
**Audit of Compliance with
Cost Accounting Standards for Travel
National Computer Systems, Iowa City, IA**

FINAL AUDIT REPORT



ED-OIG/A07-90017

March 2000

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

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/A0790017

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/A0790017) presents the results of our audit of National Computer Systems' (NCS) travel costs for compliance with Cost Accounting Standards (CAS) and the Federal Acquisition Regulation (FAR) for the period June 1997 through February 1998.

AUDIT RESULTS

NCS did not comply with CAS 401, *Consistency in Estimating, Accumulating, and Reporting Costs*, with respect to travel costs. Specifically, NCS estimated travel costs in its proposals based on Federal Travel Regulations (FTR) maximum amounts, but recorded these costs based on actual amounts. In addition, when actual amounts exceeded FTR amounts, no prior approvals were obtained from the Contracting Officer as required by the FAR. According to NCS staff, they did not realize these costs were being treated inconsistently. In addition, NCS had no procedures in place to review travel vouchers to ensure FTR amounts were not exceeded. We reviewed a limited sample of vouchers and found travel costs submitted to the Department of Education (Department) exceeded FTR maximum amounts by 23%. As a result, amounts proposed for travel costs were understated, which required the Department to obligate additional funds to cover these costs.

Methods of Estimating and Reporting Travel Costs Were Inconsistent. Cost Accounting Standards, 48 CFR 9904.401 – *Cost Accounting Standard - Consistency in Estimating, Accumulating, and Reporting Costs*, paragraph 401-40(a) states “A contractor’s practices used in estimating costs in pricing a proposal shall be consistent with his cost accounting practices used in accumulating and reporting costs.” The purpose of CAS 401 as stated in paragraph 401-20 is to “. . . aid in establishing accountability for costs in the manner agreed to by both parties at the time of contracting . . .”

We reviewed proposals submitted by NCS on the four current Department contracts and found that NCS used FTR maximum amounts for estimating travel costs; however, NCS's disclosure statement states travel costs are allocated based on actual costs. We reviewed 18 vouchers from one of the contracts, and found travel costs were recorded based on actual amounts. In this limited sample, travel costs exceeded the FTR maximum amounts by \$1,985, or 23%.

NCS Incurred Travel Costs in Excess of FTR Maximum Rates without Prior Approval.

FAR 31.205-46 provides guidance on the allowability of travel costs. According to subparagraph (a)(3), "In special or unusual situations, actual costs in excess of the above-referenced maximum per diem rates are allowable provided that such amounts do not exceed the higher amounts authorized for Federal civilian employees." For the higher amounts to be allowable, the following are two of the conditions that must be met:

- A written justification for use of the higher amounts must be approved by an officer of the contractor's organization or designee to ensure that the authority is properly administered and controlled to prevent abuse.
- If it becomes necessary to exercise the authority to use the higher actual expense method repetitively or on a continuing basis in a particular area, the contractor must obtain advance approval from the contracting officer.

NCS did not obtain written justification by an officer of the company for use of the higher amounts, nor did it have approval by the Contracting Officer for use of higher amounts on a repetitive or continuing basis. NCS did not review travel expenses to prevent actual costs in excess of FTR maximum amounts from being claimed on contract billings.

NCS Response and Auditor's Comments. Although NCS officials did not agree that their methods of estimating and reporting travel costs were inconsistent, they did agree to take the following actions that address Recommendations 2, 3 and 4 below:

- For travel proposed on a time and material or on a cost type basis, NCS will review the travel policies and make any necessary changes to ensure prior approval is obtained for excess travel costs.
- If excess travel costs are not authorized on the cost type contracts, NCS will establish policies to insure that excess costs are not charged to the programs.

NCS officials also stated in their response that for travel proposed on a fixed-price basis, the Department is only charged the amount originally proposed or negotiated. However, the travel costs cited in the audit report, where actual costs exceeded those proposed by 23%, were proposed on a time and materials basis, and did result in additional charges to the Department.

NCS's position that its practices were not inconsistent was based on its conclusions that: (1) use of the FTR as an estimating method is not a cost accounting practice, and (2) CAS 401 limits the areas where consistency is required. To address NCS's first point, CAS 401 does not state that estimating practices are cost accounting practices. CAS 401 states (emphasis added):

A contractor's practices used in estimating costs in pricing a proposal shall be consistent with his cost accounting practices used in accumulating and reporting costs.

NCS's second point is based on its assumption that only certain costs must be consistent under this standard. NCS's response cites 48 CFR 9004.401-50, "In any event, the cost accounting practices used in estimating costs in pricing a proposal and in accumulating and reporting cost on the resulting contract shall be consistent. . . ." The phrase "in any event" indicates that some specific examples follow, but does not limit the elements that should be consistent. This is supported by the purpose of the standard as cited in our audit report, to ". . . aid in establishing accountability for costs in the manner agreed to by both parties at the time of contracting" Costs estimated by one method, and accumulated and reported by another method, are clearly not consistent, and in this case, resulted in higher costs to the Department than were agreed upon.

The full text of the NCS response is included as an Enclosure to this report.

Recommendations

We recommend that the Office of the Chief Financial Officer take action to ensure that NCS:

1. Estimates and records travel costs on a consistent basis.
2. Obtains and documents prior approval for excess travel costs from an NCS officer and the Contracting Officer as provided for in FAR 31.205-46.
3. Reviews travel vouchers to ensure amounts do not exceed FTR maximums, including additional amounts approved by the NCS officer and Contracting Officer.
4. Revises its travel policies to reflect these procedures.

BACKGROUND

National Computer Systems currently holds four Student Financial Assistance contracts:

- Public Inquiry Contract
- Title IV Wide Area Network
- Central Processing System
- Student Financial Aid Training

The Department of Education Office of Inspector General (OIG) has been designated as the cognizant audit agency for NCS contract matters. As such, the OIG is responsible for reporting on matters that could affect other Government contracts. This report will be made available to other Government agencies upon request.

AUDIT SCOPE AND METHODOLOGY

The objective of our audit was to determine whether National Computer Systems complied with Cost Accounting Standards and Federal Acquisition Regulations as they pertain to travel costs. To accomplish our objective we reviewed applicable Cost Accounting Standards, Federal regulations, NCS policies and procedures, and accounting records. We interviewed contractor staff responsible for estimating and recording travel costs. We reviewed the contractor's disclosure statement, revision 3, effective February 1, 1998. We relied on recent work we performed in the contract monitoring audits of the Public Inquiry Contract and the Title IV Wide Area Network Contract.

We reviewed four proposals submitted for current contracts held by NCS to determine the basis used to estimate its travel costs. We reviewed a sample of invoices from one contract to determine whether travel costs claimed exceeded the Federal Travel Regulation maximum amounts.

Our audit of compliance with Cost Accounting Standards as they relate to travel costs covered the period June 1997 through February 1998. We conducted the review at NCS and from our offices in Kansas City, Missouri, utilizing data recently collected during the audits previously mentioned. Our audit was conducted in accordance with government auditing standards.

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 review. 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 purposes of this report, we assessed and classified the significant controls into the following categories:

- Policies and procedures
- Allowability of travel costs

Because of inherent limitations, a study and evaluation made for the limited purpose described above would not necessarily disclose all material weaknesses in the control structure. However, our assessments identified weaknesses in application of Cost Accounting Standard 401, and in the allowability of travel costs. These weaknesses and their effects are discussed in greater detail in the body 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:

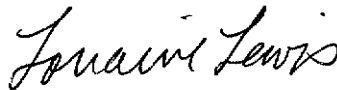
Thomas P. Skelly, Chief Financial Officer (Acting)
Office of the Chief Financial Officer
U.S. Department of Education
Federal Building No. 6, Room 4E313
400 Maryland Avenue, SW
Washington, DC 20202

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 30 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 exemptions in the Act.

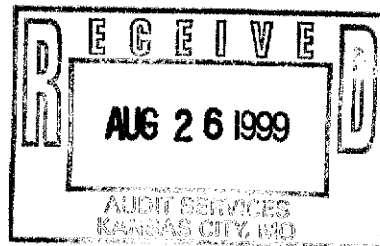
Please refer to the audit control number in all correspondence relating to this report.

Sincerely,

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

Lorraine Lewis

Enclosure



IN REPLY REFER TO: 99RLT-052

Enclosure

August 23, 1999

Mr. William Allen
Regional Inspector General for Audit
U.S. Department of Education
10220 N. Executive Hills Blvd., 2nd Floor
Kansas City, MO 64153-1367

Reference: Draft Audit Report of National Computer Systems' Travel Costs for
Compliance with Cost Accounting Standards

Dear Mr. Allen:

NCS has reviewed the four recommendations of your draft audit report dated July 30, 1999 and provides the following additional information and clarifications in response to those recommendations.

1. NCS does not agree with the finding that we do not estimate and record travel costs on a consistent basis. We have reviewed Cost Accounting Standards, 48 CFR 9904.401 – Cost Accounting Standards – Consistency in Estimating, Accumulating, and Reporting Costs and the rationale for our position is set forth in Attachment 1.

We have discussed our interpretation of the issue with Dr. Lane Anderson and he agrees with our position. Dr. Anderson has worked with us for many years to help assure that NCS has a CAS compliant cost accounting system. Dr. Anderson is a well-known expert witness on Cost Accounting Standard issues with the U.S. Departments of Defense and Justice and was an Assistant Director of the original Cost Accounting Standards Board. He is also the author of Accounting for Government Contracts: Cost Accounting Standards, published by Matthew Bender and Company.

- 2, 3 and 4. For travel proposed on a firm-fixed price basis, the US Department of Education (the Department) is only charged the amount which has been originally proposed or negotiated. Since NCS does use the FTR rates when proposing travel costs, the Department is never charged more than the FTR rates for all our fixed

Richard J. Schwab

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priced contracts. The draft audit report identifies an average of 23% of travel costs in excess of the FTR. These excess costs reduce NCS's profitability on those projects since they are never billed to the customer because our travel costs in the proposal were based on FTR. For travel proposed on a time and material or on a cost type basis, NCS will review the travel policies and make any necessary changes to ensure prior approval is obtained for excess travel costs. If excess travel costs are not authorized on the cost type contracts, NCS will establish policies to insure that excess costs are not charged to the programs.

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 "R. Schwab". The signature is written in a cursive style with a large, sweeping initial "R" that extends to the left.

Richard J. Schwab
Vice President & General Manager

ATTACHMENT 1

The draft audit report only cites 48 CFR 9904.401-40 (a) of the fundamental requirement as its conclusion for the noncompliance cite. This paragraph states:

“(a) A contractor’s practices used in estimating costs in pricing a proposal shall be consistent with his cost accounting practices used in accumulating and reporting costs.”

We believe the draft findings miss two significant points regarding CAS 401. First, the focus of CAS 401 is on cost accounting practices used in estimating, accumulating, and reporting costs. Second, CAS 401 specifies the consistencies that must exist. For the first point, 48 CFR 9903.302-1 offers the definition of a cost accounting practice. This paragraph states:

“*Cost accounting practice*, as used in this part, means any disclosed or established accounting method or technique which is used for allocation of cost to cost objectives, assignment of cost to cost accounting periods, or measurement of cost.

“(a) *Measurement of cost*, as used in this part, encompasses accounting methods and techniques used in defining the components of cost, determining the basis for cost measurement, and establishing criteria for use of alternative cost measurement techniques. The determination of the amount paid or a change in the amount paid for a unit of goods and services is not a cost accounting practice. Examples of cost accounting practices which involve measurement of costs are--

“(1) The use of either historical cost, market value, or present value;

“(2) The use of standard cost or actual cost; or ✓

“(3) The designation of those items of cost which must be included or excluded from tangible capital assets or pension cost.

“(b) *Assignment of cost to cost accounting periods*, as used in this part, refers to a method or technique used in determining the amount of cost to be assigned to individual cost accounting periods. Examples of cost accounting practices which involve the assignment of cost to cost accounting periods are requirements for the use of specified accrual basis accounting or cash basis accounting for a cost element.

“(c) *Allocation of cost to cost objectives*, as used in this part, includes both direct and indirect allocation of cost. Examples of cost accounting practices involving allocation of cost to cost objectives are the accounting

methods or techniques used to accumulate cost, to determine whether a cost is to be directly or indirectly allocated to determine the composition of cost pools, and to determine the selection and composition of the appropriate allocation base.”

The critical point is in the *measurement of cost* paragraph. The important statement is: “The determination of the amount paid or a change in the amount paid for a unit of goods and services is not a cost accounting practice.” Therefore, the use of the FTR to estimate travel costs is not a cost accounting practice. It is an estimating method or technique.

The second point is to establish in CAS 401 what the consistencies are. The appropriate paragraph is 48 CFR 9904.401-50 which is the techniques for application. That paragraph states:

“(a) The standard allows grouping of homogeneous costs in order to cover those cases where it is not practicable to estimate contract costs by individual cost element or function. However, costs estimated for proposal purposes shall be presented in such a manner and in such detail that any significant cost can be compared with the actual cost accumulated and reported therefor. *In any event the cost accounting practices used in estimating costs in pricing a proposal and in accumulating and reporting costs on the resulting contract shall be consistent with respect to* [emphasis added]:

“(1) The classification of elements or functions of cost as direct or indirect;

“(2) The indirect cost pools to which each element or function of cost is charged or proposed to be charged; and

“(3) The methods of allocating indirect costs to the contract.

We believe that this supports our position that once you have a cost accounting practice, the consistency is in how that practice is portrayed in proposals as compared to the cost accumulation system. The dollar amounts associated with the practices are not relevant.

REPORT DISTRIBUTION LIST

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Copies

Auditee

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

1

Action Official

Tom Skelly, Chief Financial Officer (Acting)
Office of Chief Financial Officer
U.S. Department of Education
Federal Building No. 10, Room 4366
Washington, D.C. 20202

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DATA INPUT SHEET



OFFICE CODE: 07 AUDIT TYPE: A

A C N: 07-90017

PROJ MGR#: 980094

Proj Name: Contract Audit Services

AWPI GAC

STRATEGIC GOAL #: 1

TITLE: Cost Accounting Standards Compliance for Travel Costs
National Computer Systems

STATE IA

(1,2,3)

PERIOD AUDITED: FROM 01/28/94 TO 02/28/99

AUDIT SCOPE: 4 PROGRAM OFFICE: 8

DIRECT TIME (Y/N): Y JOB STATUS CODE: 2 ENTITY CODE #: 38

PLANNED START DATE: 03/15/99 DATE NEEDED BY: []

AUDIT PLAN BUDGET: (STAFF DAYS)

FY	1ST YR	INITIAL SURVEY	25	AFTER SURVEY	REVISED	TOTAL
99			25			25

LEAD AUDITOR: Emp#: 2484 Name: Nancy I. Brown CFDA CODE: N/A

	Planned Date	Actual Date
1. Assignment Start	3/15/99	3/15/99
2. Planning Conf.	3/22/99	3/22/99
3. Entrance Conf.	3/24/99	3/22/99
4. Survey Complete	6/30/99	6/30/99
5. Team Complete	7/15/99	7/15/99
6. Draft Report	8/15/99	7/30/99
7. Comments Rec'd	9/30/99	8/26/99
8. Final Report	10/31/99	3/16/00

FINAL REPORT (Check One)

ALTERNATIVE PRODUCT Code = 5

NO REPORT Code = 0

ISSUED W/FINDING Code = 1

ISSUED W/O FINDING Code = 2

REPORT CANCELED Code = 4

PREPARER'S SIGNATURE, DATE Nancy Brown 3/16/00
Approved By, Date: William Allen 3/16/00



ACN 07-90017

DATA INPUT SHEET
(only to be used for finding code 1)



Non-Monetary Findings

Number of Findings 1

<u>Finding Number:</u>	<u>Significant</u>
1	<input type="checkbox"/>
	<input type="checkbox"/>
	<input type="checkbox"/>
	<input type="checkbox"/>

<u>Recommendation #</u>	<u>Significant</u>
1	<input type="checkbox"/>
2	<input type="checkbox"/>
3	<input type="checkbox"/>
4	<input type="checkbox"/>

OIG AUDIT TEAM

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Annette Kneib**

William Allen, CPA

Advice & Assistance Staff:

Pat Howard



UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF INSPECTOR GENERAL

THE INSPECTOR GENERAL

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 Compliance with Cost Accounting Standards for Travel, National Computer Systems, Iowa City, IA (ED/OIG A07-90017)

Attached is our final audit report entitled *Audit of Compliance with Cost Accounting Standards for Travel, National Computer Systems, Iowa City, IA*. The report presents the findings and recommendations resulting from our audit of National Computer Systems' travel costs for compliance with Cost Accounting Standards (CAS) and the Federal Acquisition Regulation (FAR) for the period June 1997 through February 1998.

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