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**Office of the Inspector General  
Corporation for National Service**

**Audit of Corporation for National Service  
Contracts No. 96-743-1002 and No. 97-743-1005  
With Advanced Systems Technology Corporation**

**Report Number 99-11  
January 11, 1999**

*Prepared by:*  
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Under CNS OIG MOU # 94-0468-1027  
With the Department of State  
Contract # S-OPRAQ-94C-0468-24

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**This report was issued to Corporation management on March 19, 1999. Under the laws and regulations governing audit follow up, the Corporation must make final management decisions on the report's findings and recommendations no later than September 15, 1999, and complete its corrective actions by March 19, 2000. Consequently, the reported findings do not necessarily represent the final resolution of the issues presented.**

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**Office of the Inspector General  
Corporation for National Service**

CORPORATION  
FOR NATIONAL  
★ SERVICE

**Audit of Corporation for National Service  
Contracts No. 96-743-1002 and No. 97-743-1005  
With Advanced Systems Technology Corporation**

Cotton & Company, under contract to the Office of the Inspector General, audited the amounts claimed by Advanced Systems Technology Corporation (ASTECC) under Contracts No. 96-743-1002 and No. 97-743-1005. The audit covered the costs (\$4,881,387) claimed during the period from April 1, 1996 through September 30, 1998, and included tests to determine whether costs reported to the Corporation were documented and allowable in accordance with the terms and conditions of the contract. We have reviewed the report and work papers supporting its conclusions and agree with the findings and recommendations presented.

The auditors found that ASTECC:

- Claimed costs for work performed by employees in labor categories and at labor rates not included in the contract or contract modifications;
- Claimed costs for employees who did not meet qualifications stated in the contract for that labor category;
- Claimed costs for insurance that should have been recovered through ASTECC's indirect costs rates used as the basis for the negotiated labor rates included in the contract;
- Claimed costs in excess of cost ceilings for certain work orders; and
- Claimed travel costs which were not supported by adequate source documentation or were not allocable under the Federal Travel Regulation as required under the contract.

As a result, we are questioning \$721,663 (15 percent) in costs claimed under the contract. Additional information on the questioned costs as well other compliance and internal control findings are discussed in detail in this report.

The Corporation's response to a draft of this report is included as Appendix A. In its response, the Corporation stated that it had reviewed the draft but did not have specific comments at this time and plans to address the findings and recommendations as part of the audit resolution process.

ASTECC's response is summarized after each finding as appropriate and included in its entirety as Appendix B. ASTECC agreed generally with the findings, but asserted that it was following the Corporation's guidance in carrying out the contract. ASTECC also described certain actions it has taken to address the findings and recommendations.

Inspector General  
1201 New York Avenue, NW  
Washington, DC 20525

**AUDIT OF  
CORPORATION FOR NATIONAL SERVICE  
CONTRACTS NO. 96-743-1002 AND NO. 97-743-1005 WITH  
ADVANCED SYSTEMS TECHNOLOGY CORPORATION**

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January 11, 1999

Inspector General  
Corporation for National Service

We audited costs claimed by Advanced Systems Technology Corporation (ASTECC) to the Corporation for National Service (the Corporation) for Contracts No. 96-743-1002 and No. 97-743-1005 for the period April 1, 1996, to September 30, 1998. The Corporation awarded Contract No. 96-743-1002 for the period April 1, 1996, to December 31, 1998, and Contract No. 97-743-1005 for the period September 18, 1997, to September 14, 1999. Under these time-and-materials contracts, ASTECC provides management consultants and other personnel to assist Corporation staff in carrying out Corporation operations and to provide training and technical assistance.

The audit objectives were to determine if (1) costs claimed are allowable and were incurred for actual contract effort, adequately supported, and charged in accordance with ASTECC's cost accounting system, the contract terms, applicable laws and regulations including the *Federal Acquisition Regulation* (FAR), and applicable cost accounting standards; (2) ASTECC complied with contract terms and conditions; and (3) ASTECC's accounting system and system of internal accounting control were adequate.

We performed the audit in accordance with generally accepted auditing standards and *Government Auditing Standards* (1994 revision) issued by the comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the amounts claimed against the contract, as presented in the Schedule of Contract Costs, are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Schedule. An audit also includes assessing the accounting principles used and significant estimates made by the auditee, as well as evaluating the overall financial schedule presentation. We believe our audit provides a reasonable basis for our opinion.

The Corporation's response to the draft report is included as Appendix A. In its response, the Corporation stated that it reviewed the draft report and did not have specific comments, but will address the findings and recommendations in the final management decision.

ASTECC's response is summarized after each finding, as appropriate, and included in its entirety as Appendix B. While not disagreeing with the facts presented, ASTECC asserted that it formally believes that all costs claimed are valid.

## **RESULTS IN BRIEF**

### **Costs Claimed**

We questioned \$721,663, or approximately 15 percent of the \$4,881,387 claimed under the contracts. The majority of these costs, \$698,467, was questioned because ASTEC claimed labor costs for work performed by employees in labor categories and at labor rates not included in the contract or contract modifications. Both contracts specify the allowable labor categories and unit prices. ASTEC representatives stated that the Corporation instructed them to provide employees at categories not included in the contract or contract modifications and modify salary amounts accordingly.

ASTEC also erroneously claimed costs for workers' compensation and employers' liability insurance as direct expenses under both contracts. ASTEC officials stated that, subsequent to awarding the contract, the Corporation requested ASTEC to obtain insurance. ASTEC did so and considered this requirement a change in the contracts and therefore billable. However, both contracts require insurance and state that unit prices for labor categories are inclusive of all indirect costs, which include insurance. Therefore, we have questioned \$13,642.

We also found that ASTEC failed to stop work under Contract No. 97-743-1005 when it reached work order cost ceilings, as required under the contract. ASTEC representatives stated that the Corporation instructed them to continue working while work order modifications were processed. ASTEC did not obtain written contracting officer approval to incur these additional costs. Accordingly, we questioned \$4,823.

The Schedule of Contract Costs provides additional information on these and other costs questioned based on the results of our audit.

### **Compliance**

The results of our tests of compliance regarding claimed costs disclosed two material instances of noncompliance. ASTEC claimed labor, travel, insurance, and general and administrative (G&A) costs that were unallowable and unallocable in accordance with contract terms and conditions and the FAR, as detailed in the Notes to the Schedule of Contract Costs. Also, ASTEC did not perform random drug testing on employees who worked on Contract No. 96-743-1002. Contract Article C.12.2 requires that ASTEC implement random drug testing of employees who work on the Corporation contract, and that the testing mirror Federal and private-sector hiring and employment procedures. It further states that employment is contingent on a favorable test result.

### **Accounting and Internal Control Systems**

We noted three matters involving ASTEC's internal control structure and its operations that we consider reportable conditions under the standards established by the American Institute of Certified Public Accountants. We believe that all three are material weaknesses.

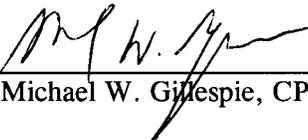
First, ASTEC's policies and procedures for reimbursing consultant travel expenses are not in accordance with the *Federal Travel Regulation (FTR)*. The Corporation's contracts state that reimbursement for travel expenses will be in accordance with the FTR, which limits M&IE reimbursement to three-fourths of the applicable rate on travel days. However, ASTEC reimburses

consultants for meals and incidental expenses (M&IE) based on the applicable FTR M&IE rates, and it allows consultants to claim the full rate on travel days.

Second, ASTEC does not have procedures in place to reimburse the Corporation for G&A expense related to travel and other direct costs disallowed by the Corporation. The contracts allow ASTEC to bill G&A expense allocable to travel and other direct costs based on G&A rates applied to those costs. The Corporation reviews ASTEC's invoices and notifies ASTEC of unallowable travel and other direct costs that it will not reimburse. However, ASTEC does not make adjustments or credits to future billings to reimburse the Corporation for G&A expense associated with disallowed direct costs.

Finally, ASTEC does not have adequate timekeeping procedures. Sound internal controls dictate that, at a minimum, timesheet changes be marked through and initialed by the employee and supervisor. However, employees used correction fluid to alter timesheets, and supervisors did not initial all changes.

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January 11, 1999

Inspector General  
Corporation for National Service

## INDEPENDENT AUDITORS' OPINION

We audited costs claimed by Advanced Systems Technology Corporation (ASTECC) to the Corporation for National Service (the Corporation) for Contracts No. 96-743-1002 and No. 97-743-1005 for the period April 1, 1996, to September 30, 1998. Costs claimed are summarized in the Schedule of Contract Costs. Costs claimed summarized in the schedule are the responsibility of ASTECC management. Our responsibility is to express an opinion on costs shown in the schedules based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards* issued by the Comptroller General of the United States. These standards require that we plan and perform the audit to obtain reasonable assurance that the financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting amounts and disclosures in the financial schedules. It also includes assessing accounting principles used and significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinion on costs claimed.

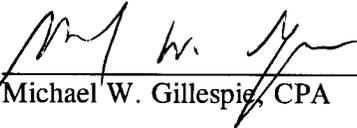
This schedule is intended to present allowable costs incurred under the contracts in accordance with the *Federal Acquisition Regulation* (FAR) and contract terms and conditions. Therefore, it is not intended to be a complete presentation of ASTECC revenues and expenses.

In our opinion, except for questioned costs in the Schedule of Contract Costs, the financial schedule referred to above presents fairly, in all material respects, costs claimed by ASTECC as these costs relate to the contracts for the audit period April 1, 1996, to September 30, 1998, in conformity with the FAR and contract terms and conditions.

In accordance with *Government Auditing Standards*, we have also issued reports dated January 11, 1999, on our consideration of ASTEC's internal control structure and on its compliance with laws and regulations.

This report is intended for the use of the Inspector General and Corporation management. This report is a matter of public record, and its distribution is not limited.

COTTON & COMPANY, LLP

By:   
Michael W. Gillespie, CPA

## **FINANCIAL SCHEDULE**

## SCHEDULE OF CONTRACT COSTS

**Corporation For National Service Contracts With  
Advanced Systems Technology Corporation  
(Contracts No. 96-743-1002 and No. 97-743-1005)**

### CONTRACT NO. 96-743-1002 APRIL 1, 1996 TO SEPTEMBER 30, 1998

	Claimed Costs	Questioned Costs	Notes
Salaries and Wages	\$1,506,109	\$610,043	1.a, b
Subcontractors	1,703,579		
Travel and Other Direct Costs	497,682	1,087	2.c
General and Administrative	42,694	54	3.a, b
Insurance	<u>6,821</u>	<u>6,821</u>	4
Total	<u>\$3,756,885</u>	<u>\$618,005</u>	

### CONTRACT NO. 97-743-1005 SEPTEMBER 18, 1997 TO SEPTEMBER 30, 1998

	Claimed Costs	Questioned Costs	Notes
Salaries and Wages	\$ 289,052	\$ 89,394	1.a, b, c
Subcontractors	679,993	4,823	5
Travel and Other Direct Costs	132,428	2,150	2.a, b
General and Administrative	16,208	470	3.a, b
Insurance	<u>6,821</u>	<u>6,821</u>	4
Total	<u>\$1,124,502</u>	<u>\$103,658</u>	

**NOTES TO SCHEDULE OF CONTRACT COSTS**

1. We questioned \$699,437 of salaries and wages as follows:

- a. ASTEC billed the Corporation \$673,867 for work performed by employees in labor categories not included in the contract or contract modifications. Contract No. 96-743-1002, Article B.3, and Contract No. 97-743-1005, Section B.3, specify labor categories and unit prices allowable under the contracts. Contract Modification No. 36 to Contract No. 96-743-1002 added the Service Learning Coordinator position on August 11, 1998. However, ASTEC had been billing for that labor category since August 1996.

According to ASTEC representatives, Corporation representatives instructed them to provide employees to perform services not covered by contract labor categories. However, the Corporation did not process modifications adding these labor categories and unit prices. We questioned the following:

<b>Contract No. 96-743-1002</b>		
<b>Category</b>	<b>Hours</b>	<b>Amount</b>
Service Learning Coordinator	29,325.0	\$499,968
Administrative Assistant	1,933.0	23,110
Conference Manager	687.0	24,539
Executive Assistant	1,042.5	30,320
Subject Matter Expert	1,068.0	<u>27,565</u>
Total		<u>\$605,502</u>

<b>Contract No. 97-743-1005</b>		
<b>Category</b>	<b>Hours</b>	<b>Amount</b>
Logistics Assistant	223.0	\$ 5,853
Logistics Team Leader	638.0	21,750
Office Manager/Desktop Publisher	440.0	12,291
Programmer/Project Coordinator	35.0	1,817
Research Associate	1,024.5	<u>26,654</u>
Total		<u>\$68,365</u>

- b. ASTEC billed the Corporation \$24,600 calculated at labor rates that did not agree with rates in the contract or contract modifications. Contract No. 96-743-1002, Article B.3, and Contract No. 97-743-1005, Section B.3, specify labor categories and unit prices allowable under the contracts. According to ASTEC representatives, Corporation representatives instructed them to modify salary amounts paid to specific employees and modify the rate billed to the Corporation accordingly. However, the Corporation did not process contract modifications for all salary adjustments, and rates in the modifications did not agree with negotiated rates. We questioned the following:

<b>Contract No. 96-743-1002</b>					
<b>Labor Category</b>	<b>Hours</b>	<b>Billed Rate</b>	<b>Contract Rate</b>	<b>Difference</b>	<b>Amount</b>
Americorps Recruiter	840.0	\$33.94	\$33.11	\$ 0.83	\$ 697
Community Placement Coordinator	680.0	23.29	22.72	0.57	388
Counselor	664.0	36.87	32.54	4.33	2,875
Ombudsman	1,258.0	35.25	34.39	0.86	1,082
Psycho-Social Counselor	608.0	40.68	40.41	0.27	164
Psycho-Social Counselor	923.5	39.69	40.41	(0.72)	<u>(665)</u>
Total					<u>\$4,541</u>

<b>Contract No. 97-743-1005</b>					
<b>Labor Category</b>	<b>Hours</b>	<b>Billed Rate</b>	<b>Contract Rate</b>	<b>Difference</b>	<b>Amount</b>
Service Learning Coordinator	392	\$18.55	\$15.22	\$3.33	\$ 1,305
Service Learning Coordinator	3,696	19.66	15.22	4.44	16,410
Counselor	736	34.46	31.17	3.29	2,421
Counselor	32	34.46	36.87	(2.41)	<u>(77)</u>
Total					<u>\$20,059</u>

- c. ASTEC billed \$970 (48 hours) for one of its employees working as a Service Learning Coordinator on Contract No. 97-743-1005. The employee did not meet qualifications stated in the contract for that labor category. Appendix A to the contract states that the qualifications for a service learning coordinator are “[e]xpertise and/or experience in one of the four areas[:] education, environment, public safety or unmet human needs.” According to the individual’s employment application, his only work experience was as a pharmaceutical sales representative.

ASTEC representatives stated that Corporation representatives selected the individual from a pool of applicants, and ASTEC was instructed to hire the individual for that position. They also stated that the individual worked for only a short period of time. Because ASTEC was unable to show that the individual met contract qualifications to perform service learning coordinator duties, we have questioned these costs.

**ASTEC Comments.** In its response to the draft audit report, ASTEC stated that it interpreted positions listed in the contracts to be representative, but not inclusive, of services and technical assistance needed. ASTEC further stated that:

“It seems unreasonable that ASTEC should have to go so far as to check every qualification listed for a particular position to verify that proposed employees have those qualifications. ASTEC representatives do not select employees, but merely nominate candidates. CNS representatives select employees from a pool of applicants nominated.”

**Auditors’ Additional Comments.** Section G of both contracts states that the contracting officer is the only individual with the authority to change any contract terms and conditions. The addition of labor categories and waiver of mandatory qualifications for contract labor categories constitute changes to contract terms and conditions, and such changes clearly require contracting officer approval. In addition, the Corporation had the reasonable expectation that all nominated candidates were qualified.

2. We questioned \$3,237 of travel costs as follows:
  - a. ASTEC was unable to provide a receipt for a \$1,897 airline ticket and claimed \$166 of per-diem expenses twice under Contract No. 97-743-1005. Contract Section C.4 states that reimbursement for travel expenses will be in accordance with the *Federal Travel Regulation* (FTR). The FTR requires receipts for all expenditures in excess of \$75. ASTEC representatives stated that they were unable to locate the receipt. We questioned these costs as unsupported.
  - b. ASTEC reimburses consultants for meals and incidental expenses (M&IE) based on the applicable FTR M&IE rates, but it allows consultants to claim the full rate on travel days. Contract Section C.4 states that reimbursement for travel expenses will be in accordance with the FTR, which limits M&IE reimbursement to three-fourths of the applicable rate on travel days. According to ASTEC representatives, Corporation

representatives gave verbal instructions to reimburse consultants for the full M&IE rate on travel days because consultants are paid on a daily rather than hourly basis. We questioned \$87 of M&IE cost claimed as unallowable under Contract No. 97-743-1005.

- c. ASTEC was unable to provide receipts for two airline tickets totaling \$1,087 claimed under Contract No. 96-743-1002. Contract Article C.4 states that reimbursement for travel expenses will be in accordance with the FTR. The FTR requires receipts for all expenditures in excess of \$75. ASTEC representatives stated that they were unable to locate the receipts. We questioned these costs as unsupported
3. We questioned \$524 claimed as general and administrative (G&A) expense related to other questioned costs, as follows:
    - a. We questioned \$260 ( $\$2,150 \times 12.08\%$ ) allocable to costs questioned in Note 2.a. and b. and \$43 ( $\$1,087 \times 4\%$ ) allocable to costs questioned in Note 2.c.
    - b. Costs claimed include \$221 (\$11 under Contract No. 96-743-1002 and \$210 under Contract No. 97-743-1005) of G&A expense associated with travel and other direct costs disallowed by the Corporation. Corporation representatives notified ASTEC that certain billed costs were unallowable. ASTEC did not, however, reduce costs billed by the G&A rate it had applied to disallowed costs. ASTEC representatives stated that they did not reimburse the Corporation for these costs because they were not instructed by Corporation representatives to do so. G&A expense associated with unallowable travel costs is not allocable to the contract in accordance with FAR 31.201-4, Determining Allocability. We questioned these unallowable costs.

**ASTEC Comments.** In its response to the draft report, ASTEC stated that, subsequent to the audit, it reimbursed the Corporation for G&A costs related to disallowed travel and other direct costs noted in the report.

4. ASTEC billed the Corporation \$6,821 for workers' compensation and employers liability insurance under both contracts. ASTEC billed \$3,897.75 in May 1998 for each contract and \$324.82 on each subsequent semi-monthly invoice. An April 20, 1998, ASTEC letter to the contracting officer states that ASTEC is enclosing a copy of its "employers liability insurance policy as required under CNS Contract 97-743-1005," and that the annual premium attributable to the Corporation through December 1998 is \$15,591. ASTEC representatives stated that they obtained the insurance after Corporation officials notified them that it is required. ASTEC considered the insurance requirement a change in the contracts and therefore billable. ASTEC representatives stated that the contracting officer verbally instructed them to charge insurance costs to both Corporation contracts.

Both contracts require insurance:

- Contract No. 96-743-1002, Article C.12, Insurance, requires ASTEC to have "workmen's compensation, liability, and other customary insurance requirements for a federal contract providing employment services."

- Contract No. 97-743-1005, Section H.4, Liability Insurance, requires ASTEC to have “Workman’s Compensation – As required by law at the job site.” It further states that “such insurance coverage for all subcontractors who will work at any sites of performance does or will exist before subcontractors begin performance.”

Both contracts state that unit prices for employee and consultant labor categories are inclusive of all indirect costs, which include insurance.

We questioned all insurance costs claimed, because insurance was required by the Corporation contracts and should have been recovered through ASTEC’s indirect cost rates used as the basis for the negotiated labor rates included in the contract.

**ASTEC Comments.** In its response to the draft audit report, ASTEC stated that unit prices for labor categories initially included indirect costs for both workers’ compensation and employer’s liability insurance for employees only. ASTEC was notified by its insurance carrier during renewal that the insurer would discontinue providing coverage for employees across the United States, and the insurer terminated the workers’ compensation coverage. ASTEC was able to obtain workers’ compensation coverage from another insurer, but this new insurer required coverage for employees and all consultants, even if consultants declined coverage. The resulting cost increase was significant, and ASTEC immediately contacted the contracting officer, who subsequently authorized ASTEC to invoice the increase as an other direct cost allocable to both contracts.

**Auditors’ Additional Comments.** ASTEC’s response fails to address the fact that insurance was a contract requirement, and ASTEC should have determined insurance costs in advance of submitting its cost proposal to the Corporation. Contract No. 97-743-1005 required ASTEC to warrant that it will obtain the required workers’ compensation insurance for consultants before they begin work on the contract. ASTEC failed to obtain the required insurance or obtain quotations for the required insurance and failed to incorporate insurance costs into its cost proposal and the negotiated contract labor rates. In addition, ASTEC did not provide any documentation that these costs were approved by the contracting officer.

5. ASTEC billed \$4,823 in excess of cost ceilings for the following work orders:

Task Order	Work Order	Amount
7	11	\$ 98
18	2	1,913
18	3	131
19	7	112
22	3	<u>2,569</u>
Total		<u>\$4,823</u>

Contract Section F.2, Task Order Procedures, states that “[t]he Contractor shall perform work as stated in the approved Task Order, but in no event is the Contractor authorized to incur cost in excess of the dollar amount set forth in each individual approved Work Order, without the written approval of the Contracting Officer.”

ASTECC representatives stated that it was not always practical for consultants to stop work on a task order when the work order cost ceiling was reached, and that Corporation representatives had verbally instructed them to continue working when those situations occurred while work order modifications were processed. ASTEC did receive after-the-fact approvals on other work orders. Because ASTEC did not have written contracting officer approval to incur these costs, we have questioned these costs.

**ASTECC Comments.** In its response to the draft audit report, ASTEC stated that it agreed with the facts presented and is working to resolve these matters with the Corporation. It also stated that:

“It is a common practice of ASTEC to notify CNS Contracts, when an invoice is being prepared, about any possible costs that are in excess of Work Order limits. If Contracts is aware of paper work that is being processed, but not yet received by ASTEC, a verbal approval is given for amounts in excess of Work Order limits.”

**Auditors’ Additional Comments.** The contract clearly states that the contracting officer’s written approval is required to incur costs in excess of work order ceilings.

**INDEPENDENT AUDITORS' REPORTS ON COMPLIANCE  
AND INTERNAL CONTROL STRUCTURE**

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January 11, 1999

Inspector General  
Corporation for National Service

## INDEPENDENT AUDITORS' REPORT ON COMPLIANCE

We audited costs claimed by Advanced Systems Technology Corporation (ASTECC) to the Corporation for National Service (the Corporation) for Contracts No. 96-743-1002 and No. 97-743-1005 for the period April 1, 1996, to September 30, 1998, and have issued our report thereon dated January 11, 1999.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards* issued by the Comptroller General of the United States. These standards require that we plan and perform the audit to obtain reasonable assurance that the financial schedules are free of material misstatement.

Compliance with applicable laws and regulations related to the contracts is the responsibility of ASTECC management. As part of obtaining reasonable assurance that costs are free of material misstatements, we performed tests of compliance with certain provisions of laws and regulations related to the contracts. Our objective was not, however, to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

The results of our tests of compliance regarding claimed costs disclosed the following material instances of noncompliance that are required to be reported herein under *Government Auditing Standards*:

1. ASTECC claimed labor, travel, insurance, and general and administrative (G&A) costs that were unallowable and unallocable in accordance with contract terms and conditions and the *Federal Acquisition Regulation* (FAR). Refer to the notes to the Schedule of Contract Costs.

**Recommendation.** We recommend that the Corporation direct ASTECC to limit claimed costs to those allowable under applicable cost principles and contract provisions. Further, we recommend that the Corporation establish written procedures under which every contractor

invoice will be verified for accuracy and consistency with contract terms and conditions before it can be paid, as previously recommended in the report titled *Audit of the Corporation's Procurement and Contracting Processes and Procedures* (OIG Report No. 98-24, August 7, 1998).

**ASTEC Comments.** In its response to the draft audit report, ASTEC stated that it firmly believes that all costs claimed on invoices for labor, travel, insurance, and G&A costs are valid.

**Auditors' Additional Comments.** We disagree with ASTEC's statement that all costs claimed are valid. ASTEC did not provide any additional documentation to support the allowability of the questioned costs.

2. ASTEC did not perform random drug testing on employees who worked on Contract No. 96-743-1002.

Contract Article C.12.2 requires that ASTEC implement random drug testing of employees who work on the Corporation contract, and that the testing mirror Federal and private-sector hiring and employment procedures. It further states that employment is contingent on a favorable test result.

ASTEC representatives stated that it was not practical to perform the tests, because its employees were located at Corporation offices around the country. As a result, employees with drug problems may have worked on the contract.

**Recommendation:** We recommend that the Corporation require ASTEC to perform random drug testing if required under future contracts.

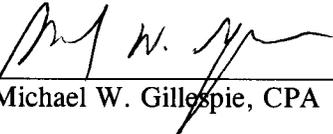
**ASTEC Comments.** In its response to the draft audit report, ASTEC stated that it did not believe that the Corporation tested its employees and was concerned that testing ASTEC employees could be seen as discriminatory. As a result, ASTEC did not conduct even a random drug-testing program.

**Auditors' Additional Comments.** Section G of the contract states that the contracting officer is the only individual with authority to change contract terms and conditions. The waiver of mandatory drug testing constitutes a change to contract terms and conditions that clearly requires contracting officer approval.

We considered the above material instances of noncompliance in forming our opinion on whether ASTEC's costs claimed under contract award for the period April 1, 1996, to September 30, 1998, are presented fairly, in all material respects, pursuant to contract terms and conditions and the FAR. Because of these material instances of noncompliance and matters described in the Schedule of Contract Costs, our report on costs claimed contains a qualified opinion.

This report is intended for the use of the Inspector General and Corporation management. This report is a matter of public record, and its distribution is not limited.

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Inspector General  
Corporation for National Service

## **INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL STRUCTURE**

We audited costs claimed by Advanced Systems Technology Corporation (ASTECC) to the Corporation for National Service (the Corporation) for Contracts No. 96-743-1002 and No. 97-743-1005 for the period April 1, 1996, to September 30, 1998, and have issued our report thereon dated January 11, 1999.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards* issued by the Comptroller General of the United States. These standards require that we plan and perform the audit to obtain reasonable assurance that the financial schedules are free of material misstatement.

ASTECC management is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial schedules in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit, we obtained an understanding of ASTECC's internal control structure. We obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk to determine our auditing procedures for the purpose of expressing an opinion on claimed costs and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

We noted three matters involving the internal control structure and its operations that we consider reportable conditions under the standards established by the American Institute of Certified Public Accountants (AICPA). Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect an organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial schedules.

1. ASTEC's policies and procedures for reimbursing consultant travel expenses are not in accordance with the *Federal Travel Regulations* (FTR). The contracts state that reimbursement for travel expenses will be in accordance with the FTR, which limits meals and incidental expenses (M&IE) reimbursement to three-fourths of the applicable rate on travel days. However, ASTEC reimburses consultants for the full rate on travel days. According to ASTEC representatives, Corporation representatives gave verbal instructions to reimburse consultants for the full M&IE rate on travel days because consultants are paid on a daily rather than hourly basis. ASTEC's failure to follow the FTR results in unallowable costs billed to the Corporation.

**Recommendation.** We recommend that the Corporation direct ASTEC to revise its policies and procedures to limit costs billed for M&IE paid to consultants to amounts allowed in accordance with the FTR.

**ASTEC Comments.** In its response to the draft report, ASTEC stated that it revised its policies and procedures in response to the draft report and is currently limiting consultant M&IE expense reimbursement on travel days to three-quarters of the applicable rate.

2. ASTEC does not have procedures in place to reimburse the Corporation for general and administrative (G&A) expense related to travel and other direct costs disallowed by the Corporation. The contracts allow ASTEC to bill G&A costs allocable to travel and other direct costs based on G&A rates applied to those costs. The Corporation reviews ASTEC's invoices and notifies ASTEC of unallowable travel and other direct costs that it will not reimburse. ASTEC does not, however, make adjustments or credits to future billings to reimburse the Corporation for G&A expense associated with disallowed direct costs. ASTEC representatives stated that they did not reimburse the Corporation for these costs because they were not instructed by Corporation representatives to do so.

**Recommendation.** We recommend that the Corporation direct ASTEC to reimburse these costs and establish procedures to reimburse the Corporation for future G&A expense billed associated with direct costs disallowed by the Corporation.

**ASTEC Comments.** In its response to the draft audit report, ASTEC stated that, when the Corporation disallows travel, other direct, or G&A costs, it has been ASTEC's policy to send a credit memo on a following invoice. In some instances, the Corporation has subtracted the amount of disallowed costs from the total amount due ASTEC on invoices. As a result, ASTEC failed to reimburse the Corporation for the associated fees.

**Auditors' Additional Comments.** ASTEC's response does not state explicitly that it has revised its procedures to ensure that it reimburses to the Corporation all G&A expenses associated with disallowed costs.

3. ASTEC does not have adequate timekeeping procedures. Sound internal controls dictate that, at a minimum, changes to timesheets be marked through and initialed by the employee and supervisor. However, ASTEC employees used correction fluid to alter timesheets, and supervisors did not initial all changes. ASTEC representatives stated that they were unsure what procedures should be followed under government contracts, but indicated that they would change their procedures to require supervisors to initial all timesheet corrections and prohibit the use of correction fluid.

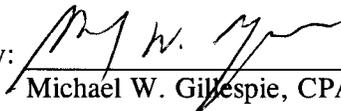
**Recommendation.** We recommend that the Corporation direct ASTEC to require supervisors and employees to initial all timesheet corrections and prohibit the use of correction fluid.

**ASTEC Comments.** In its response to the draft audit report, ASTEC stated that it will immediately make recommended changes to timekeeping procedures.

A material weakness is a reportable condition in which the design or operation of one or more of the specific internal control elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the AICPA. We believe, however, that the matters described above are material weaknesses.

This report is intended for the use of the Inspector General and Corporation management. This report is a matter of public record, and its distribution is not limited.

COTTON & COMPANY, LLP

By:   
Michael W. Gillespie, CPA

**APPENDIX A**

**THE CORPORATION'S RESPONSE TO THE DRAFT AUDIT REPORT**

**MEMORANDUM**

DATE: March 8, 1999

TO: Luise Jordan, OIG  
*Simon G. Woodard*

FROM: Simon G. Woodard, Director, Procurement Services

CC: Wendy Zenker, COO  
Wilsie Minor, Assistant General Counsel

SUBJECT: OIG Report 99-11, Draft Audit of Advanced Systems Technology Corporation (ASTECH)

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The subject draft report cites conditions and deficiencies pertaining to the performance of ASTEC under contracts 96-743-1002 and 97-743-1005. We have reviewed the draft report and do not have specific comments at this time. We will address the findings and recommendations in the final management decision.

**APPENDIX B**

**ASTEC'S RESPONSE TO THE DRAFT AUDIT REPORT**

**ASTEC**

**ADVANCED SYSTEMS TECHNOLOGY CORPORATION**

**2200 DEFENSE HIGHWAY, SUITE 203 (MD Rtes. 450 & 3)**

**CROFTON, MARYLAND 21114-2458**

**Telephone: (410) 721-4433**

**FAX: (410) 721-1167**

**Wash. D.C. Metro (301) 261-0862**

March 5, 1999

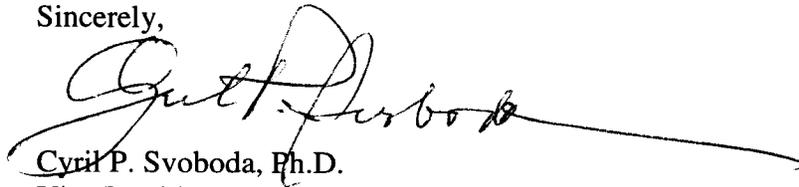
Michael W. Gillespie, CPA, CFE  
Cotton & Company  
333 North Fairfax Street, Suite 401  
Alexandria, VA 22314

Re: Draft report response

Dear Mr. Gillespie:

We are in receipt of the draft report from the audit of Corporation for National Service Contract Numbers 96-743-1002 and 97-743-1005. We have outlined our response in order of the audit objectives. Please call if you have any questions.

Sincerely,



Cyril P. Svoboda, Ph.D.  
Vice President

CPS: lc

Attachment: ASTEC Response to Draft Audit Report

# ASTECC RESPONSE TO DRAFT AUDIT REPORT

## COSTS CLAIMED

*Of the \$721,663 questioned claims under the contract, \$698,467 was questioned because ASTEC claimed labor costs for work performed by employees in labor categories and labor rates not included in the contract or its modifications. Additionally, one of its employees working did not meet qualifications stated in the contract for that labor category.*

Section C.3, Work to be Performed, of both contracts clearly states, “The list of tasks that follow are representative of the services and technical assistance needed on this contract”. It goes on to state that “it is not all inclusive”. ASTEC’s interpretation is that the positions listed in these contracts are representative of the services and technical assistance needed on the contracts, but the list is not all-inclusive. It is very important to note that ASTEC has never created new labor categories. It has only responded to CNS’s needs and requests for different categories. ASTEC did not believe that an unlisted labor category requested by CNS required a modification to the contract.

If ASTEC’s interpretation is incorrect, we would appreciate being told this by CNS. In the mean time, we will put together a checklist of requirements that need to be satisfied before a Work Order for a new employee can be processed. This checklist would include items such as checking the contract and all modifications to be sure that a position is actually listed in the contract. The rate listed on the Work Order would also be verified with rates listed in the contract and modifications.

It seems unreasonable that ASTEC should have to go so far as to check every qualification listed for a particular position to verify that proposed employees have those qualifications. ASTEC representatives do not select employees, but merely nominate candidates. CNS representatives select employees from a pool of applicants nominated.

*ASTEC erroneously claimed costs of \$13,642 for workers’ compensation and employer’s liability insurance as direct expenses under both contracts. But both contracts require insurance and state that unit prices for labor categories are inclusive of all indirect costs.*

Our unit prices for labor categories **did** include indirect costs for both workers’ compensation and employer’s liability insurance charged by our insurance company at the time of our proposal. At the inception of the contract, our workers’ compensation policy covered employees only and did not require coverage for consultants who are liable for their own insurance coverage. At renewal time, however, the insurance company conveyed to us that they didn’t want to provide coverage for our employees across the United States and terminated our workers’ compensation coverage. We were

able to find another company that could provide the workers' compensation for the different states, but the requirement of this new provider was that not only employees had to be covered, but all consultants as well whether they declined coverage or not. The increase in cost was significant. Therefore, the contracting officer was contacted immediately about this increase. We were subsequently authorized to invoice this increase as other direct costs, allocable to both contracts.

*ASTECC failed to stop work under the 97 contract when it reached Work Order cost ceilings as required under the contract. The amount questioned is \$4,823.*

As of this date, the amounts questioned above have either been resolved or are in the process of being resolved. It is a common practice of ASTEC to notify CNS Contracts, when an invoice is being prepared, about any possible costs that are in excess of Work Order limits. If Contracts is aware of paper work that is being processed, but not yet received by ASTEC, a verbal approval is given for amounts in excess of Work Order limits. Before making payments to consultants for any Work Order overruns, ASTEC makes every effort to have the necessary paperwork in hand before releasing payments.

It's important to point out that ASTEC's objective has always been to run both contracts as efficiently as possible. We make every effort to be accurate and precise in the way that Work Orders are processed, as well as being detailed and exact in keeping track of labor hours, other direct costs and materials. We realize that the nature of a contract that supplies services will deal with many different types of people such as employees, consultants, COTRs, etc. ASTEC's approach has been to do business in a manner that can accommodate the human element without being so rigid and unyielding in its policies so as to stop valid work from being performed or to prevent it from flowing smoothly. ASTEC does not frivolously invoice CNS for Work Order overruns. If it appears that valid work being performed on the contract will be in excess of Work Order limits, CNS is contacted by ASTEC in advance for direction.

## **COMPLIANCE**

*ASTECC claimed labor, travel, insurance, and general and administrative costs that were unallowable in accordance with contract terms and the FAR.*

ASTECC firmly believes that all costs claimed for labor, travel, insurance, and general and administrative costs that it has charged on invoices are valid.

*ASTECC did not perform random drug testing on 96 contract employees.*

Our negligence in this matter was influenced by a conversation with CNS management about drug testing of their employees. They do not test their employees, and they admitted that testing ASTEC employees could be seen as discrimination. As a result, we have not been driven to conduct even a random drug-testing program.

## **ACCOUNTING & INTERNAL CONTROL SYSTEMS**

*ASTEC policies and procedures for reimbursing consultant travel expenses are not in accordance with FTR.*

ASTEC's interpretation for reimbursing consultant travel had been that since CNS wanted consultants to invoice for full days, they were entitled to a full day of per diem. We reimbursed consultants for meals and incidental expenses based on the applicable FTR M&IE rates. ASTEC has made a change to its travel reimbursement policy since the audit performed by Cotton & Company. ASTEC still reimburses consultants for meals and incidental expenses based on the applicable FTR M&IE rates, and is currently reimbursing consultant travel expenses for M&IE to three-fourths of the applicable rate on travel days.

If this interpretation is incorrect, we would appreciate being told this by CNS. In the mean time, ASTEC will investigate training courses or seminars for its employees who process travel claims. As noted previously, ASTEC's objective has always been to run both contracts as efficiently as possible. We think that it is essential that any training that can hone our ability to process travel claims in accordance with FTR can only help to avoid any future misinterpretations or miscalculations. We would see this as another step in helping to run the contracts more efficiently and effectively.

*ASTEC does not have procedures in place to reimburse the Corporation for G&A related to travel and other direct costs disallowed by CNS.*

It has been ASTEC's policy that if costs for travel, other direct costs, or G&A are disallowed by CNS, they will be sent through as a credit memo on the following invoice. This procedure ensures that all applicable fees are backed out and that both the Project Management allocation and other direct cost allocation are allocated fairly between tasks. It also leaves an audit trail that is clear and easy to follow.

CNS has not always complied with this policy. In the past, there have been instances in which amounts that have been denied on invoices have been penciled off the total amount due to ASTEC. This has caused a failure on ASTEC's behalf to back out the applicable fees involved. ASTEC has already reimbursed CNS for G&A related to

disallowed travel and other direct costs as noted in the audit report. These fees were backed out on invoices 171 and 97-232.

*ASTECC does not have adequate timekeeping procedures.*

ASTECC was shocked to learn that its timekeeping procedures were a reportable condition. ASTECC has had a firm policy in effect that required its employees as well as their supervisor sign all time sheets. However, the auditors have two recommendations. The first is that we not allow employees to use correction fluid to alter timesheets. The second is for any timesheet changes to be marked through and initialed by both the employee and supervisor.

We will make these changes immediately. A timekeeping procedure form is being drafted that will be made part of our employment package. Our employee contract clearly states that timesheets must be prepared in ink, no correction fluid is permitted, and that all changes must be initialed. These requirements will be put into full force. We will soon mail out letters to all employees explaining these timekeeping procedures and provide them with a copy of the procedures.

In closing, from the day that ASTECC was notified that an audit was to be performed by Cotton & Company, our attitude has been that this would be a learning process. We have been able to implement suggestions and recommendations made by auditors. We are now aware of the areas of our contract management, which can be stronger. By reviewing audit recommendations and implementing our own changes and refining company policies and procedures, we can only strengthen our internal control structure, thus ensuring that this structure does not adversely affect our organization's ability to record, process, summarize, and report financial data.