U.S. DEPARTMENT OF EDUCATION
THE WANAMAKER BUILDING
100 PENN SQUARE EAST, SUITE 502
PHILADELPHIA, PA 19107

OFFICE OF
INSPECTOR GENERAL

MAY 6 2003

Mr. Eugene A. Brannock
Executive Vice President – General Manager
Information Services & Technology Group
Aspen Systems Corporation
2277 Research Boulevard
Rockville, MD 20850

Dear Mr. Brannock,

This **Final Audit Report** (Control Number ED-OIG/A03-C0021) presents the results of our review of Aspen Systems Corporation's (Aspen) administration of the Education Publications (ED Pubs) contract (contract number ED-98-C0-0007) for the period March 13, 1998, through June 30, 2002.

AUDIT RESULTS

Our audit objective was to determine if the products and services provided and charged by Aspen for the ED Pubs contract were in accordance with the terms of the contract and applicable federal law and regulations. We concluded that they were, except for the weaknesses discussed below. These weaknesses include incorrect billings and unsupported charges billed to ED.

A draft copy of this audit report was provided to Aspen. Aspen believes that the report fairly represents the results of the ED OIG audit. In addition, Aspen noted the corrective actions that they have implemented. A copy of Aspen's response is included as Attachment B to this audit report.

FINDING NO. 1 – ASPEN INCORRECTLY HANDLED AMOUNTS ON TWO INVOICES BILLED TO ED

Aspen erroneously overbilled ED for $3,760, because amounts, totaling $1,880,[1] that should have been credited on two invoices for corporate storage and recycling were added to the invoice amounts. The March 29, 2002, invoice (No.028082-VR0105) contained a credit amount of $844 for corporate storage that was added to the invoice amount. In addition, the May 31, 2002, invoice (No. 028524-VR0109) contained a credit amount of $1,035 for monies earned from recycling that was added to the invoice amount. During the period of our review, March 13, 1998, to June 30, 2002, Aspen

[1] Due to rounding of the amounts noted, there is a small deviation when the amounts are added together.

submitted 114 invoices to ED, 37 of which contained credit amounts. The credit amounts on the remaining 35 invoices were properly subtracted from each invoice's balance due amount.

When preparing the invoices, Aspen staff inadvertently added the credit amounts to the invoices' balance due amount. Contractors should review invoices for correctness prior to submitting them to ED. After bringing the errors to Aspen's attention, Aspen corrected the erroneous charges on the August 21, 2002, invoice (No. 029286-VR0117). As a result, recoveries have been made, totaling $3,760.

RECOMMENDATION:

1.1 We recommend that ED's Chief Financial Officer require Aspen to develop and implement procedures to ensure that all finalized invoices receive a second level of review prior to being issued to ED.

Aspen's comments - Aspen noted that all ED Pubs invoices currently go through a 3-tiered review process, that includes the ED Pubs Management Analyst, Project Manager, and Contract Manager. In response to the recommendation, Aspen has added the Education Division Vice President to the list of individuals responsible for reviewing ED Pubs invoices.

OIG response – We recognize that each invoice's supporting detail currently goes through a review process within Aspen. We suggest that the Education Division Vice President's review include the finalized invoice, prepared by Aspen's Accounting Department, prior to the invoice being issued to ED.

FINDING NO. 2 – ASPEN DID NOT MAINTAIN ADEQUATE SUPPORTING DOCUMENTATION FOR ALL SCHEDULE B INVOICES REVIEWED

We reviewed a total of 30 Contract Line Item Number (CLIN) charges, totaling $166,241, from six randomly selected Schedule B invoices. Schedule B invoices cover variable fixed per unit costs (based on the amount of units ordered and the cost per unit) and shipping and expressage costs. Schedule B invoices contain a CLIN list that itemizes costs for fulfilling mailing requests.

We identified $3,339 in unsupported costs on five of the six Schedule B invoices we reviewed.[2] We found unsupported costs for four different CLINs, totaling $3,299, on the invoice for June 1999. For the other four invoices, Aspen was able to provide orders supporting a CLIN quantity of one less than the quantity for which ED was invoiced. The total amount of unsupported costs for the remaining four invoices was $40.

Federal Acquisition Regulations (FAR) at § 4.703(a) require contractors to make available records, which include books, documents, accounting procedures and practices, and other data, regardless of type and regardless of whether such items

[2] See Attachment A for a detailed breakdown of the unsupported costs.

are in written form, in the form of computer data, or any other form. These records shall remain available for three years after the final contract payment, or, for certain records, the period specified in FAR § 4.705 through 4.705-3.

Additionally, FAR § 4.705-1 "Financial and cost accounting records," requires contractors to retain for four years after the final contract payment accounts receivable invoices, adjustments to accounts, invoice registers, carrier freight bills, shipping orders, and other documents which detail the material or services billed on the related invoices.

According to Aspen's ED Pubs Project Manager, the unsupported costs for the selected CLINs were likely due to Aspen having either misplaced the supporting order documentation from the Application Order System (AOS), sending diskettes from AOS back to the customers, or overwriting the AOS diskettes. The AOS, which was shut down in late 2000, was a phone-based system for colleges, high schools, and libraries to order Federal Student Aid publications.

Aspen did not have adequate procedures in place, such as creating and saving an electronic file listing all the order numbers that support an invoice's CLIN quantities at the time the invoice was prepared, to ensure that supporting documentation for the quantities billed were maintained. Therefore, we could not verify that Aspen had provided all the services that it billed to ED.

As a result of our finding, Aspen issued a record retention policy effective January 1, 2003. Aspen's policy requires the retention and storage of duplicate copies of all electronic records until three years after the date of the final contract payment. The new policy also states that all records under contract, which includes vouchers and backup documents, must be maintained in accordance with the retention period specified under FAR § 4.7 *Contractor Record Retention*.

RECOMMENDATIONS:

We recommend that ED's Chief Financial Officer require Aspen to:

2.1 Provide adequate documentation for the $3,339 in unsupported costs, or refund the portion of costs that ED determines have not been adequately documented.

2.2 Ensure that an electronic file that lists all the order numbers that support each CLIN quantity contained on an invoice at the time the invoice is prepared is created and saved as a part of its new record retention policy.

Aspen's comments – Aspen refunded $3,339 of unsupported costs on the March 2003, Schedule B invoice. In addition, Aspen noted that the physical and electronic data storage procedures on the ED Pubs contract have been upgraded to meet or exceed the requirements of Aspen's Record Retention Policy.

OIG response – We noted that the unsupported costs of $3,339 were refunded to ED on Aspen's April 18, 2003, invoice number 31269-VR0138. In addition, during the audit resolution process, ED CFO should determine if the revised electronic data storage procedures fully address our recommendation.

BACKGROUND

Aspen is an employee owned corporation that offers clients a range of outsourcing services and business solutions. ED tasked Aspen to operate its ED Pubs Center, a state-of-the-art, one-stop information and referral center consolidating dissemination functions for all ED Principal Offices. ED Pub's primary audience includes ED staff, teachers, school administrators, local policy officials, community service providers, media, parents, and youth.

ED's contract with Aspen is an active fixed price contract. The contract period is March 13, 1998, through March 8, 2003. Services provided under the contract are billed according to the type of cost, using Schedules A and B. Schedule A costs are fixed monthly charges (e.g., equipment and warehouse space) that have been negotiated with ED. Monthly costs billed on Schedule B include variable fixed per unit costs (based on the amount of units ordered and the cost per unit) and shipping and expressage costs. Performance based incentive fees are also billed on the Schedule B invoices.

AUDIT OBJECTIVE, SCOPE, AND METHODOLOGY

Our audit objective was to determine if the products and services provided and charged by Aspen for the ED Pubs contract were in accordance with the terms of the contract and applicable federal law and regulations. Our audit covered the period March 13, 1998, through June 30, 2002.

To accomplish our audit objective, we interviewed officials from Aspen and ED Office of the Chief Financial Officer (OCFO). We reviewed the ED OCFO Contracts and Purchasing Operations' administrative and program files, Quality Assurance Surveillance Plan reports, federal laws, regulations, other contract related guidance, and related prior audit reports. In addition, we reviewed Aspen's contract file, invoices, accounting records, and administrative and accounting policies and procedures.

Using simple random sampling, we selected costs for review from the universe of Schedule A and Schedule B invoices totaling $31,332,624 that Aspen submitted to ED during our audit period. We reviewed these costs to determine if they were adequately supported and in accordance with the contract terms. During the audit period, Aspen submitted 50 monthly Schedule A invoices, totaling $13,083,277. We reviewed the fixed monthly costs on five randomly selected Schedule A invoices, which totaled $1,299,693. Aspen submitted 51 monthly Schedule B invoices, totaling $18,249,347, during the audit period. We randomly selected for review six of the Schedule B invoices, totaling $2,196,663. From these six invoices, we reviewed costs totaling $808,836, consisting of 30 randomly selected CLIN costs (five from each invoice), totaling $166,241, and shipping and expressage costs of $642,595. In selecting the random samples of Schedule A and B invoices, we excluded from the universe 15 invoices, totaling $1,087,822, consisting of incentive fees, wage determinations, credit memos, cancelled invoices, and invoices not paid by ED.

We reviewed all eight Schedule B incentive fee payments, totaling $951,239, made to Aspen from March 13, 1998, through June 30, 2002.

To achieve our audit objective, we relied, in part, on computer-processed data contained in Aspen's ED Pubs order fulfillment system and Bulk Publications Ordering System. We assessed the reliability of this data, including the relevant general controls, and found them to be adequate.

We also conducted tests of the data. We compared computer-processed data to source records. We randomly selected 22 CLINs and 43 orders from five Schedule B invoices. We compared the CLINs' order quantity to the count of order numbers from Aspen's order fulfillment systems. We reviewed the selected orders to verify that the systems applied the correct CLIN and costs to the orders. Additionally, we compared source records to computer-processed data. We reviewed four randomly selected order numbers from the universe of 1,104,118 contained in the ED Pubs order fulfillment system to determine if the system assigned the correct CLIN to each order. Based upon these tests and assessments, we concluded that the data used was sufficiently reliable for the purpose of this audit.

We conducted our audit fieldwork at Aspen's offices in Rockville, Maryland and the ED Pubs warehouse in Jessup, Maryland, from August 8, 2002, through October 8, 2002. An exit conference was held on December 5, 2002. We conducted our audit in accordance with generally accepted government auditing standards appropriate to the scope of the audit work described above.

STATEMENT ON MANAGEMENT CONTROLS

As a part of our review, we assessed the system of management controls, policies, procedures, and practices applicable to the services provided and charged by Aspen for the ED Pubs contract. Our assessment was performed to determine the level of control risk for determining the nature, extent, and timing of our substantive tests to accomplish the audit objective.

For the purpose of this audit, we assessed and classified the significant controls into the following categories:

- Billing;
- Order Fulfillment; and
- Reporting.

Because of inherent limitations, a study and evaluation made for the limited purpose described above would not necessarily disclose all material weaknesses in the management controls. However, our assessment disclosed management control weaknesses relating to Aspen's billing and record retention processes. These weaknesses include billing errors and unsupported costs. These weaknesses and their effects are fully discussed in the Audit Results section of this report.

ADMINISTRATIVE MATTERS

Statements that managerial practices need improvements, as well as other conclusions and recommendations in this report represent the opinions of the Office of Inspector General. Determinations of corrective action to be taken 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 Education Department official, who will consider them before taking final Departmental action on the audit:

Mr. Jack Martin
Chief Financial Officer
U.S. Department of Education
Federal Building No. 6, Room 4E313
400 Maryland Avenue, SW
Washington, DC 20202

In accordance with the Freedom of Information Act (5 U.S.C. § 552), 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 that information contained therein is not subject to exemptions in the Act.

If you have any questions, or wish to discuss the contents of this report, please contact Teri L. Lewis, Assistant Regional Inspector General for Audit, or me at 215-656-6900.

Sincerely,

Bernard Tadley

Bernard Tadley
Regional Inspector General for Audit

Attachments

Electronic cc: Michael Tucker, Director of Contract Services, Aspen Systems Corporation
Fred Green, Director of Management Services, ED OM
Cynthia Bond-Butler, Audit Liaison Officer, ED OCFO CPO
William Haubert, Assistant General Counsel, ED OGC
William D. Hansen, Deputy Secretary
Phil Maestri, Office of the Deputy Secretary
John Danielson, Chief of Staff
Eugene Hickok, Under Secretary
John Gibbons, Director, Communications
Clay Boothby, Acting AS, Legislation and Congressional Affairs
Laurie M. Rich, AS, Intergovernmental and Interagency Affairs
Carolyn Adams, ED OGC
L'Wanda Rosemond, ED OIG General Operations Team
Charles Miller, Post Audit Group, ED OCFO
Headquarters and Regional Audit Managers, ED OIG

BREAKDOWN OF UNSUPPORTED COSTS

Invoice No.	Period	CLIN	Invoiced Quantity	Unsupported Quantity
20227	June 1999	B3A	16,168	878
		B6B	14,920	6
		B7B	1,036	526
		B7F	129	20
023938	September 2000	B7J	28	1
026483	July 2001	B7A	539	1
027410	October 2001	B7B	1,396	1
028840	May 2002	B5D	2,053	1

Attachment B

Aspen Systems Corporation™

2277 Research Boulevard, Rockville, MD 20850

www.aspensys.com

April 18, 2003

U.S. Department of Education
Office of Inspector General
The Wanamaker Building
100 Penn Square East, Suite 502
Philadelphia, PA 19107

Attention: Mr. Bernard Tadley, Regional Inspector General for Audit

Subject: Education Publications Audit (Control No. ED-OIG/A03-C0021)
Aspen Comments to ED Pubs (Contract No. ED-98-CO-0007) Draft Audit Report

Dear Mr. Tadley:

Aspen Systems Corporation has reviewed the Inspector General's draft audit report in connection with the examination of Aspen System Corporation's administration of the Education Publications contract (ED Pubs) for the audit period March 13, 1998 through June 30, 2002. Aspen believes the report fairly represents the results of the IG audit review, however, the following comments are respectfully offered with regard to the IG recommendations for your further consideration:

1.1 - All ED Pubs invoices currently go through a 3-tiered review process. This review includes the ED Pubs Management Analyst, Project Manager, and Contract Manager. In response to the recommendation from the Inspector General's Office, Aspen has added the Education Division Vice President to the list of individuals responsible for reviewing the ED Pubs invoice.

2.1 - Aspen has refunded $3,339 of unsupported costs on the March 2003, Schedule B Invoice.

2.2 - The physical and electronic data storage procedures on the ED Pubs contract have been upgraded to meet or exceed the requirements of Aspen's Record Retention Policy.

Lastly, Aspen Systems would like to express its appreciation for the professionalism exhibited by both Mr. Nekrasz and Ms. Larsen in conducting the subject audit. Should there be any questions regarding the Aspen comments or a requirement for any additional information, please contact the undersigned on (301) 519-5285 at your earliest convenience.

Sincerely,

Michael D. Tucker
Director, Contract Services