
Audit of Title IV Wide Area Network Contract National Computer Systems, Iowa City, IA

FINAL AUDIT REPORT



**Audit Control Number 07-80018
May 1999**

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U.S. Department of Education
Office of Inspector General
Western Area - Kansas City Office

ED Audit Control Number (ACN) A07-80018
May 6, 1999

Mr. Richard Schwab, Vice President & General Manager
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Enclosed is our report entitled "Audit of Title IV Wide Area Network Contract, National Computer Systems, Iowa City, IA." The report incorporates the comments you provided in response to the draft audit report. 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:

Mr. Donald Rappaport
Chief Financial and Chief Information Officer
U.S. Department of Education
Federal Building No. 10, Room 4366
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.

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

Sincerely,

William Allen
Regional Inspector General for Audit

Enclosure

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Audit of Title IV Wide Area Network Contract National Computer Systems, Iowa City, IA

Executive Summary

We audited the Title IV Wide Area Network contract held by National Computer Systems (NCS) to determine the accuracy and reasonableness of costs incurred for products and services provided. 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 TIV-WAN contract were materially reasonable and accurate.

Three key personnel charged approximately 3,300 hours to new work¹ under the Title IV Wide Area Network (TIV-WAN) contract as well as to other NCS contracts. The contract provides: *“The Contractor shall not divert key personnel to other assignments without advance written consent of the ED Contracting Officer.”* In addition, the contract states: *“The time of Key personnel is not changeable (sic) to Task Order work as these individuals are dedicated to the scope of the Title IV WAN System project, inclusive of performances associated with Task Orders and other contract modifications.”*

The TIV-WAN contract designates six key personnel positions. The contract states that the time for the individuals holding these key positions will be dedicated one hundred percent to the TIV-WAN contract unless stated otherwise by NCS in its pre-award correspondence. NCS stated that five of the six key personnel positions were fully dedicated to the TIV-WAN project. Three of these key personnel charged their time to other contracts, which indicates they were not spending one hundred percent of their time on the TIV-WAN contract. As a result, the Department of Education did not receive the services contracted for under the TIV-WAN contract and was overcharged about \$249,900.

In addition, NCS made two key personnel changes without prior approval by the contracting officer. The contract states that the contracting officer must authorize any changes in key personnel assigned to the contract. Key personnel are essential in maintaining the quality of service provided to customers.

We recommend that the contracting officer take action to ensure that NCS refunds \$249,900 in overcharges during the period July 14, 1995 through May 31, 1998, and determines the amount of similar overcharges from May 31, 1998, to the present and refunds any inappropriate charges to ED. We also recommended that NCS adheres to the terms of the contract and statement of work related to key personnel.

¹ For purposes of this document, new work is any task order, modification, and informal work authorization to the original contract.

NCS officials did not concur with our recommendation that NCS refund to the Department the amounts that had been overcharged to the contract. In their response they stated that only the Program Manager was bid at full time. Although individuals were identified as key personnel and devoted full time to the TIV WAN contract, they were not bid at full time, as that would have inflated the price of the contract. NCS officials now perceive that they should have more clearly stated in their Business Proposal that these employees would be less than one hundred percent, and they will take corrective action to more clearly state this in future procurements. However, NCS officials did concur with our recommendation concerning the changing of key personnel. We have not made changes to the report based on NCS's response. A synopsis of NCS's response is included in the text of this report. The complete NCS response is provided as Attachment A to this report.

AUDIT RESULTS

We audited the TIV-WAN contract held by National Computer Systems to determine the accuracy and reasonableness of costs incurred for products and services provided. Three key personnel, identified by NCS as working full time on the TIV-WAN contract, charged approximately 3,300 hours to new work under the TIV-WAN contract, as well as to other NCS contracts (primarily Department of Education contracts). Since key personnel costs were included in the fixed price of deliverables specified in the original contract, this action resulted in about \$249,900 in overcharges to the TIV-WAN contract. In addition, NCS made two key personnel changes without prior approval by the contracting officer. We recommend that NCS refund the \$249,900 in overcharges to the TIV-WAN contract and adhere to the terms of the TIV-WAN contract with the Department of Education

Key Personnel Charged Time to New TIV-WAN Work and Other Contracts

Designated key personnel charged 1,390 hours to new work under the TIV-WAN contract during the period July 14, 1995 through May 31, 1998. In addition, designated key personnel charged 1,907 hours to other NCS contracts during the same period. Since key personnel costs were included in the fixed price of deliverables specified in the original contract, these practices resulted in significant overcharges to the TIV-WAN contract. Further, diverting these staff to work on other contracts resulted in diminished effort on the overall TIV-WAN project.

Key personnel are those staff or managers considered by both the contractor and the contracting officer to be essential to the success of the TIV-WAN contract. Section H.17 of the TIV-WAN contract designates six key personnel positions as “*essential to the work being performed.*” The six key personnel positions identified in the TIV-WAN contract are: Project Manager, Senior Systems Analysts (two positions), Telecommunications Specialist, Network Administrator, and Manager of Customer Service. NCS identified only one of the six key positions as less than full time. Thus, the services of the remaining five key personnel on the TIV-WAN contract should have been full time according to Section C.11.1 of the statement of work, which states:

Unless stated otherwise in Contractor preaward submissions, ED shall assume 100% dedication for all key positions. The Project Manager requirement is 100%.

Due to their essential nature, several restrictions are placed on the use of key personnel. Section C.11.1 of the statement of work specifically restricts the use of key personnel on other assignments. It states:

The Contractor shall not divert key personnel to other assignments without advance written consent of the ED contracting officer.

The statement of work further prohibits the use of key personnel on new work under the contract. Section C.10.1 of the statement of work states:

Key personnel are not billable in Task Order work. Their sense of duties is defined as the entire Project inclusive of Task Orders which may be in existence.

Section C.11.3 of the statement of work also states:

The time of Key personnel is not changeable (sic) to Task Order work as these individuals are dedicated to the scope of the Title IV WAN System project, inclusive of performances associated with Task Orders and other contract modifications.

Despite the restrictions cited in the statement of work, key personnel had charged about 3,300 direct labor hours to new work under the TIV-WAN contract and to other NCS contracts. Since key personnel costs were included in the fixed price of deliverables specified in the original TIV-WAN contract, charging these costs to new work or other contracts represents a duplication of charges to the Department of Education or charges for services that were not rendered under the TIV-WAN contract. In total, NCS charged 1,390 hours of key personnel effort to new work under TIV-WAN and 1,907 additional hours to other NCS contracts. By applying the contract labor rates, we determined that these hours represent approximately \$249,900 in duplicated charges.

In our opinion, this occurred because NCS did not adhere to the terms of the contract that prohibited charging key personnel on new work and diverting key personnel to other assignments. Also, NCS did not include the names of key staff proposed for new work as required by the statement of work, section C.10. 2, that requires the contractor's task order proposals to include "*the name(s) and labor categories of the personnel to be assigned.*" Proposals submitted by NCS included labor categories, but did not include 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.

Unauthorized Key Personnel Changes

Two of three NCS key personnel changes had not been approved in advance by the Department. NCS failed to notify the Department and obtain advance approval of the changes.

- The Contracting Officer's Technical Representative became aware of the change in the Manager of Customer Service during a site visit, but NCS had not notified the contracting officer and, as a result, no written approval had been issued. The former Manager of Customer Service was assigned to a new position within the TIV-WAN contract.
- Departmental officials were not aware of the change of Telecommunications Specialist until the time of our review, and no written approval had been issued. The former Telecommunications Specialist was reassigned to other projects within NCS.

The TIV-WAN statement of work, section C.11.1, Personnel Requirements, General, requires that the Contractor not divert key personnel to other assignments without advance written consent of the Department's contracting officer.

Without notice of key personnel changes the Department is subject to the risk that inadequate services may be provided by an individual who does not meet the minimum qualifications and experience requirements of the contract statement of work. Furthermore, as discussed in the preceding finding, key personnel charges are restricted by the contract and without knowledge of the changes made by a contractor, the contracting officer can not properly evaluate the use of key personnel on contract modifications.

Recommendations

We recommend that the contracting officer take action to ensure that NCS:

- [1] Refunds \$249,900 paid for services of TIV-WAN key personnel on new work and other contracts during the period July 14, 1995 through May 31, 1998.
- [2] Determines the amount of charges for key personnel on new work and other contracts from May 31, 1998, to the present and refund any amount inappropriately charged to TIV-WAN contract.

- [3] Adheres to the terms of the contract and statement of work that prohibit the charging of key personnel to new work under the TIV-WAN contract.
- [4] 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.
- [5] Includes the names of staff proposed for new work under the TIV-WAN contract as required by the terms of the contract and statement of work.
- [6] Obtains advance written consent from the contracting officer for key personnel changes.

NCS's Response and Auditor's Comments

NCS officials did not concur with our recommendations concerning key personnel charging time to new work and other contracts. In their response they stated that only the Program Manager was bid at full time. Although individuals were identified as key personnel and devoted full time to the TIV WAN contract, they were not bid at full time, as that would have inflated the price of the contract. NCS officials now perceive that they should have more clearly stated in their Business Proposal that these employees would be less than one hundred percent, and they will take corrective action to more clearly state this in future procurements. NCS's response is based on the Best and Final Offer and the full text of the NCS response is included as Attachment A to this report.

The Department's Technical Panel that reviewed NCS's proposal specifically asked which personnel would be devoted to the TIV-WAN Contract on a full time basis. NCS's response to the Technical Panel (included as Attachment B to this report) indicated that several people would be devoted to the contract on a full time basis, including the key positions of Customer Service Manager and Senior Systems Analyst. Three different people have occupied these two positions since the contract was awarded. NCS's response to the Technical Panel's question indicated these people would be devoted full-time to the contract. These key personnel would, therefore be subject to the restrictions placed on key personnel by the contract.

NCS officials did concur with our recommendation concerning unauthorized key personnel changes.

Background

NCS currently holds four major Student Financial Assistance contracts. The subject of this audit is the TIV-WAN contract. The TIV-WAN contract was awarded to NCS on July 14, 1995, and included a base period plus six option years. The total cost of the original contract was estimated to be \$43.6 million.

The contract was defined as a firm fixed price contract for planning and implementation products and an indefinite quantity fixed price contract for operations products. In addition, it was defined as a time and materials, indefinite quantity contract for those requirements which are designated by the contracting officer as time and materials task orders. The contract includes requirements for task orders and key personnel.

The TIV-WAN links thousands of network users across the United States, its territories, and certain designated foreign countries to the Title IV Student Financial Assistance programs and delivery systems. The TIV-WAN provides basic services that allow users to receive files of financial aid data, and to access bulletin boards and electronic mail.

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 reviewed contract documentation and correspondence, and validated invoice payments.
- Key personnel - We reviewed changes in key personnel, time dedicated by key personnel to the contract, and validated labor charges by key and non-key personnel back to source documents.
- Billing procedures - We reviewed internal controls over the billing process at the contractor and validated a sample of invoice line items to source documents.
- Contract modifications - We evaluated the appropriateness of contract modifications.
- Quality control - We reviewed the quality control plan and reports generated.

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 accounting records. In addition, we reviewed available reports from the contractor's internal and external auditors. We also interviewed Department and contractor staff responsible for TIV-WAN operations.

We sampled both workload data and labor charges under the contract. We reviewed a judgmental sample of invoice line items. We validated the workload volume claimed to supporting documentation and prices used to the contract's terms. We also reviewed a judgmental sample of labor charges for all key and non-key personnel, and validated the hours to staff timesheets.

We relied extensively on computer-processed data contained in contractor accounting records. 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 source records to computer data, computer data to source records, and by comparing computer data from the Department with that from the contractor. We did not evaluate the contractor's compliance with Cost Accounting Standards.

Our audit of contract operations addressing matters in this report covered the period July 14, 1995 through May 31, 1998. Our fieldwork was conducted from July 20, 1998 through January 7, 1999. We conducted our work at the Department's offices in Washington, DC, NCS's offices in Iowa City, IA, and the Inspector General's offices in Kansas City, MO. Our audit was conducted in accordance with generally accepted 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, IA. 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
- Timekeeping
- Quality Control

In performing this assessment, we also considered work performed by internal and external auditors.

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, specifically in the area of key personnel. These weaknesses are discussed in the Audit Results section of this report.

Attachment A

Attachment B

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