William A. Woodard, Group President
Government Solutions Group
Affiliated Computer Services, Inc.
One Curie Court
Rockville, MD 20850

Dear Mr. Woodard:

This Final Audit Report (Control Number ED-OIG/A19-B0004) presents the results of our audit of controls over Government property furnished to Affiliated Computer Services, Inc. (ACS). The objective of our audit was to determine whether ACS had adequate controls over the management of property furnished by the Department of Education (Department).

BACKGROUND

The Direct Loan Servicing System contract was originally awarded to Computer Data Systems, Inc. (CDSI), effective December 21, 1993. ACS subsequently acquired CDSI, and the contractor name was changed on the contract effective December 22, 1998. Under this contract, ACS provides loan servicing for the Federal Direct Student Loan Program. The contract is in effect through September 30, 2001.

AUDIT RESULTS

Overall, we found improvements were needed in ACS’ controls over Government-furnished property (GFP). Our audit revealed that ACS did not comply with Government property recordkeeping or reporting requirements, did not properly identify the property, and did not comply with inventory requirements. In our opinion, these weaknesses result in more than a relatively low risk that errors, irregularities and other inefficiencies may occur, resulting in inefficient and/or ineffective performance. Our audit did not disclose any fraud.
ACS generally agreed with our findings and provided corrective actions to address each of our recommendations. ACS stated that it was working with the Department to address concerns raised in our audit report. The full text of ACS’ response is included as Attachment A to this report.

Finding No. 1   ACS Did Not Comply with Government Property Recordkeeping and Reporting Requirements

ACS provided the Department with a report of 118 items of GFP in their possession under the Direct Loan Servicing System contract as of April 4, 2000. This report was provided in response to a request from the Department and was the first report of GFP ever provided by ACS. We found that the report was inaccurate and incomplete. Specifically, we found the report:

- Did not include 45 items of GFP in ACS’ possession;
- Inappropriately included 15 items of ACS-owned equipment; and
- Inappropriately classified as GFP 9 items of Department property used by the Department’s on-site monitoring staff.

We also found that ACS did not record unit costs for 94 of the 118 GFP items listed, and ACS did not provide the Department with an annual report on the total value of GFP in its possession.

During our audit, ACS provided us with two revisions to the April 4, 2000, GFP report. On December 12, 2000, ACS staff provided a report of GFP which, when reconciled with the April report, contained 25 additional items of GFP, while 38 items from the April report were no longer listed. On January 12, 2001, ACS staff provided us with a new report that separately listed GFP and non-GFP items. This report listed additional GFP items not on the April or December reports, and reclassified some items on the earlier reports from GFP to ACS-owned items. As of the completion of our fieldwork on February 2, 2001, ACS was still researching the status of several items listed on the most recent report.

Federal Acquisition Regulation (FAR) §45.505(a) and (c) state:

The contractor’s property control records shall constitute the Government’s official property records unless an exception has been authorized. The contractor shall establish and maintain adequate control records for all Government property, including property provided to and in the possession or control of a subcontractor.... Official Government property records must identify all Government property and provide a complete, current, auditable record of all transactions.
FAR §45.505-2(a)(1), (a)(3) and (b)(2) state:

The contractor’s property control system shall contain the unit price for each item of Government property. When definite information as to unit price cannot be obtained, reasonable estimates will be used. The Government shall determine and furnish to the contractor the unit price of Government-furnished property. In the event the unit price is not provided...the contractor will take action to obtain the information.

FAR §45.505-14(a) states:

The contractor’s property control system shall provide annually the total acquisition cost of Government property for which the contractor is accountable under each contract with each agency, including Government property at subcontractor plants and alternate locations.

In December 1994, ACS published a procedure manual entitled, *Government Property Procedures*, “to ensure control and protection of government property and materials in accordance with contract provisions.” The procedures included in this document reflect the FAR requirements, including the requirements for establishing unit costs and reporting annually on the value of GFP.

We found that ACS did not comply with the recordkeeping and reporting requirements detailed above because ACS staff were not familiar with the FAR requirements or with their own *Government Property Procedures* manual. Also, property not clearly identified as Government or ACS-owned may have contributed to difficulties in compiling the GFP reports (see Finding 2 for further discussion of this issue).

In addition, the Department did not provide unit prices for GFP, and ACS did not take action to obtain or estimate the amounts. Without the unit prices, ACS was not able to provide the annual report on the total acquisition cost of all GFP.

As a result of the issues noted above, the Department does not have accurate data on GFP in the possession of the contractor. The Department also lacks assurance that ACS is appropriately accounting for GFP in its possession.

During our review, ACS staff began taking actions to correct the errors noted in the GFP records. They stated they are conducting an inventory and reconciling their records to include only GFP. They also began working with the Department to determine unit costs for each item. ACS staff stated they would provide the Department with the required annual report of the value of GFP in their possession. They also stated they intended to include the *Government Property Procedures* manual with other ACS contract policies and procedures so that staff would be aware of the requirements.
ACS Comments:

ACS generally agreed with our finding and provided corrective actions to address all related recommendations. Regarding GFP items that were not included on the inventory listing, ACS stated: "In updating the property records, 45 of these items were inadvertently excluded. The other item is a duplicate item that was apparently included in the report in error."

OIG Response:

ACS' January 2001 GFP listing included the items in question as two separate line items, with slightly different descriptions. As such we included the GFP in our finding as two separate items. We have updated our report to reflect ACS' determination that this item was duplicated on its GFP listing and have stated that 45 items of GFP were not included on the inventory listing provided to the Department.

Finding No. 2             GFP Was Not Appropriately Identified

During our review, we found that GFP was not appropriately identified. Specifically, we found:

- 38 items on the April 2000 report did not have bar codes or other tags assigned to identify ownership of the items;
- 41 Departmental bar codes were assigned to more than one item; and
- 12 Departmental bar codes were affixed to the doors of the computer cabinets containing GFP items, rather than to the items themselves.

In addition, GFP was not marked in a timely manner. All GFP at ACS was received in November 1999 or earlier, while the problems above were noted during our site visit in December 2000. During our review, ACS staff stated that some Departmental bar codes had been applied the night before our site visit.

Identification is further complicated by the fact that some items in computer cabinets are periodically moved to other cabinets depending on processing needs. As a result, the bar codes affixed to a cabinet door may not actually reflect the items it contains. This is also the case with multiple items assigned to one bar code number. For example, 6 central processing unit modules were assigned one Departmental bar code number and 48 disk drives were assigned another bar code number. The bar codes were on the doors of the cabinets where the items were located, not on the individual items as required. If individual bar code numbers were assigned and affixed to each item, the chance for identification errors would be reduced and overall accountability for the items would be enhanced.
FAR §45.506(a) states:

Upon receipt of Government property, the contractor shall promptly --

(1) Identify the property in accordance with agency regulations;
(2) Mark the property in accordance with this section; and
(3) Record the property in its property control records.

FAR §45.506(b)(1) requires that, except for certain materials and situations where marking is impractical, "...all Government property shall be marked with an indication of Government-ownership."

ACS staff stated they were not familiar with the FAR requirements. Property that is not marked as Government-owned may be inadvertently used for other purposes since there are many similar types of property used in the same physical location. Also, GFP not properly marked may not be included in inventories or reports of Government property. As discussed in Finding 1, numerous items of GFP were not initially reported as such, and some items reported as GFP were later determined to be ACS-owned property.

ACS staff stated they are re-identifying and labeling GFP. They also stated they had contacted the Department Contracting Officer to obtain additional property tags for the Department GFP.

ACS Comments:

ACS generally agreed with our finding and stated that GFP will be promptly identified and marked. ACS stated: "It was impractical to tag some of the items due to the size or configuration of the item" and cited FAR §45.506(d) which allows contractors to request exemptions from the Government property administrator under certain conditions.

With regard to bar codes assigned to multiple items, ACS noted that some of the items were accessory or auxiliary items that FAR §45.505-5(e) states may be recorded with the associated item of equipment. ACS stated that due to the lack of documentation for the equipment delivered, ACS staff used their best judgment to decide which items were plant equipment and which were accessory and auxiliary items. ACS staff are currently reviewing purchase orders recently received from the Department to determine which items are required to be tagged.

OIG Response:

We discussed these issues with ACS staff during our review and at the exit conference and asked them to provide us with a list of the items that they believed would meet the FAR criteria and therefore would not need to be tagged. ACS never provided this data. In addition, ACS had not requested any exemptions from the Department, but ACS indicated in its response that it will do so.
Finding No. 3  ACS Did Not Comply with Inventory Requirements

ACS did not perform and report the results of periodic inventories of GFP to the Department.

FAR §45-508 states:

The contractor shall periodically physically inventory all Government property...in its possession or control and shall cause subcontractors to do likewise.... Type and frequency of inventory should be based on the contractor's established practices, the type and use of the Government property involved, or the amount of Government property involved and its monetary value, and the reliability of the contractor's property control system.

FAR §45.508-2 requires that:

The contractor shall, as a minimum, submit the following to the [Government] property administrator promptly after completing the physical inventory:

(a) A listing that identifies all discrepancies disclosed by a physical inventory.
(b) A signed statement that physical inventory of all or certain classes of Government property was completed on a given date and that the official property records were found to be in agreement except for discrepancies reported.

ACS' Government Property Procedures manual also requires a physical inventory to be performed annually and written results of the inventory to be provided to the Government.

ACS staff stated they were not familiar with the inventory requirements in the FAR, or in their own Government Property Procedures manual. Since inventories have not been performed, ACS may not detect errors in property records or losses of property.

To resolve the issues noted in our review, ACS staff stated they are conducting an inventory of the GFP in the ACS data center, and they are also reconciling purchase orders obtained from the Department with ACS property records.

ACS Comments:

ACS stated that its last physical inventory was taken in April 2000 and noted that it will be conducting annual inventories of GFP prior to submission of each annual report.
OIG Response:

In April 2000, ACS provided the Department with a listing of GFP for this contract. This listing was provided in response to a request from the Department and, according to ACS staff, was the first GFP listing provided. During our site visit, ACS staff did not provide any information to suggest that this listing represented the performance of an inventory where property records were compared to GFP physically on hand. ACS staff stated there was no formal inventory process and no reports of inventories had been provided to the Department, even though its internal procedures require annual inventories of Government properties.

RECOMMENDATIONS

We recommend that the Chief Operating Officer for Student Financial Assistance require ACS to:

1.1 Ensure staff responsible for managing GFP are familiar with the property requirements in the FAR;

1.2 Ensure records of GFP are accurate and complete;

1.3 Work with Department officials to determine unit price information for all GFP;

1.4 Provide an annual report on the acquisition cost of all GFP;

2.1 Identify and appropriately mark GFP promptly after receipt; and

3.1 Perform periodic inventories of all GFP and report results to the Department.

As previously stated, ACS agreed with all of our audit recommendations. In its response to the draft report, ACS provided corrective actions to address each recommendation.

AUDIT OBJECTIVE, SCOPE, AND METHODOLOGY

The objective of our audit was to determine whether ACS had adequate controls over the management of Government-furnished property.

To achieve our objective, we conducted interviews with Department and ACS staff involved in managing GFP, reviewed FAR requirements and ACS policies and procedures, physically validated equipment selected in our samples, and traced equipment information to ACS source documents.

Our audit was based on a report of GFP that ACS provided to the Department as of April 4, 2000. The report included a total of 118 pieces of property. From this universe, we
selected a random sample of 41 items to physically validate. We judgmentally selected an additional three items, from those for which unit prices were provided in the GFP report, bringing our initial sample size to 44. During our review, we found that 5 of these 44 items were internal components that could not be verified without interrupting processing operations. As a result, our sample was reduced to 39 items.

In order to test the GFP report for completeness, we judgmentally selected an additional sample of 25 items physically located in the facility to determine if these items appeared on the GFP report.

We tested the accuracy, authenticity, and completeness of the April 4, 2000, GFP report by comparing the physical equipment to computer data, and comparing computer data to the physical equipment. We also reconciled the April 2000 report with the December 2000 and January 2001 reports provided to us during our fieldwork. Based on these tests and assessments, we concluded that the April report was sufficiently reliable to be used in meeting the audit’s objective. Discrepancies noted have been detailed in the Audit Results section of this report.

Fieldwork was performed at applicable Department of Education offices during the period October 2000 through February 2001. We also performed fieldwork at ACS’ facility in Rockville, Maryland, on December 12, 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 made a study and evaluation of ACS’ current management control structure over GFP in effect during the period of our review. Our study and evaluation was conducted in accordance with Government Auditing Standards.

For the purpose of this report, we assessed and classified the significant management control structure into the following categories:

- Recordkeeping
- Reporting
- Identification of Government property
- Physical inventories

ACS management is responsible for establishing and maintaining a management control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of the system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition and that the transactions are executed in accordance with management’s authorization and recorded properly so as to permit effective and efficient operations.
Because of inherent limitations in any management control structure, errors or irregularities may occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions, or that the degree of compliance with the procedures may deteriorate.

Our assessment disclosed weaknesses and inadequacies in ACS’ current management control structure over Government-furnished property which, in our opinion, result in more than a relatively low risk that errors, irregularities and other inefficiencies may occur resulting in inefficient and/or ineffective performance. These findings and their effects are discussed in the Audit Results section of this report.

ADMINISTRATIVE MATTERS

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 other conclusions and recommendations in this report, represent the opinions of the Office of Inspector General. Determinations on these matters 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 Department of Education official, who will consider them before taking final Departmental action on the audit:

Greg Woods, Chief Operating Officer
Student Financial Assistance
U.S. Department of Education
7th and D Streets, 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 (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.
We appreciate the cooperation given to us during this review. Should you have any questions concerning this report, please call Nancy Brown at (202) 260-3883, or Michele Weaver-Dugan at (202) 205-9038. Please refer to the control number in all correspondence related to the report.

Sincerely,

[Signature]

Lorraine Lewis

Attachment
Ms. Michele Weaver-Dugan, Director
Operations Internal Audit Team
U.S. Department of Education
Office of Inspector General
400 Maryland Avenue, SW
Washington, DC 20202-1510

Reference: Contract No. PM94017001

Subject: Draft Audit Report (Control Number ED-OIG/A19-B0004)

Dear Ms. Weaver-Dugan:

ACS Government Solutions Group, Inc., ("ACS GSG") is pleased to have the opportunity to review and comment on your draft audit report, "Audit of Controls Over Government Property Furnished to Affiliated Computer Services, Inc. (ACS)," dated February 26, 2001. The main objective of your review, as stated in your report, was to determine whether ACS GSG had adequate controls over the management of property furnished by the Department of Education ("Department").

While we are working with the Department to address the concerns raised in the report, we do not believe the report provides a complete and balanced picture of the facts surrounding the issues raised. Specifically, as discussed in more detail below, the report does not address the manner in which ACS GSG was transferred responsibility under the Contract for the equipment discussed in the report. In addition, the report does not acknowledge that (1) ACS GSG was not provided with a detailed listing of the equipment that had been delivered and (2) ACS GSG was instructed to not unpack and participate in the installation of the equipment. Together, these factors made it difficult to generate a complete listing of equipment, particularly equipment items that are components or subassemblies.

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Background

As you noted, ACS GSG (previously known as Computer Data Systems, Inc.) was awarded the Direct Loan servicing contract effective December 21, 1993. Until May 1999, ACS GSG’s inventory of GFP was limited to postage meters that were located at our fulfillment and call centers and to computer software that was purchased by ACS GSG and paid for by the Department. ACS GSG submitted its report of the GFP in its possession to the Department’s Contracting Officer on October 15, 1998.

The Department purchased equipment from two vendors and delivered it to ACS GSG’s Data Center in late May 1999 through November 1999. However, ACS GSG Data Center personnel were instructed by the Department to not unpack any of the equipment, but to permit a technician from another vendor to unpack and install the equipment. Neither the packing lists nor purchase orders delineating the equipment delivered were provided to ACS GSG. ACS GSG made several attempts to obtain these documents from Department personnel, but they were not received prior to the audit. As a result, ACS GSG attempted to record the equipment, but was awaiting the requested documentation to confirm the accuracy of the equipment recorded and to obtain the pricing.

Subsequent to the OIG’s audit fieldwork, ACS GSG obtained copies of the purchase orders for the equipment. ACS GSG is reconciling the equipment on hand to these purchase orders and has requested property tags from the Department to ensure that all items are properly tagged.

Response To Findings

Finding No. 1: ACS GSG did not comply with government property record keeping and reporting requirements. Specifically, the report stated that ACS GSG (1) did not include 46 items of GFP in ACS GSG’s possession; (2) inappropriately included 15 items of ACS GSG-owned equipment; (3) inappropriately classified as GFP 9 items of Department property used by the Department’s on-site monitoring staff; and (4) did not account for the unit costs for 94 of 118 GFP items listed, and did not provide the Department with an annual report on the total value of GFP in its possession.

ACS GSG response: In updating the property records, 45 of these items were inadvertently excluded. The other item is a duplicate item that was apparently included in the report in error. The 15 items of ACS GSG-owned property reported as GFP were purchased in support of a task order under the contract for performing Y2K testing and remediation. When purchased, it was anticipated that the Department would reimburse ACS GSG for this equipment; thus, it would be owned by the Department and reported as GFP. Research verified that the Department was not invoiced for this equipment and
therefore, the equipment should not have been listed on the GFP report. The bar codes that were affixed to these items have been removed.

With regard to equipment used by Department on-site monitoring staff, ACS GSG inadvertently included these items on the GFP report. These items were removed from this list when it was brought to our attention.

Finally, with regard to providing unit prices on the report for the Department’s equipment, we were awaiting the promised documentation to permit proper bar coding and valuing of these items.

Finding No. 2: GFP was not appropriately identified. Specifically, all the items were not individually tagged.

ACS GSG response: It was impractical to tag some of the items due to the size or configuration of the item. FAR 45.506(d) states, “If marking will damage the property or is otherwise impractical, the contractor shall promptly notify the property administrator and ask for the item to be exempted.” Most of the GFP consists of computer hardware items. Some of these items, such as fiber channel adapters, SCSI adapters, small form factor components and disk drives either do not have the space to affix a tag, or may be damaged by tagging. In that case we have placed the tag in the proximity of the component. In accordance with the FAR, we will notify the property administrator of these items and update our report to indicate those items that cannot be tagged.

In addition, as for the bar codes that were assigned to multiple items, FAR 45.505-5(e) states, “Accessory and auxiliary equipment shall be recorded on the record of the associated item of plant equipment. If the accessory or auxiliary item is not attached to, a part of, or acquired for use with a specific item of plant equipment, it shall be recorded either in an individual item record or in a summary stock record.” Since some of the items on the report are accessory or auxiliary items that are attached to, or a part of, the plant equipment item, they are not required to be tagged. As previously stated, some confusion resulted from the lack of documentation for the equipment delivered to ACS GSG. As a result, ACS GSG personnel had to use their best judgment to decide which items were plant equipment items and which were accessory and auxiliary items. To address this situation, ACS GSG personnel are reviewing the copies of purchase orders recently received from the Department to determine, in accordance with the FAR, which plant equipment items are required to be tagged. Accessory and auxiliary items will be noted with the record of the plant equipment item, but will not be tagged if not required. In the future, we will not accept any GFP unless we are provided packing lists, purchase orders, or other documentation to ensure that our records are accurate and complete.
Ms. Michele Weaver-Dugan, Director
Operations Internal Audit Team
U.S. Department of Education
Office of Inspector General
March 30, 2001
Page 4

Finding No. 3: ACS did not comply with inventory requirements.

ACS GSG response: Our last physical inventory was taken in April, 2000. We will conduct annual inventories of GFP prior to submission of each annual report.

ACS Responses to Recommendations

Recommendation: Ensure staff responsible for managing GFP are familiar with the property requirements in the FAR.

ACS GSG response: ACS GSG will provide training within 90 days to personnel who may handle GFP to ensure strict adherence to our procedures. In addition, any new employees who may handle GFP will also be trained.

Recommendation: Ensure records of GFP are accurate and complete.

ACS GSG response: ACS GSG is reconciling GFP on hand to recently obtained purchase orders to establish an accurate, complete, and current GFP report. We expect this reconciliation to be complete within the next month. In the future, GFP will not be accepted without packing lists, purchase orders, or other documentation to ensure that records are accurate and complete.

Recommendation: Work with Department officials to determine unit price information for all GFP.

ACS GSG response: ACS GSG has obtained copies of the purchase orders that reflect the unit price information for most of the equipment and has added this information to the GFP inventory report. For equipment without unit prices, estimates will be made based on current purchasing data.

Recommendation: Provide an annual report on the acquisition cost of all GFP.

ACS GSG response: The next GFP report will be furnished to the Department on October 15, 2001, as required.

Recommendation: Identify and appropriately mark GFP promptly after receipt.

ACS GSG response: As mentioned previously, GFP will not be accepted without proper documentation from the Department. GFP identified in that documentation will be promptly identified and marked.
Recommendation: Perform periodic inventories of all GFP and report results to the Department.

ACS GSG response: We will conduct periodic inventories and report the results to the Department.

Summary

ACS is working with the Department to address the issues raised in the report. These actions include:

1) conducting a physical inventory and reconciling to ACS’ records within two weeks,
2) updating the annual report to the Department to include the unit prices gleaned from purchase orders recently received from the Department (For those not listed on the purchase orders, estimated unit prices will be used.),
3) providing the Department with the required annual report of the value of GFP in ACS’ possession, and

However, we ask that you consider the additional facts provided in this response to put the findings in context. We believe that the lack of available information contributed to the deficiencies in record keeping and reporting addressed in the report.

If you have any questions or if you need additional information, please contact William Hardy at (301) 721-3360.

Sincerely,

[Signature]

Harvey Braswell
President