



UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF INSPECTOR GENERAL

THE INSPECTOR GENERAL

SEP 27 2000

ED-OIG/A07-A0014

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

Dear Mr. Skelly:

This ***Final Audit Report*** (Control Number ED-OIG/A07-A0014) presents the results of our audit follow-up review on corrective actions the Department had taken in response to issues reported during the Office of Inspector General's contract monitoring audits of Student Financial Assistance (SFA) information technology contracts. Our follow-up review focused on six issues: contract changes, key personnel changes, definition of contract terms, dedication of key personnel, contractor remittances due the Department, and incorrect contractor billings.

AUDIT RESULTS

We found the Department has taken corrective actions that would likely correct the problems identified in three of six issue areas. Specifically, the Department has taken corrective actions to formalize contract changes, to ensure key personnel changes were appropriately authorized, and to ensure contract terms were appropriately defined in the identified contracts. However, the Department has not taken adequate, timely action to address the following three issues:

- Key personnel dedicated to the projects as specified in the contracts,
- Contractor remittances due the Department, and
- Incorrect contractor billings for travel costs.

In the General Accounting Office's (GAO) publication, "Standards for Internal Control in the Federal Government," GAO defines monitoring as one of the standards for internal control. GAO states that:

Monitoring of internal control should include policies and procedures for ensuring that the findings of audits and other reviews are promptly resolved. Managers are to (1) promptly evaluate findings from audits and other reviews, including those showing deficiencies and recommendations reported by auditors and others who evaluate agencies' operations, (2) determine proper actions in response to findings and recommendations from audits and reviews, and (3) complete, within

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established time frames, all actions that correct or otherwise resolve the matters brought to management's attention.

The Department concurred with our findings and recommendations and identified actions it intends to implement to address the issues raised by our audit. A copy of the Department's comments is included as an Attachment to this letter.

Key Personnel Were Not Dedicated as Specified in the Contract.

In the audit of the Title IV Wide Area Network (TIV WAN) contract we found that key personnel specified as being 100% dedicated to the contract were charging hours to new work and to other Department contracts. This resulted in overcharges to the TIV WAN contract in the amount of \$249,900 (ED OIG/E07-90012 and ED OIG/A07-80018). The Department stated in its response to the action memorandum (March 1999) and its response to the audit report (April 1999) that immediate action would be taken to ensure key personnel are appropriately billed on Department contracts. The Department also stated it would take the following actions:

- Require the contractor to include the names of any key personnel in all modifications/task order proposals as required by the statement of work.
- Keep a current list of key personnel on the contract to aid in the evaluation of modifications/task order proposals.
- Review the OIG work sheets to determine if it agreed with the recommended refund amount.
- Work with other offices in the Department to ensure the recovery of funds.

We found, however, that these actions had not been taken. In our review of recent proposals submitted by the contractor, the names of staff were not consistently included. Neither contracting nor program staff could provide a list of current key personnel for the TIV WAN contract. The contractor provided the list we reviewed. The Department had not taken any action to review the refund amount, nor to request any recoveries from the contractor. Contracts and Purchasing Operations (CPO) staff stated they were committed to reviewing the key personnel overcharges, but had not yet had time to do it.

The same key personnel issue was also noted in the audit of the Central Processing System (CPS) contract. The overcharges reported were \$90,600 (ED OIG/A07-90003). The Department did not respond to the draft report. The final report was issued in March 2000. We found the Department had not initiated any corrective action to address this issue under the CPS contract.

Contractor Remittances Due the Department Were Not Monitored.

During the audit of the TIV WAN contract we reported that Department officials did not monitor reimbursements due the Department for charges collected from non-ED users of the TIV WAN system. Ten checks sent by the contractor to the Department totaling \$870,903 were reported as missing. Two of the ten checks were found subsequent to the audit. The other eight were reissued by the contractor and deposited by the Department (ED OIG/E07-90013). At the time of this follow-up review the Department had implemented some corrective procedures to ensure

the checks received from the contractor were being deposited. The contractor was notifying the Department via electronic mail when checks were being sent. The Department established procedures to record the receipt and deposit of the checks. Even with the new procedures, the contractor recently notified the Department that two checks totaling \$149,319 had not been cashed. The contractor reissued the checks in February 2000.

In its December 1998 response to the action memorandum, Department officials stated they would take action to “. . . require the TIV WAN and the Title IV Application Systems staff to verify the appropriateness of non-Department user charges based on supporting documentation . . .” We found the Department had not yet established procedures to validate the amounts being remitted by the contractor. Neither the contracting officer, contract specialist, nor the contracting officer’s technical representative receive supporting documentation for the amounts remitted.

Contractor Billings for Travel Costs Were Incorrect.

In March 2000 we issued the final report regarding a contractor’s noncompliance with Cost Accounting Standards (CAS) and the Federal Acquisition Regulation with respect to travel costs (ED OIG/A07-90017). The Department did not respond to the draft of the CAS report. In discussions with CPO staff they agreed that the Department should monitor travel costs on the contractor’s invoices, suggesting that an e-mail could be sent to contracting and program staff working with this contractor to remind them to monitor travel costs. However, no action had yet been taken to notify contracting and program staff of this issue.

Recommendations

1. Regarding the issue of key personnel not dedicated as specified in the contract, we recommend that the Chief Financial Officer:
 - 1.1 Strengthen the monitoring of TIV WAN proposals to ensure that the names of staff proposed to do the work are included on all task order proposals as required by the contract.
 - 1.2 Ensure a current list of key personnel is maintained on contracts that contain key personnel requirements.
 - 1.3 Immediately review the refund amounts due for key personnel overcharges on both the TIV WAN and CPS contracts.
 - 1.4 Require the contractor to refund the \$249,900 and \$90,600 in key personnel overcharges.
 - 1.5 Require the contractor to review its records from May 31, 1998 to the present for the TIV WAN contract, and from January 1, 1999 to the present for the CPS contract, and refund any additional inappropriate key personnel charges to ED.
2. Regarding the issue of contractor remittances due the Department, we recommend the Chief Financial Officer:

- 2.1 Require the contractor to submit documentation supporting the amounts of the reimbursement checks. Provide the documentation to the contracting officer and/or contracting officer's technical representative for review.
 - 2.2 Establish a procedure for validating the amounts sent by the contractor.
 - 2.3 Strengthen the tracking process for checks received from the contractor to ensure future checks are not misplaced.
3. Regarding the issue of incorrect contractor billings for travel costs, we recommend the Chief Financial Officer require monitoring of travel costs on all contracts to ensure costs claimed are appropriate.

BACKGROUND

During 1998 and 1999, the Office of Inspector General conducted a series of audits evaluating the contract monitoring process for information technology contracts. The objectives of those audits were to:

1. Determine the accuracy and reasonableness of costs incurred for products and services provided.
2. Determine the quality of oversight by the contracting officer's technical representative and other Department of Education officials.

The audits reported the following six issues as needing improvement:

- Contract changes were not formalized.
- Key personnel changes were not approved.
- Contract terms were not defined adequately.
- Key personnel were not dedicated to the projects as specified in the contracts.
- Contractor remittances due the Department were not monitored.
- Incorrect contractor billings were not identified by Department officials.

A complete list of the audit reports and action memoranda are included as Exhibit A to this report.

AUDIT OBJECTIVE, SCOPE, AND METHODOLOGY

Our audit objectives were to determine the corrective actions taken in response to issues we reported during the contract monitoring audits and to evaluate whether the actions taken will likely correct the problems identified.

To accomplish our objectives, we reviewed previous OIG audit reports and action memoranda on the SFA information systems contracts, and the Department's responses to these reports and memoranda. We conducted interviews with contracts and program staff responsible for

administering SFA information systems contracts. We reviewed documentation contained in the contract files. We reviewed the last six remittances sent by the contractor to evaluate the Department's controls over processing the checks. We reviewed recent proposals under the TIV WAN contract to evaluate the Department's monitoring of key personnel costs.

Our review covered OIG audits performed during 1998 and 1999 evaluating the contract monitoring process for SFA information technology contracts. See Exhibit A to this report for a list of reports and action memoranda covered during this review. We performed fieldwork at the Department from April 13, 2000, through June 15, 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 assessed the system of management controls, policies, and procedures applicable to implementing planned corrective actions. The purpose of our assessment was to determine the risk that material errors, irregularities, or illegal acts may occur. We performed the control risk assessment to assist us in determining the nature, extent, and timing of the substantive tests needed to accomplish our audit objective.

Due to 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, we identified weaknesses in the Department's implementation of planned corrective actions. These weaknesses are discussed in the *Audit Results* section above.

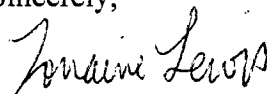
ADMINISTRATIVE MATTERS

Please provide the Supervisor, Post Audit Group, Office of Chief Financial Officer and the Office of Inspector General, with quarterly status reports on promised corrective actions until all such actions have been completed or continued follow-up is unnecessary.

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

If you have any questions regarding the contents of this report, please contact Bill Allen at (816) 880-4024. Please refer to the control number in all correspondence related to the report.

Sincerely,


Lorraine Lewis

Attachment

**Contract Monitoring Audits of
Student Financial Assistance Information Technology Contracts
Issued Reports/Memoranda**

Audit Report – “Audit of Public Inquiry Contract, National Computer Systems, Iowa City, IA,” November 1998, (ED OIG/A07-80017)

OSFAP Action Memorandum 99-01 – “Informal Contract Task Orders/Modifications, Title IV Wide Area Network Contract,” October 27, 1998, (ED OIG/E07-90014)

OSFAP Action Memorandum 99-02 – “Outstanding Title IV Wide Area Network Remittances,” November 2, 1998, (ED OIG/E07-90013)

OSFAP Action Memorandum 99-05 – “Title IV Wide Area Network Contract – Inappropriate Charges for Key Personnel to New Tasks and Other NCS Contracts,” December 16, 1998, (ED OIG/E07-90012)

OSFAP Action Memorandum 99-09 – “Department Officials Should Avoid the Appearance of Limiting Full and Open Competition,” February 25, 1999, (ED OIG/E07-90011)

Audit Report – “Audit of Title IV Wide Area Network Contract, National Computer Systems, Iowa City, IA,” May 1999, (ED OIG/A07-80018)

OSFAP Action Memorandum 99-11 – “Key Personnel Requirements Should be Clarified Prior to Award of the Editorial Services Contract,” May 25, 1999, (ED OIG/E07-90025)

OSFAP Action Memorandum 99-12 – “Allowing Contracting Officer’s Technical Representatives to Authorize Work is Contrary to Procurement Regulations,” May 28, 1999, (ED OIG/E07-90027)

Audit Report – “Audit of the Central Processing System Contract,” March 2000, (ED OIG/A07-90003)

Audit Report – “Audit of Compliance with Cost Accounting Standards for Travel, National Computer Systems, Iowa City, IA,” March 2000, (ED OIG/A07-90017)



UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF THE CHIEF FINANCIAL OFFICER

SEP 19 2000

William T. Allen
Regional Inspector General for Audit
Office of the Inspector General
10220 North Executive Hills Boulevard
Kansas City, MO 64153

Reference: Draft Audit Report ED-OIG/A07-A0014, *Audit Follow-up Review on Corrective Action Taken in Response to OIG Contract Monitoring Audits of Student Financial Assistance (SFA) Information Technology Contracts*

Dear Mr. Allen:

We have reviewed the referenced draft audit report for which the audit objectives were to determine the corrective actions taken by the OCFO in response to issues the OIG reported during the contract monitoring audits and to evaluate whether the actions taken will likely correct the problems identified. The audit scope was limited to determining whether the corrective actions proposed by the OCFO in the responses had been implemented.

Specifically at issue were six (6) contract monitoring issues previously noted in OIG audit reports and action memoranda:

- Contract changes were not formalized
- Key personnel were not dedicated as specified in the contract
- Key personnel changes were not approved in advance by the Department
- Contractor remittances due the Department were not monitored
- Contract terms were not defined properly
- Incorrect contractor billings were not identified by Department officials

The OIG acknowledges in the report that the OCFO has taken corrective action on three of the six issue areas; however, adequate and timely action has not been taken on three remaining areas:

- Key personnel dedicated to the projects as specified in the contract
- Contractor remittances due the Department
- Incorrect contractor billings for travel costs

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Key Personnel Were Not Dedicated as Specified in the Contract.

At issue are two Department contracts, Title IV Wide Area Network (TIV WAN) and the Central Processing System (CPS). Both contracts are performed by National Computer Services (NCS). The OIG found in the audit reviews that NCS had overcharges totaling \$249,900 and \$90,600 for TIV WAN and CPS, respectively. As a result, the OIG recommended that the OCFO take immediate action to (in summary):

- Require the contractor to include the names of any key personnel in all modifications/task order proposals as required by the statement of work and keep a current list.
- Review the OIG work sheets to determine if this office agrees with the recommended refund amount and work with other offices within the Department to ensure the recovery of funds.

The OIG audit follow-up additionally recommends that OCFO take immediate action to:

- Require the contractor to review its records from May 31, 1998 to the present for the TIV WAN contract, and from January 1, 1999 to the present for the CPS contract, and refund any additional inappropriate key personnel charges to ED.

OCFO Response and Corrective Action Plan.

While the OCFO/Contracts and Purchasing Operations (CPO) did take immediate action to discuss with NCS a need to include a listing of key personnel in future proposals for contract changes and task orders, we acknowledge that NCS has not always been consistent in following through on this requirement. We will reaffirm the requirement *in writing* for NCS to submit names of key personnel in proposals. We will also ensure that we maintain a copy of the key personnel list currently maintained by NCS. The letter will be written to NCS by no later than September 22, 2000.

With respect to the recovery of overcharges, as the OIG report acknowledges, this office remains committed to reviewing the key personnel overcharges to both contracts and plans to take action leading to expected full recovery by November 30, 2000. As a part of this review, this office will act upon the OIG recommendation to require NCS to review its records for both TIV WAN and CPS for the time period as suggested for any additional inappropriate key personnel charges.

Contractor Remittances Due the Department Were Not Monitored.

In the SFA Action Memorandum No. 99-02, the OIG recommended to both SFA and the OCFO that immediate action be taken to determine the disposition of checks, to reissue missing checks, and to establish appropriate procedures to ensure timely receipt, processing, and recording of checks in Department records in the future. The OIG audit follow-up report acknowledges that many of the corrective actions as recommended have been taken. However, you note that the corrective action proposed by this office to

“require the TIV WAN and the Title IV Application Systems staff to verify the appropriateness of non-Department user charges based on supporting documentation” has not been taken. Accordingly, the OIG recommended that the OCFO take immediate action to:

- Require the contractor to submit documentation supporting the amounts of the reimbursement checks. Provide the documentation to the contracting officer and/or contracting officer’s technical representative for review.

Additionally, the OIG audit follow-up recommends that the OCFO take action to:

- Establish a procedure for validating the amounts sent by the contractor.
- Strengthen the tracking process for checks received from the contractor to ensure future checks are not misplaced.

OCFO Response and Corrective Action Plan.

As previously noted in the OCFO/SFA response to Action Memorandum 99-02, the OCFO and SFA established procedures to track reimbursement checks sent by NCS. This office will ensure that the contractor submit documentation supporting the reimbursement checks. The documentation will be used to validate the reimbursement amount. This office will request *in writing* that NCS submit the appropriate documentation to the contracting officer. This office will also request that the SFA executive officer notify the contracting officer via email when checks are received. The letter to NCS and notification to the SFA executive office will be written by no later than September 21, 2000.

Contractor Billings for Travel Costs Were Incorrect.

The OIG issued a final audit report (ED-OIG/A0790017) on NCS’ travel costs for compliance with Cost Accounting Standards and FAR. The audit found that 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. Additionally, when actual amounts exceeded FTR amounts, no prior approvals were obtained from the contracting officer as required by FAR. Accordingly, the OIG recommended that the OCFO take immediate action to ensure that NCS:

- Estimates and records travel costs on a consistent basis.
- Obtains and documents prior approval for excess travel costs from a NCS officer and the contracting officer.
- Reviews travel vouchers to ensure amounts do not exceed FTR maximums, including amounts approved by the NCS officer and contracting officer.
- Revises its travel policies to reflect these procedures.

In NCS' response to the OIG audit, NCS while not agreeing with OIG that their methods of estimating and reporting travel costs were inconsistent, did agree that for time and materials or cost type contracts involving travel, that prior approval from a contracting officer will be obtained for excess travel costs. NCS also agreed that for unauthorized excess travel costs on cost type contracts, NCS would establish policies to ensure that excess costs are not charged to the programs.

Concerning the limited sample of travel vouchers reviewed by the OIG (18 vouchers from one of the contracts), where travel costs were recorded based on actual amounts and the travel costs exceeded the FTR maximum amounts by \$1,985, or 23%, NCS responded that these costs were never billed to the Department.

The OIG audit follow-up recommends that the OCFO take immediate action to:

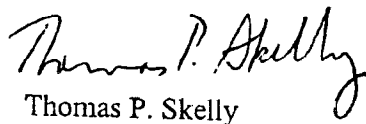
- Require monitoring of travel costs on all contracts to ensure costs claimed are appropriate.

OCFO Response and Corrective Action Plan.

This office concurs with the OIG to monitor travel costs on all contracts to ensure costs claimed are appropriate. As such, this office will remind contracts staff of the FAR 31.205-46 cost principles and procedures and allowance of travel costs. Additionally, we will follow-up with NCS to ensure that NCS has established policies to ensure that excess costs are not charged to the programs. The notice to staff and the letter to NCS will be written by no later than September 22, 2000.

If you have any questions, please call Glenn Perry at (202) 708-8488, or Cynthia Bond-Butler at (202) 401-1615.

Sincerely,



Thomas P. Skelly

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