



UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF INSPECTOR GENERAL

THE INSPECTOR GENERAL

MAR 19 2001

ED-OIG/A19-B0003

William Szymanski
Department of Education Account Director
Computer Sciences Corporation
15245 Shady Grove Road, #360
Rockville, MD 20850

Dear Mr. Szymanski:

This **Final Audit Report** (Control Number ED-OIG/A19-B0003) presents the results of our audit of controls over Government property furnished to Computer Sciences Corporation (CSC). The objective of our audit was to determine whether CSC had adequate controls over the management of property furnished by the Department of Education (Department).

BACKGROUND

Computer Sciences Corporation performs data storage and processing for most of the Student Financial Assistance (SFA) systems, under the terms of the General Services Administration's (GSA) Virtual Data Center (VDC) contract. The VDC is located in Meriden, Connecticut, and SFA is using the VDC contract to consolidate systems previously operated by separate contractors into a single computing environment. Services for SFA are obtained through task orders issued under this contract. To date, task orders have been issued for the following SFA systems:

- National Student Loan Data System
- Postsecondary Education Participant System
- Recipient Financial Management System
- Central Processing System
- Direct Loan Origination System
- Direct Loan Servicing System

During fiscal years 1999 and 2000, the Department issued over \$18.6 million in purchase orders for computer equipment and software for the VDC contract.

AUDIT RESULTS

Overall, we found improvements were needed in CSC's controls over Government-furnished property (GFP). Our audit revealed that CSC did not comply with GFP recordkeeping or reporting requirements, did not comply with inventory requirements, and did not properly identify Government property. In our opinion, these weaknesses result in more than a relatively low risk that errors, irregularities and other inefficiencies may occur, resulting in inefficient and/or ineffective performance. Our audit did not disclose any fraud.

CSC responded to our draft report, concurring with the results and supporting the recommendations provided. CSC also described specific corrective actions they intend to take and timeframes in which they expect the actions to be completed. The full text of CSC's response is included as Attachment A to this audit report.

The Department of Education also provided a response to the draft audit report. Department officials stated they concur with our findings and support the recommendations provided. The Department further agreed to take action to assure that CSC adheres to the corrective actions included in CSC's response. The full text of the Department's response is included as Attachment B to this audit report.

Finding No. 1 CSC Did Not Comply with GFP Recordkeeping and Reporting Requirements

CSC has provided the Department with monthly reports of all GFP provided under the Virtual Data Center contract task orders. Our review of the most current report available at the start of our audit noted that the data was inaccurate and incomplete. Specifically, 40 items of GFP were not included on the report, and 5 items of CSC-owned equipment were inappropriately included. In addition, unit costs were not recorded for any of the 308 equipment items listed and CSC did not provide an annual report of the total value of GFP in its possession.

Federal Acquisition Regulation (FAR) 45.505(a) and (c) state:

The contractor's property control records shall constitute the Government's official property records unless an exception has been authorized. The contractor shall establish and maintain adequate control records for all Government property, including property provided to and in the possession or control of a subcontractor.... Official Government property records must identify all

Government property and provide a complete, current, auditable record of all transactions.

FAR 45.505-2(a)(1) and (b)(2) state:

The contractor's property control system shall contain the unit price for each item of Government property.... The Government shall determine and furnish to the contractor the unit price of Government-furnished property.... In the event the unit price is not provided...the contractor will take action to obtain the information.

FAR 45.505-14(a) states:

The contractor's property control system shall provide annually the total acquisition cost of Government property for which the contractor is accountable under each contract with each agency, including Government property at subcontractor plants and alternate locations.

Property control records for GFP are maintained in CSC's fixed asset management system. The monthly GFP reports provided to the Department were not generated from this system, but instead consisted of independent spreadsheets developed by CSC staff working on the contract. We found that errors in the reports were not detected since CSC staff did not reconcile the submitted reports with its fixed asset management system.

We also found that, while the FAR and CSC's own policies and procedures require records of Government property to include unit prices, these policies were not followed. The Department did not provide unit prices for GFP, and CSC did not take action to obtain or estimate the amounts. Without the unit prices, CSC was not able to provide the report on the total acquisition cost of all GFP.

As a result of the issues noted above, the Department does not have accurate data on Government property in the possession of the contractor.

During our review, CSC staff began taking action to correct the errors noted on the GFP reports. They also stated they would work with the Department to obtain unit prices for GFP, so that they may prepare the required annual report.

Finding No. 2 CSC Did Not Comply with GFP Inventory Requirements

CSC did not perform periodic inventories of all GFP. In addition, CSC did not inform the Department of the results of the partial inventories that were performed.

FAR 45-508 states:

The contractor shall periodically physically inventory all Government property...in its possession or control and shall cause subcontractors to do likewise.... Type and frequency of inventory should be based on the contractor's established practices, the type and use of the Government property involved, or the amount of Government property involved and its monetary value, and the reliability of the contractor's property control system.

FAR 45.508-2 requires that:

The contractor shall, as a minimum, submit the following to the [Government] property administrator promptly after completing the physical inventory:

- (a) A listing that identifies all discrepancies disclosed by a physical inventory.
- (b) A signed statement that physical inventory of all or certain classes of Government property was completed on a given date and that the official property records were found to be in agreement except for discrepancies reported.

CSC's contract property management system for GFP is outlined in its *Contract Property Policy and Procedures Manual*, (Revision 1.1, dated August 16, 1999). Section 8 of the manual states that CSC will perform a physical inventory of contract property annually. The manual also includes requirements for reporting inventory results to the Government.

We found that CSC was not following these policies and procedures for Department GFP. Instead, CSC relied upon the Meriden facility's fixed asset management procedures. These procedures did include inventories of GFP, but these inventories did not include all government property. Also, inventory results were not reported to the Department because Meriden fixed asset staff were not aware of this requirement. As a result, the Department was not kept informed of the results of inventories and does not have assurance that CSC is appropriately accounting for the GFP provided.

CSC staff stated that they plan to begin applying its contract property policy and procedures to Department GFP at the Meriden facility and will include Department GFP in the upcoming contract property inventory.

Finding No. 3 GFP Was Not Properly Identified

During our review, we noted three items of GFP that were not appropriately identified as Government property. CSC received these items in September and November 1999. While CSC staff affix CSC asset tags when property is received, they do not otherwise identify the property as Government-owned. Department staff apply Departmental bar codes during visits to the facility, but these visits are not made on a regular basis.

Property that is not marked as being Government-owned may be inadvertently used for other purposes since there are many similar types of property used in the same physical location. Also, GFP that is not properly marked may not be included in inventories or reports of Government property. For example, one of the three items we noted was originally assumed to be CSC property, but as a result of our review, CSC staff determined that the equipment belonged to the Department.

FAR 45.506(a) states:

Upon receipt of Government property, the contractor shall promptly --

- (1) Identify the property in accordance with agency regulations;
- (2) Mark the property in accordance with this section; and
- (3) Record the property in its property control records.

FAR 45.506(b)(1) requires that, except for certain materials and situations where marking is impractical, "...all Government property shall be marked with an indication of Government-ownership."

In addition, Section 4 of CSC's *Contract Property Policy and Procedures Manual* reflects the FAR requirements by stating, "CSC will identify and record contract property as such promptly upon fabrication or receipt and will retain that identification as long as the property remains accountable to CSC." The section also states: "All identification will indicate [Government] ownership."

During our review, CSC staff stated that they would work with the Department to establish a process whereby Departmental bar codes would be provided promptly following the receipt of new property. For the three items noted in our review, CSC staff stated they had affixed a bar code to one of the items and would request bar codes from the Department for the other two items.

In response to our draft report, CSC stated that two of the items discussed in this section were not GFP, but were provided by another company for a pilot project that has since been terminated. CSC stated that these items have been removed from the CSC facility and GFP listing. CSC made this determination subsequent to our fieldwork and after our draft report was issued. CSC did not provide any documentation to support this new information. CSC did agree to take corrective actions to address the issues noted in our finding.

RECOMMENDATIONS

We recommend that the Chief Operating Officer for Student Financial Assistance require CSC to:

- 1.1 Perform periodic reconciliation of GFP reports provided to the Department with its fixed asset management system to ensure submitted reports are accurate and complete.
- 1.2 Work with Department officials to determine unit price information for all GFP;
- 1.3 Provide an annual report on the acquisition cost of all GFP;
- 2.1 Perform periodic inventories of all GFP and report results to the Department as required in its policy and FAR requirements; and
- 3.1 Identify and appropriately mark GFP promptly after receipt.

AUDIT OBJECTIVE, SCOPE, and METHODOLOGY

The objective of our audit was to determine whether CSC had adequate controls over the management of Government-furnished property.

To achieve our objective, we conducted interviews with Department and CSC staff involved in managing GFP, reviewed FAR requirements and CSC policies and procedures, physically validated equipment selected in our samples, and traced equipment information to CSC source documents.

Our universe of GFP was based on the most current monthly report of GFP that CSC had provided to the Department at the time our audit began. The report, as of September 30, 2000, included a total of 308 pieces of equipment, based on either the assignment of a CSC asset number, a Departmental bar code, or both. From this universe, we selected a sample of 48 items to physically validate, consisting of the following:

- A random sample of 32 items;
- A judgmental sample of 16 items for which CSC asset numbers had been assigned, but for which no Departmental bar codes were noted.

During our review, we found that 12 of the 48 items initially selected were internal components that could not be verified without interrupting Virtual Data Center processing operations. As a result, our sample was limited to the 36 remaining items.

In order to test the report for completeness, we judgmentally selected an additional sample of 35 items that we noted physically located in the facility to determine if these

items appeared on the GFP report. We also judgmentally selected 180 pieces of equipment from CSC fixed asset receiving forms, and 19 items from CSC storage areas, to determine if these items appeared on the report.

We tested the accuracy, authenticity, and completeness of the CSC inventory report by comparing physical equipment to source records and computer data, and comparing computer data to source records and physical equipment. Based on these tests and assessments, we concluded that data were sufficiently reliable to be used in meeting the audit's objectives.

Fieldwork was performed at applicable Department of Education offices during the period October 2000 through January 2001. We also performed fieldwork at CSC's facility in Meriden, Connecticut, during the period December 4 - 7, 2000. Our audit was performed in accordance with government auditing standards appropriate to the scope of the review described above.

STATEMENT ON MANAGEMENT CONTROLS

We made a study and evaluation of CSC's current management control structure over Government-furnished property in effect during the period of our review. Our study and evaluation was conducted in accordance with Government Auditing Standards.

For the purpose of this report, we assessed and classified the significant management control structure into the following categories:

- Recordkeeping
- Physical inventories
- Reporting
- Identification of GFP

CSC management is responsible for establishing and maintaining a management control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of the system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition and that the transactions are executed in accordance with management's authorization and recorded properly, so as to permit effective and efficient operations.

Because of inherent limitations in any management control structure, errors or irregularities may occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions, or that the degree of compliance with the procedures may deteriorate.

Our assessment disclosed weaknesses and inadequacies in CSC's current management control structure over GFP which, in our opinion, result in more than a relatively low risk that errors, irregularities and other inefficiencies may occur resulting in inefficient and/or ineffective performance. These findings and their effects are discussed in the Audit Results section of this report.

ADMINISTRATIVE MATTERS

Statements that financial and/or managerial practices need improvement or recommendations that costs questioned be refunded or unsupported costs be adequately supported, and recommendations for the better use of funds, as well as other conclusions and recommendations in this report, represent the opinions of the Office of Inspector General. Determinations on these matters will be made by the appropriate Department of Education officials.

If you have any additional comments or information that you believe may have a bearing on the resolution of this audit, you should send them directly to the following Department of Education official, who will consider them before taking final Departmental action on the audit.

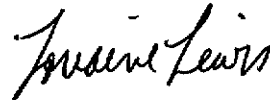
Greg Woods, Chief Operating Officer
Student Financial Assistance
U.S. Department of Education
7th and D Streets, SW
Washington, DC 20202

Office of Management and Budget Circular A-50 directs Federal agencies to expedite the resolution of audits by initiating timely action on the findings and recommendations contained therein. Therefore, receipt of your comments within 30 days would be greatly appreciated.

In accordance with the Freedom of Information Act (Public Law 90-23), reports issued to the Department's grantees and contractors are made available, if requested, to members of the press and general public to the extent information contained therein is not subject to exemptions in the Act.

We appreciate the cooperation given to us during this review. Should you have any questions concerning this report, please call Nancy Brown at (202) 260-3883, or Michele Weaver-Dugan at (202) 205-9038. Please refer to the control number in all correspondence related to the report.

Sincerely,

A handwritten signature in cursive script that reads "Lorraine Lewis".

Lorraine Lewis

Attachments

March 7, 2001

Ms. Michele Weaver-Dugan, Director
Operations Internal Audit Team
U.S. Department of Education
Office of Inspector General
400 Maryland Avenue, SW
Washington, DC 20202-1510
e-mail: Michele_Weaver-Dugan@ed.gov

Subject: CSC RESPONSE DRAFT GFP ASSET MANAGEMENT AUDIT REPORT
(ED-OIG-/A19-B0003) DATED FEBRUARY 8, 2001

Dear Ms. Weaver-Dugan:

CSC concurs with the results of the subject audit report and supports the recommendations provided. The following paragraphs describe the CSC response to each finding and the corrective action we intend to take as well as the time frame in which we expect that action to be completed.

Finding No. 1: CSC Did Not Comply with GFP Recordkeeping and Reporting Requirements.

- Comments: The 40 items of GFP not included on the monthly inventory report submitted to SFA were determined to be the GFP network equipment. The equipment was found in CSC's inventory control system, but not included in the spreadsheet version forwarded to SFA monthly. These items have now been added to this report. The five CSC items that were on the inventory were erroneously added to the inventory and have been removed. It is correct that unit cost was not shown on the report and thus an annual report of the total value of the GFP in CSC possession was not submitted.
- Corrective Action:
 - CSC will perform periodic reconciliation of GFP reports provided to the Department with its fixed asset management system to ensure submitted reports are accurate and complete. The first reconciliation will occur by May 1, 2001.
 - CSC will work with DoED to determine unit price information for all GFP and update the asset management system with that information. If the DoED does not have that information available, CSC will provide its estimate of value. This action will be completed by May 1, 2001.
 - CSC will provide an annual report of the acquisition cost of all GFP. The first annual report will be submitted on June 1, 2001.



Finding No. 2: CSC Did Not Comply with GFP Inventory Requirements

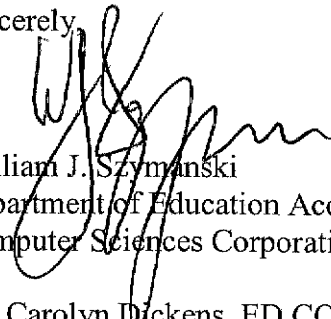
- Comments: CSC Concurs with this finding
- Corrective Action: CSC will perform periodic inventories of all GFP and report results to the Department as required in its policy and FAR requirements. The first report will be provided to DoED on July 1, 2001.

Finding No. 3: GFP was not Properly Identified

- Comments: Two of the three items (CSC asset #AA196948 and AA196949) were provided by IBM for the Highway One Student Statement Program, and have been returned to the lessor, as this program has been terminated. They were not GFE, and have been removed from the report. The third item is an equipment rack that was identical to a CSC owned item used to support SFA. The CSC owned asset was tagged as GFE. The GFE tag was moved to the correct piece of equipment.
- Corrective Action: Two of the three pieces have been returned to lessor, and the third possesses a GFE tag. The records have been updated to reflect this change. In addition, CSC will review its procedures for affixing Departmental bar codes to make certain we are in compliance with CSC and Government Policy. This review will be completed by April 1, 2001.

For follow-on questions, please contact me at 301.921.3157 or Ed Linhares at 702.876.1450.

Sincerely,



William J. Szymanski
Department of Education Account Director
Computer Sciences Corporation

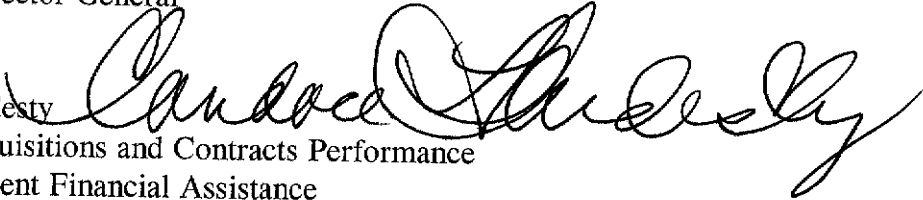
cc: Carolyn Dickens, ED CO via e-mail: Carolyn_Dickens@ed.gov



UNITED STATES DEPARTMENT OF EDUCATION
THE OFFICE OF STUDENT FINANCIAL ASSISTANCE
WASHINGTON, D.C. 20202-_____

March 8, 2001

TO: Michele Weaver-Dugan, Director
Office of Inspector General

FROM: Candace Hardesty 
Director, Acquisitions and Contracts Performance
Office of Student Financial Assistance

SUBJECT: Draft Audit Report
Audit of Controls Over Government Property Furnished to
Computer Sciences Corporation
Virtual Data Center Contracts
ED Audit Control No. ED:OIG/A19-B0003

This memorandum provides comments following our review of the Office of Inspector General (OIG) Draft Audit Report entitled: Audit of Controls Over Government Property Furnished to Computer Sciences Corporation (CSC). Your report disclosed CSC did not comply with Government Furnished Property (GFP) recordkeeping and reporting requirements, did not comply with inventory requirements, and did not properly identify Government property. We concur with your findings and support the recommendations provided.

As you recommended, the Department agrees to take action to assure that CSC adhere to the corrective actions. The Contracting Officer is currently requesting a corrective action plan from CSC. Additionally, the Contracting Officer and Chief Information Office are currently discussing ways of improving the inventory monitoring process.

Should you have any questions, please contact Candace Hardesty at 202/260-6536 or Carolyn Dickens 202/708-5688 for Acquisitions and Contracts Performance concerns.

CC: Jim Lynch
Stephen Hawald
David Moore
David Elliott

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