Richard Schwab, Vice President & General Manager
National Computer Systems
2510 North Dodge Street
Iowa City, IA  52245

Dear Mr. Schwab:

Enclosed is our report entitled “Audit of Public Inquiry Contract.” Since there are no findings that require resolution, you are not required to respond to this audit report. However, if you wish to comment on any items in this report, please contact the following persons directly:

**Contracting Matters:**
Donald Rappaport
Chief Financial and Chief Information Officer
U.S. Department of Education
Federal Building No. 10, Room 4366
600 Independence Avenue, SW
Washington, DC 20202-4300

**Program Matters:**
Diane Rogers, Acting Chief Operating Officer
Office of Student Financial Assistance Programs
U.S. Department of Education
Regional Office Building, Room 4004
7th and D Streets
Washington, DC 20202-5132

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
Audit of Public Inquiry Contract
National Computer Systems, Iowa City, IA

FINAL AUDIT REPORT

Audit Control Number 07-80017
November 1998

Our mission is to promote the efficient and effective use of taxpayer dollars in support of American education
NOTICE

Statements that financial and/or managerial practices need improvement or recommendations that costs questioned be refunded or unsupported costs be adequately supported, and recommendations for the better use of funds, as well as conclusions and recommendations in this report, represent the opinions of the Office of Inspector General. Determinations on these matters will be made by appropriate Education Department officials.
November 30, 1998

Donald Rappaport
Chief Financial and Chief Information Officer
U.S. Department of Education
Federal Building No. 10, Room 4366
600 Independence Avenue, SW
Washington, DC 20202-4300

Diane Rogers, Acting Chief Operating Officer
Office of Student Financial Assistance Programs
U.S. Department of Education
Regional Office Building, Room 4004
7th and D Streets
Washington, DC 20202-5132

Subject: FINAL AUDIT REPORT
Audit of National Computer Systems Public Inquiry Contract
Audit Control No. 07-80017

We have completed our audit of the Public Inquiry Contract held by National Computer Systems. The objective of our review was to determine the accuracy and reasonableness of costs incurred for products and services provided. Our audit was conducted in accordance with government auditing standards appropriate to the scope of the review.

As discussed in the Audit Results section of the report, we found that the costs incurred for products and services provided under the contract were accurate and reasonable. This report is provided for your information. No response is required. If you have any questions or wish to discuss the contents of this report, please contact me at (816) 880-4020.

Sincerely,

William Allen
Regional Inspector General for Audit
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Audit Results

We reviewed the Public Inquiry Contract held by National Computer Systems 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 reviewed the appropriateness of contract modifications.
- Quality control – We reviewed the quality control plan and reports generated.
- Type and structure of the contract – We evaluated the appropriateness of the type and structure of the contract.

We found that the costs incurred for products and services provided under the contract were accurate and reasonable. This audit was conducted as part an ongoing review of Student Financial Assistance contracts. Results from this review will also be included with the results of our work on all other contracts reviewed and issued in a consolidated report to the Department of Education at a later date.
**Background**

National Computer Systems (NCS) currently holds three major Student Financial Assistance (SFA) contracts. The subject of this audit is the Public Inquiry Contract (PIC). NCS provides the following major services under this contract:

- Operating toll-free and commercial Federal student aid information lines (1-800-4FED-AID),
- Developing responses to correspondence on a wide variety of topics related to Title IV student aid programs, and
- Providing related editorial services and miscellaneous ancillary services.

NCS also provides many of these same services to the Department’s Debt Collection Service. The operator functions for the toll-free information line is located in Lawrence, KS. All other contract operations are located in Iowa City, IA. This contract was awarded on January 28, 1994, and has been extended through March 31, 1999. As of February 28, 1998, over $35 million has been obligated for this contract.

**Objective, Scope and Methodology**

The objective of our audit was to determine the accuracy and reasonableness of costs incurred for products and services provided. Our review included the following areas – contract performance oversight and payment authorization, key personnel, billing procedures, contract modifications, monitoring staff coordination and independence, quality control, and the type and structure of the contract. To accomplish our audit objectives, we reviewed applicable Federal regulations and Department policies, contractor policies and procedures, Department and NCS contract, 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 PIC operations.

We sampled both workload data and labor charges under the contract. We reviewed a judgmental sample of invoice line items, validated workload volume claimed to supporting documentation and prices used to contract terms. We also reviewed a judgmental sample of labor charges for all key personnel, and a random sample of labor charges for 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.
Our review of contract operations covered the period January 28, 1994, through May 31, 1998. We performed fieldwork June 23 and 24, 1998, at the Department’s offices in Washington, DC. We performed fieldwork July 20, 1998, through July 31, 1998, at NCS’ location in Iowa City, IA. Our audit was conducted in accordance with government auditing standards appropriate to the scope of the review 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 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:

C Billing
C Timekeeping
C 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 purpose described above would not necessarily disclose all material weaknesses in the control structure. Our review did not identify any material weaknesses with respect to these controls for this contract.
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