



UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF INSPECTOR GENERAL

THE INSPECTOR GENERAL

MAR 15 2000

MEMORANDUM

**TO:** Thomas P. Skelly,  
Acting Chief Financial Officer  
Office of the Chief Financial Officer

**FROM:** Lorraine Lewis *Lorraine Lewis*

**SUBJECT:** FINAL AUDIT REPORT  
*Audit of the Central Processing System Contract*  
(ED/OIG A07-90003)

Attached is our final audit report entitled *Audit of the Central Processing System Contract*. The report presents the findings and recommendations resulting from our review of the contract held by National Computer Systems, Iowa City, Iowa.

In accordance with Department's Audit Resolution Directive you have been designated as the action official responsible for the resolution of the findings and recommendations in the report.

If you have any questions or wish to discuss the contents of this report, please contact Bill Allen, Area Manager, Kansas City, MO at 816-880-4020. Please refer to the above audit control number in all correspondence relating to this report.

Attachment

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# Audit of the Central Processing System Contract

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## FINAL AUDIT REPORT



**ED/OIG A07-90003**  
**March 2000**

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U.S. Department of Education  
Office of Inspector General  
Kansas City Office

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## NOTICE

**Statements that management practices need improvement, as well as other conclusions and recommendations in this report represent the opinions of the Office of Inspector General. Determination of corrective action to be taken will be made by the appropriate Department of Education officials.**

**In accordance with the Freedom of Information Act (5 U.S.C. §552), reports issued by the Office of Inspector General are 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.**



UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF INSPECTOR GENERAL

THE INSPECTOR GENERAL

**Control Number ED-OIG/A0790003**

Mr. Richard J. Schwab  
Vice President and General Manager  
Government Services Division  
National Computer Systems  
2510 North Dodge Street  
Iowa City, Iowa 52245

Dear Mr. Schwab:

This Audit Report (Control Number ED-OIG/A0790003) presents the results of our audit of the Central Processing System (CPS) contract held by National Computer Systems (NCS) to determine the accuracy and reasonableness of costs incurred for products and services provided.

### AUDIT RESULTS

Except as noted below and within the context of our scope of work described elsewhere within this report, we found that the costs billed by NCS for the CPS contract were materially reasonable and accurate.

**Key Personnel Charged Time to Other Contracts and New CPS Work.** Two designated key personnel charged 720 hours to other NCS contracts during the period August 14, 1995 through December 31, 1998. In addition, three key personnel charged 487.5 hours to new work under the CPS contract during the same period. These practices resulted in overcharges to the CPS contract since key personnel costs were included in the fixed price of deliverables specified in the original contract. In addition, diverting these staff members to work on other contracts resulted in diminished effort on the overall CPS project.

Key personnel are those staff or managers considered an integral part of the CPS contract by both the contractor and the contracting officer. Section H.15 of the CPS contract designates five key personnel positions as "*essential to the work being performed.*" The five key personnel positions identified in the CPS contract are Project Manager, Mainframe Development Manager, PC Development Manager, Operations Manager, and Data Base Administrator. NCS identified all five of the positions as being dedicated full time. Thus, the services of the five key personnel on the CPS contract should have been full time according to Section C.9.1 of the Statement of Work which states:

*The Contractor shall commit specific staff on a full-time, dedicated basis to meet the minimum staffing configuration.*

Due to their essential nature, several restrictions are placed on the use of key personnel. Section C.10.2 of the Statement of Work specifically restricts the use of key personnel on task order work. It states:

*All key personnel dedicated to this project shall be made available for participation in task order work and the Contractor shall not bill for these hours.*

Despite the restrictions cited in the Statement of Work, key personnel charged about 1,200 direct labor hours to other NCS contracts and to new work under the CPS contract. Key personnel costs were included in the fixed price of deliverables specified in the original CPS contract. Thus, charging key personnel costs to other contracts or new work represents a duplication of charges to the Department of Education, or charges for services that were not rendered under the CPS contract. In total, NCS charged 720 key personnel hours to other NCS contracts and an additional 487.5 hours to new work on the CPS contract. By applying the contract labor rates, we determined that these hours represent approximately \$90,600 in duplicated charges.

In our opinion, this situation occurred because NCS did not adhere to the terms of the contract that prohibited diverting key personnel to other assignments and charging key personnel on new work. Also, NCS did not include the names of key staff proposed for new work as required by the Statement of Work. Section C.10.3 requires that the contractor's task order proposals include ". . . the name(s) and labor categories of personnel to be assigned . . ." The NCS proposals for new work included labor categories but not staff names. As a result, Department officials did not have sufficient information to monitor the use of key personnel in the pricing of new tasks.

**The Updated ADE Prices Were Not Used On Invoices to ED.** Updated prices for some of the Alternate Data Entry (ADE) deliverables were not used on the CPS invoices. For the period September 20, 1996 through July 28, 1998, NCS under billed the Department approximately \$13,000 for some of the ADE deliverables. This condition could possibly be repeated in the future if ADE is required during any of the remaining contract periods. Furthermore, the Department could potentially be over billed if NCS does not use the appropriate prices on future invoices.

In our opinion, this situation occurred because NCS did not verify that it was using the most recent pricing information. Also, the Contracting Officer's Technical Representative staff did not have an updated price list, which prevented it from identifying the price discrepancies. Furthermore, there was staff turnover in the NCS contract administrator and program administrator positions on this contract.

The ADE process is only used when the Multiple Data Entry contractor is unable to process the student applications timely. This situation typically occurs during the spring peak processing

period. The ADE process was used during the first three years of the contract, but was not required in 1999.

**NCS Response.** NCS officials believed that our draft report did not consider the many changes to the CPS contract, including canceled deliverables. They cited an example where 14 Phase 2 and Phase 3 deliverables related to the Electronic Payment function were canceled after the award year. As a result, a significant number of proposed key personnel hours would not be recovered. The response also states that the Department has added many deliverables to the Statement of Work to which NCS responded by dedicating many more management resources than are represented by designated key personnel positions. As a result of these changes in the Statement of Work, NCS officials do not believe any refunds are justified. They did agree with our other recommendations regarding key personnel and ADE billing rates. NCS officials stated that they will notify the Department in advance to obtain permission in the event key personnel are going to be used on other work. They also agreed to include the names of staff members proposed for new work under the CPS contract and to ensure that the correct billing rates are used for the ADE deliverables.

**OIG Response.** NCS did not submit documentation that would cause us to change our position on the findings. In our opinion, if NCS officials believed they had been adversely affected by the canceled deliverables, they should have contacted the Department and discussed the issue with appropriate officials. One option would have been to request an equitable adjustment. We took exception to NCS' statement related to key personnel that "Some of the hours which were questioned by the audit team in new deliverables are for the manager positions we added, not for the designated key personnel." All of the hours questioned in our audit were directly attributable to designated CPS key personnel staff.

## **Recommendations**

We recommend that the Contracting Officer take action to ensure that NCS:

1. Refunds \$90,600 paid for CPS key personnel services on other contracts and new work during the period August 14, 1995 through December 31, 1998.
2. Determines the amount of charges for key personnel on new work and other contracts from January 1, 1999, to the present and refund any amount inappropriately charged to the CPS contract.
3. Adheres to the terms of the contract and Statement of Work that prohibit diverting key personnel to other assignments without the advance written approval of the contracting officer and prohibit the charging of key personnel to new work under the CPS contract.
4. Includes the names of staff proposed for new work under the CPS contract as required by the terms of the contract and Statement of Work.



5. Ensures that the correct rates for the ADE deliverables are used on the CPS invoices.

## **BACKGROUND**

NCS currently holds the contract for the Central Processing System (CPS). The CPS contract was awarded to NCS on August 14, 1995, and included a base period plus four option years. At the time of our review, the total contract amount was \$100,105,795.

The contract is defined as a firm fixed price contract for planning and implementation products as well as for fixed price task orders. It is an indefinite quantity fixed price contract for production and maintenance products. In addition, it is defined as a labor hour, indefinite quantity contract for task orders that the Contracting Officer designates as being labor task orders.

The major function of the CPS contract is to process student application information and determine the student's eligibility for financial assistance. This function includes receiving the student application information electronically from the Multiple Data Entry contractor, performing matches with internal and external databases (e.g. Selective Service, Immigration and Naturalization Service, and Social Security Administration), and printing and mailing the Student Aid Report (SAR).

## **AUDIT SCOPE AND METHODOLOGY**

The objective of our audit was to determine the accuracy and reasonableness of costs incurred for products and services provided. To satisfy our audit objective, we reviewed the following specific areas:

- **Contract performance oversight and payment authorization** - We conducted interviews with Department and contractor staff to determine their roles in the monitoring process. We examined contract documentation and correspondence and reviewed invoices for Department authorization.
- **Key personnel** - We reviewed changes in key personnel, time dedicated by key personnel to the contract as defined by the proposal, and analyzed the labor charges including the accounts to which charges were made.
- **Billing procedures** - We interviewed contractor staff and reviewed internal controls over the billing process. We also selected a sample of invoices and validated the price and quantity of the line items to source documents.
- **Contract modifications** - We evaluated the appropriateness of contract modifications.

- **Quality control** - We interviewed contractor staff and reviewed the quality control plan and reports.

To accomplish our audit objective, we reviewed applicable Federal regulations and Department policies, contractor policies and procedures, Department and NCS contract and correspondence files, and NCS accounting records. In addition, we contacted other OIG auditors regarding recent work on the CPS contract and reviewed available reports from NCS's internal quality assurance staff. We also interviewed Department and contractor staff responsible for CPS operations.

We selected a sample of invoices and reviewed each line item. We validated the deliverable quantities to the supporting documentation and the prices used to the contract's terms.

We relied on computer-processed data contained in the contractor accounting records and we assessed the reliability of this data, including the relevant general and application controls at NCS. Based on our assessments and tests, we concluded that the data used was sufficiently reliable to meet our audit objective. Our conclusion was based on testing the accuracy, authenticity, and completeness of data by comparing computer data to source records.

Our audit of contract operations addressing matters in this report covered the period August 14, 1995 through December 31, 1998. Our fieldwork was conducted from February 16 through March 5, 1999. We conducted our work at the Department's offices in Washington, D.C., NCS offices in Iowa City, Iowa, and the Inspector General's office in Kansas City, Missouri. Our audit was conducted in accordance with government auditing standards applicable to the scope of the audit described above.

## **STATEMENT ON MANAGEMENT CONTROLS**

As part of our audit, we assessed the management control structure, policies, procedures, and practices applicable to the scope of our audit at NCS in Iowa City, Iowa. The purpose of our review was to assess the level of control risk for determining the nature, extent, and timing of substantive tests. For the purpose of this report, we assessed and classified the significant management controls into the following categories:

- Billings
- Quality Control and Quality Assurance

In performing this assessment, we relied on work performed by quality assurance staff to provide reasonable assurance that management controls were functioning properly.

Because of inherent limitations, a study and evaluation made for the limited purposes described above would not necessarily disclose all material weaknesses in the control structure. However, our assessment disclosed weaknesses at NCS related to the area of compliance with contract



requirements regarding the areas of key personnel and billing. These weaknesses are discussed in the Audit Results section of this report.

## ADMINISTRATIVE MATTERS

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 Education Department official, who will consider them before taking final Departmental action on the audit:

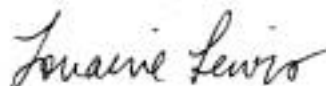
Thomas P. Skelly, Chief Financial Officer (Acting)  
Office of the Chief Financial Officer  
U.S. Department of Education  
Federal Building No. 6  
400 Maryland Avenue, SW  
Washington, DC 20202

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 thirty days would be greatly appreciated.

In accordance with the Freedom of Information Act (5 U.S.C. §552), reports issued by the Office of Inspector General are available, if requested, to members of the press and the general public to the extent information contained therein is not subject to the exemptions of the Act.

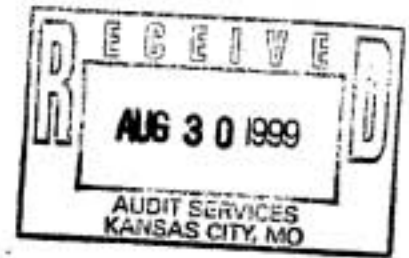
Please refer to the audit control number in all correspondence relating to this report.

Sincerely,



Lorraine Lewis

Enclosure



IN REPLY REFER TO: 99RLT-055

August 31, 1999

Mr. Bill Allen  
Regional Inspector General for Audit  
United States Department of Education  
Office of Inspector General  
Kansas City Office  
10220 N. Executive Hills Blvd. 2<sup>nd</sup> Floor  
Kansas City, Missouri 64153-1367

Dear Mr. Allen;

This is in response to the findings of the draft report of the Audit of the Central Processing System Contract, dated July 30, 1999. We are pleased that the report finds that costs billed by NCS for the CPS contract were materially reasonable and accurate. Our reaction to the other findings and recommendations follow.

**Findings:**

**Key Personnel:**

As to the finding that key personnel charged time to other contract and new work, we believe that the report failed to consider the many changes in scope that have affected the CPS contract. A significant number of the deliverables originally included in the Statement of Work were cancelled by ED. For example, 14 Phase 2 and Phase 3 deliverables related to the Electronic Payment function were cancelled after the award year. As a result, there was a significant number of key personnel hours proposed that would not be recovered. The NCS bid was structured to recover 353 hours of designated key personnel hours each option year for deliverable CPS/2/4D, Implement Application Processing - Electronic Payment. Therefore the unrecovered hours for these key personnel in the final 4 option years of the Contract totals 1412 hours for this one deliverable.

Conversely, ED has added many deliverables to the CPS statement of work. NCS has responded by dedicating many more management resources to the CPS delivery team than are represented by the designated key personnel. While these key personnel were bid on some new work, NCS used other management resources on most new work, and to back fill for the key personnel when they were most appropriately used on the new work.

For example, NCS has dedicated a full time manager to customer service since the contract started, which was not required by the Statement of Work. We also added dedicated program managers to guide each of the major delivery platforms; Web Applications, EDExpress, and Mainframe Processing systems. Some of the hours which were questioned by the audit team in new deliverables are for the manager positions we added, not for the designated key personnel.

**Updated ADE Prices Not Used:**

We acknowledge that we under billed the Government for the work on the ADE products and have implemented measures to insure that price schedules are properly distributed as they are revised.

**Richard J. Schwab**

Vice President and General Manager, Government Services Division  
National Computer Systems  
2510 North Dodge Street, Iowa City, IA 52245  
Phone: 319-339-6605 Fax: 319-339-6990  
E-mail: Dick\_Schwab@NCS.COM



**Recommendations:**

- 1). NCS believes that no refunds are justified, based on the changes in contract scope as referenced above. We have attached a list of these changes to demonstrate the evolution of the CPS Statement of Work since 1995.
- 2). NCS believes that no refunds are justified.
- 3). NCS will notify ED in advance to obtain permission if Key Personnel are to be used on other work.
- 4). NCS will include the names of staff members proposed for new work under the CPS contract .
- 5). NCS will insure that the correct rates are used for the ADE deliverables on CPS invoices.

In summary, NCS did not intend to, nor do we believe we have, incorrectly billed the Department of Education. If additional information or clarifications are needed, please feel free to call me at (319) 339-6605, Rick Tischler, Sr. Contract Administrator, at (319) 339-6917; or Ken Sickels, Manager, Contracts and Pricing, at (319) 339-6428.

Sincerely,

A handwritten signature in black ink that reads "Richard J. Schwab". The signature is written in a cursive, flowing style.

Richard J. Schwab  
Vice President and General Manager

List of CPS Changes in Statement of Work  
since 1996

Training Products (NASFAA)	94F23F	Large-school EDExpress	99F03A
CD-ROM Tutorial	96F27A	Migrate Web Servers	99F19A
FAFSA on the Web - Ph 1a	96F29A	Add Title IV Code Search	
EDS Integration Test	96F31A	Phase 1b Requirements	97F06A
Cross-year Sample File	96F32A	ADE Processing of Lost Apps.	97F14A
Additional Training Products	97F05A	SSCR Changes to Ver. 3.5	97F16A
Tech Support for MDE Proc.	97F13A	Year 2000 Test Plan	97F41A
QAP Quick Reference Cards	97F20A	DL and Pell Training	98F43A
CPS Mailing Enhancements	97F22A	FISAP Rollover	98F44A
Fast Forward	97F22B	QAP Desk Reference	98F45A
32-bit SSCR Module	97F23A	Yr2k EDExpress Testing	98F48A
NSLDS Post-screening	97F24A	FAFSA Dissemination	98F56B
PIC History Corrections	97F25A	Yr2k Testing with Schools	99F01A
Phase 1b Dev. Support	97F26A	Repricing of Deliverables	99F08A
Windows version of FISAP	97F31A	FAFSA Express EFC	99F09A
ADE Security Plan	97F33A	Yr2k Contingency Plans	99F14A
ADA Compliance	97F35A	History Corrections on the Web	99F16A
Req. Analysis for CPS Web Page	97F38A	Application Status Checking	99F22A
32-bit Conversion	97F57C	Form Entry FOTW	99F24A
Web Application Status Check	98F02A	DL Origination Fee Changes	99F27A
Yr2k Phase II Testing	98F07A	PIN Registration	99F33A
EFC on the Web	98F14A	Drug Conviction Worksheet	99F34A
Band 1 Migration	98F18A	Modification to PIN Length	99F35A
Cross Ref. CPS Data in CD-ROM	98F19A	Upgrade Oracle Database S/W	99F36A
Customer Service Web Page	98F46A	Add Client System to PIN D/B	99F37A
VA Match	98F49A	Populate FOTW Application	99F39A
Electronic Start-up Guide	98F51A	Add Federal School Code Link	99F40A
Access America	98F53A	Revised Student Account Manager	99F07A
Additional AVR Software	98F54A	SAM - Production Deliverables	99F13A
Windows 98 Testing	98F57A	SAM - Phase 1 Development	99F15A
Standalone Pell 9-0 Software	98F58A	CPS/SAM Changes	99F17A
SSA Reprocessing	98F59A	Phase 2 Requirements	99F18A
SSA-Prisoner Match Reqs.	98F63A	Phase 2 Development	99F30A
CPS Migration	98F65A	Phase 1A Work	99F31A
Refund Software	99F06A	PLUS Loan Servicing	99F32A

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