected through careful consideration and collective agreement with our partners at the Grants QSMO and Treasury ARC procurement. The level of effort required to fully implement these complex tasks of the grants system modernization could not have been realized until AmeriCorps selected the solution, and teams were able to begin exploration of the technical



and business requirements with these interdependent partners. Not uncommon with complex technology projects, the level of effort was higher than anticipated. Moving forward, AmeriCorps will adopt a more flexible approach, which will allow us to better manage evolving requirements. We are continuously learning and are committed to using those lessons to refine our contracting practices for future projects.

#### 4. Descoping contract tasks allowed costs to balloon.

AmeriCorps recognizes that unanticipated technical challenges contributed to cost increases. As challenges emerged, AmeriCorps utilized legal guidance to ensure compliance with the Federal Acquisition Regulation (FAR) and an agile methodology to address challenges and mitigate the potential for future issues.

Throughout this process, AmeriCorps has consistently sought legal guidance to ensure compliance with the FAR, documenting and tracking issues arising from an evolving understanding of system integration needs and AmeriCorps-specific configuration requirements. The intricate nature of these tasks led to an increase in effort and, consequently, costs, prompting us to rigorously prioritize essential features and functionalities. Decisions regarding contract modifications that influence both costs and deliverables were made with careful deliberation by our project team members.

Throughout the project, we employed an agile methodology to address emerging issues while maintaining focus on delivering essential components of the grants management system. Integration with interdependent systems, such as ARC Oracle financials, required additional effort, and as we move forward, we will continue to adapt and refine our approach to keep the project on track while managing costs. These challenges, while difficult, have been valuable in improving our processes.

Prior to the alert, AmeriCorps began to implement corrective actions to enhance its oversight of the grants management system modernization contract, and improve contracts management and will implement the following actions moving forward:

- **Appropriate Contract Selection:** AmeriCorps, in consultation with ARC Procurement and key partners, will adopt a Blanket Purchase Agreement for the remaining modernization work, allowing for more flexibility with the evolving complexity of the project. This approach will better support the ongoing adjustments required for successful implementation and will ensure improved cost management.
- **Impact of Contract Modifications:** AmeriCorps will take a more proactive approach to assessing the impact of contract modifications, ensuring that all stakeholders are involved in discussions about cost and scope changes. We are committed to refining our process for contract adjustments, which will lead to more accurate cost estimations and project outcomes.



- **Technical and Fiscal Oversight:** AmeriCorps has made it a priority to engage subject matter experts in all phases of contract management, ensuring that technical and fiscal oversight is integrated throughout the project lifecycle. We will continue to train and upskill our staff in agile project management, leveraging industry best practices and technical assistance from our partners to strengthen oversight.
- **Written Approvals for Financial Impacts:** We acknowledge that improvements in documenting approvals for significant financial impacts are necessary. Moving forward, the Contracting Officer is participating in weekly project assessment discussions with the vendor and AmeriCorps to ensure that emerging issues potentially impactful to contract costs are documented and addressed without delay.

AmeriCorps is fully committed to ensuring that the grants management system modernization project is completed efficiently and effectively. By continuously refining our approach to contract management, we aim to deliver a successful system that meets our operational needs while adhering to fiscal responsibility.