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

**Audit of  
Corporation for National and Community Service  
Contract No. 97-743-1001  
With GS Tech, Inc.**

**Report Number 99-18  
June 30, 1999**

*Prepared by:*

Cotton & Company, LLP  
333 North Fairfax Street, Suite 401  
Alexandria, Virginia 22314

Under CNS OIG MOU # 94-046-1027  
With the Department of State  
Contract # S-OPRAQ-99-D-0021-CNS-01

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**This report was issued to Corporation management on August 27, 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 February 23, 2000, and complete its corrective actions by August 27, 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 and Community Service**

**Audit of Corporation for National and Community Service  
Contract No. 97-743-1001 With GS Tech, Inc.  
(OIG Audit Report Number 99-18)**

CORPORATION  
FOR NATIONAL  
SERVICE

Cotton & Company, LLP, under contract to the Office of the Inspector General, audited the amounts claimed by GS Tech, Inc. under the indefinite-quantity portion of Contract No. 97-743-1001. The audit covered the costs (\$158,830) claimed during the period from October 1, 1996 through February 28, 1999 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 GS Tech, Inc.:

- billed the Corporation for work performed by employees at labor rates that did not agree with the rates in the contract or contract modifications;
- billed the Corporation for services under the time and materials portion of the contract that were included in the firm-fixed-price portion of the contract;
- was unable to provide copies of work order requests from the contracting officer's technical representative for some of the work performed; and
- billed material handling charges at a rate of 15 percent, but was unable to provide documentation to support this rate.

As a result, we have questioned \$50,850 (32 percent) of the costs claimed under the contract. Additional information on the questioned costs as well as 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 had no comments at this time.

In its response, GS Tech, Inc. disagreed with all questioned costs. However, GS Tech, Inc. failed to provide evidence to support its arguments (Appendix B). GS Tech, Inc.'s responses to individual findings are included after each finding in the report, as appropriate.

**OFFICE OF INSPECTOR GENERAL  
CORPORATION FOR NATIONAL AND COMMUNITY SERVICE  
AUDIT REPORT NO. 99-18**

**AUDIT OF  
CORPORATION FOR NATIONAL AND COMMUNITY SERVICE  
CONTRACT NO. 97-743-1001 WITH  
GS TECH, INC.**

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June 30, 1999

## Inspector General Corporation for National and Community Service

We audited costs claimed by GS Tech, Inc., to the Corporation for National and Community Service under the indefinite-quantity portion of Contract No. 97-743-1001 for the period October 1, 1996, through February 28, 1999. The Corporation awarded Contract No. 97-743-1001 for the period October 1, 1996, to September 30, 1999. Under this combination firm-fixed-price and indefinite-quantity (time and materials) contract, GS Tech, Inc., provided operation, maintenance, repair, alteration, and other miscellaneous services for the Americorps\*National Civilian Community Corps (NCCC) Southeast campus in Charleston, South Carolina.

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

We performed the audit in accordance with generally accepted auditing standards and *Government Auditing Standards* 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.

### **RESULTS IN BRIEF**

#### **Costs Claimed**

We questioned \$50,850, or 32 percent of the \$158,830 claimed under the indefinite-quantity portion of the contract. Our opinion on the Schedule of Contract Costs is qualified

because of the questioned costs. As described in the Schedule of Contract Costs, GS Tech, Inc.:

- billed for work performed by employees at labor rates that did not agree with rates in the contract or contract modifications. The contract specifies that the unit-prices bid establish the labor rates for indefinite-quantity work.
- billed for services under the time and materials portion of the contract that were included in the firm-fixed-price portion of the contract.
- was unable to provide copies of work order requests from the contracting officer's technical representative for some of this work.
- billed material-handling charges at a rate of 15 percent of other direct costs billed. The contract states that other direct costs "shall be billed at actual costs plus a stated percentage for administrative handling," but does not specify the percentage to be billed. GS Tech, Inc., was unable to provide documentation supporting its actual general and administrative (G&A) or material-handling rates.

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

## **Compliance**

The results of our tests of compliance regarding claimed costs disclosed two material instances of noncompliance for which we are recommending corrective action. GS Tech, Inc., billed costs in excess of the contract amount in the base year, and claimed direct labor and material costs that were unallowable and unallocable under the contract terms and conditions and the *Federal Acquisition Regulation*.

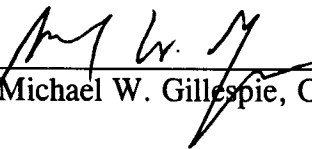
## **Internal Control**

We noted a matter involving GS Tech, Inc.'s internal control structure and its operations that we consider a material weakness under standards established by the American Institute of Certified Public Accountants: GS Tech, Inc.'s accounting system is capable of maintaining multiple tasks under a contract, but GS Tech, Inc., accumulated and recorded labor and other direct costs under one job number for services performed under the fixed-price and indefinite-quantity portions of the Corporation contract. Further, we noted that employee timesheets and vendor invoices specify one job number for the Corporation contract and do not distinguish between the fixed-price and indefinite-quantity portions. Therefore, GS Tech, Inc., was not able to prepare invoices submitted to the Corporation from its accounting records. Instead, GS Tech, Inc., employees at the work site generated invoices based on hours recorded on work orders and other direct costs from vendor invoices.

## Response to Draft Report

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, but did not have specific comments at this time. In its response, GS Tech, Inc., disagreed with all of the questioned costs. GS Tech, Inc.'s response is included as Appendix B. GS Tech, Inc., responses to specific findings are included after each finding, as appropriate.

COTTON & COMPANY, LLP

By:   
Michael W. Gillespie, CPA

## **FINANCIAL SCHEDULE**

# COTTON & COMPANY

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MATTHEW H. JOHNSON, CPA

June 30, 1999

Inspector General  
Corporation for National and Community Service

## INDEPENDENT AUDITORS' OPINION

We audited the costs claimed by GS Tech, Inc., to the Corporation for National and Community Service under the indefinite-quantity portion of Contract No. 97-743-1001 for the period October 1, 1996, through February 28, 1999. The Corporation awarded Contract No. 97-743-1001 for the period October 1, 1996, to September 30, 1999. Costs claimed are summarized in the Schedule of Contract Costs. Costs claimed summarized in the Schedule are the responsibility of GS Tech, Inc., management. Our responsibility is to express an opinion on costs shown in the Schedule 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 contract in accordance with the *Federal Acquisition Regulation* and contract terms and conditions. Therefore, it is not intended to be a complete presentation of GS Tech, Inc.'s revenues and expenses.

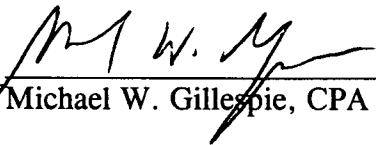
In our opinion, except for questioned costs in the Schedule of Contract Costs, the financial schedule referred to above presents fairly, in all material respects, costs claimed by GS Tech, Inc., as these costs relate to the indefinite-quantity portion of the contract for the audit period October 1, 1996, through February 28, 1999, in conformity with the *Federal Acquisition Regulation* and contract terms and conditions.



In accordance with *Government Auditing Standards*, we have also issued reports dated June 30, 1999, on our consideration of GS Tech, Inc.'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

**SCHEDULE OF CONTRACT COSTS**

**Corporation for National and Community Service Contract With  
GS Tech, Inc.**

**Contract No. 97-743-1001**

**Indefinite Quantity Costs**

**October 1, 1996 through February 28, 1999**

	<b>Claimed Costs</b>	<b>Questioned Costs</b>	<b>Notes</b>
Labor Costs	\$59,850	\$29,853	1
Material and Other Direct Costs	<u>\$98,980</u>	<u>\$20,997</u>	2
Total	<u>\$158,830</u>	<u>\$50,850</u>	

## NOTES TO THE SCHEDULE OF CONTRACT COSTS

1. We questioned \$29,853 (net) of claimed direct labor costs as follows:

- a. GS Tech, Inc., field office personnel prepared invoices submitted to the Corporation using copies of work orders and vendor bills, which they attached to the invoices. The invoices did not identify specific work orders or other direct costs billed on each invoice. GS Tech, Inc., did not prepare any other summaries of costs billed or retain complete copies of invoice packages submitted to the Corporation.

GS Tech, Inc.'s accounting records accumulate and record labor and other direct costs for services performed under the firm-fixed-price and indefinite-quantity portions of the contract under the same job number. In response to our request for documentation supporting the invoices submitted to the Corporation, GS Tech, Inc., revised its claim for costs incurred under the contract based on available work orders and vendor invoices. Labor costs originally billed and paid were \$59,850; GS Tech, Inc.'s revised claim supported \$45,220. The *Federal Acquisition Regulation* (FAR) 31.201-1 states that costs claimed must be incurred and allocable to be allowable direct costs. We questioned the \$14,630 difference as unallowable.

**GS Tech, Inc., Comments.** In its response to the draft report, GS Tech, Inc., stated that from October through December 1996, all original work orders were sent to the contracting officer and no copies were maintained on file, and that labor costs for these three months totaled \$11,532. GS Tech, Inc., also stated that the remaining amount of \$3,098 was a legitimate charge for which copies of work orders were not kept on file.

**Auditors' Additional Comments.** GS Tech, Inc., did not provide any documentation to support the hours claimed. Accordingly, the finding remains as stated.

- b. GS Tech, Inc.'s revised claim included labor for building structures and fire repair of \$43,252. The revised claim was based on labor rates that were not included in the contract. Contract Section C, Part 10, states that the labor rates bid establish the labor rates for the indefinite-quantity work. However, GS Tech, Inc., did not use the contract-specified billing rates for the HVAC Mechanic/Electronic Tech, Housekeeper, or Gardener labor categories. We recalculated the labor costs based on contract specified fully loaded labor rates which totaled \$29,996. We questioned the \$13,256 difference between costs claimed and costs per audit as unallowable as follows:

- 1407.25 hours for building/structures labor was billed at a \$30 hourly rate for a total of \$42,217 rather than the contract rates for HVAC Mechanic/Electronic Tech of \$20.50 in FY 1996, \$21.22 in FY 1997, and \$21.93 in FY 1998. We questioned the \$12,782 difference.
- Thirty hours for spreading pine straw on bedding edges was billed at a \$30 hourly rate for a total of \$900 rather than the contract rate for a Gardener of \$15.08. We questioned the \$447 difference.
- Nine hours for cleaning services labor was billed at \$15 hourly rate for a total of \$135 rather than the contract rate for a Housekeeper of \$11.99. We questioned the \$27 difference.

GS Tech, Inc.'s Director of Government Contracts stated that he used the \$30 hourly rate "because that is what they bill everyone else." He also stated that it was "underhanded" for the Government to use labor rates included in GS Tech, Inc.'s cost proposal in the contract, because the proposal was submitted in response to what GS Tech, Inc., believed would be a firm-fixed-price contract and not a time-and-materials-type contract.

**GS Tech, Inc., Comments.** In its response to the draft report, GS Tech, Inc., stated that the contract did not give specific figures on G&A, fringe benefits, and overhead. Therefore, GS Tech, Inc., used the \$30 per hour rate based on allowance of other Government contracts. GS Tech, Inc., also stated that the individual that spread pine straw was a Technician who had to be used on this specific job for a minimum amount of time and the janitorial labor was for two people, nine hours each (total of 18 hours) at a rate of \$7.50 per hour.

**Auditors' Additional Comments.** Contract Section B.3, identifies the labor categories and rates to be used under the contract. These rates agree exactly to the rates proposed by GS Tech, Inc., in its September 20, 1996, cost proposal. Accordingly, it does not seem possible that GS Tech, Inc., could not identify the correct rates to be billed under the contract. In addition, GS Tech, Inc., provided no explanation as to why a Technician "had" to be used to spread pine straw and did not provide any documentation to support its statement that two employees performed the cleaning services. Accordingly, the finding remains as stated.

- c. GS Tech, Inc.'s revised claim also included \$540 of labor costs for checking airflow in the buildings, which was required under the firm fixed-price portion of the contract; labor costs of \$1,132 invoiced twice; and \$310 for hours not supported by work orders or other documentation. We also noted that \$15 was under-billed, because a work order omitted one-half hour from costs claimed.

FAR 31.201-1 states that costs claimed must be incurred and allocable to the contract to be allowable direct costs. We questioned the \$1,967 (net) claimed as unallowable.

**GS Tech, Inc., Comments.** In its response to the draft report, GS Tech, Inc., stated that during the audit, duplicate copies of work orders appeared in a few instances. GS Tech, Inc., also stated that the \$540 labor cost for checking airflow was the result of an additional request by the contracting officer's technical representative. In addition, the \$310 for hours not supported by work orders or other documentation resulted because the original invoices were turned in to the contracting officer, and GS Tech, Inc., did not maintain copies.

**Auditors' Additional Comments.** GS Tech, Inc., did not provide any documentation to support its statements. Accordingly, the finding remains as stated.

2. We questioned \$20,997 (net) of material and other direct costs claimed as follows:
  - a. As explained in Note 1.a, GS Tech, Inc., prepared a revised claim for materials and other direct costs incurred under the contract. The revised claim supported \$94,961 (exclusive of material-handling costs), which was \$6,034 more than the \$88,927 billed. We accepted the \$6,034 of under-billed costs and reduced questioned costs accordingly.
  - b. GS Tech, Inc.'s revised claim, which was the basis for the audit of incurred costs, included \$12,000 for annual floor waxing and \$496 for steam boiler inspections. These services were included in the firm-fixed-price portion of the contract. Annex 3 to the contract states that stripping and re-waxing floors is part of firm-fixed-price services and that custodial services required only on an unscheduled or irregular frequency are indefinite-quantity work. Section C and Annex 2 to the contract state that heating system operation, including boiler inspections, is included in firm-fixed-price services. In addition, GS Tech, Inc., was unable to provide copies of work order requests from the contracting officer's technical representative. Contract Section C, Part 10 states that the contracting officer or COTR will request indefinite quantity work. FAR 31.201-1 states that costs claimed must be allocable to the contract to be allowable direct costs. We questioned the \$12,496 claimed as unallowable.

**GS Tech, Inc., Comments.** In its response to the draft report, GS Tech, Inc., stated that the \$12,000 for annual floor waxing was part of the firm-fixed price under the contract, but it was billed separately at the time it was completed instead of being included in the monthly firm-fixed price.

GS Tech, Inc., also stated that the \$496 for steam boiler inspection is not part of the preventive maintenance and inspection. It was an additional inspection required by South Carolina DHEC and was billed accordingly.

**Auditors' Additional Comments.** GS Tech, Inc., did not provide any documentation to support its statements. Accordingly, the finding remains as stated.

- c. GS Tech, Inc.'s revised claim included \$707 of duplicate vendor invoices, \$2,575 of vendor invoices related to other contracts, and \$1,200 for materials returned to the vendor.

FAR 31.201-1 states that costs claimed must be incurred and allocable to the contract to be allowable direct costs. We questioned the \$4,482 claimed as unallowable.

**GS Tech, Inc., Comments.** In its response to the draft report, GS Tech, Inc., stated that when GS Tech, Inc., compiled data for the audit to justify actual costs billed, a few duplicate invoices related to other contracts had been erroneously included, and that it has no record of these amounts being included on the original invoices.

In addition, GS Tech, Inc., stated that the \$1,200 credit was part of a firm-fixed price delivery order, not a cost plus.

**Auditors' Additional Comments.** GS Tech, Inc., did not provide any documentation to support its statements. Accordingly, the finding remains as stated.

- d. In addition to the direct costs billed, GS Tech, Inc., billed \$10,053 of material-handling charges at a 15-percent rate. GS Tech, Inc.'s Director of Government Contracts stated that he used the 15 percent rate "because that is what they bill everyone else." FAR 16.601 states that a time-and-materials contract includes provisions for acquiring material at cost, including, if appropriate, material-handling costs. It further states that material-handling costs may include costs alone and may include indirect costs allocated in accordance with the contractor's usual accounting procedures. The contract states that other direct costs "shall be billed at actual costs plus a stated percentage for administrative handling," but did not specify the percentage to be billed. GS Tech, Inc., was unable to provide documentation supporting its actual general and administrative (G&A) or material-handling rates. We questioned the \$10,053 of handling costs claimed as unsupported.

**GS Tech, Inc., Comments.** In its response to the draft report, GS Tech, Inc., stated that the 15 percent figure was a combination of G&A and material-

handling costs. Since the contract did not specify the percentage to be billed, GS Tech, Inc., used a percentage established by work history.

**Auditors' Additional Comments.** GS Tech, Inc., did not provide any documentation to support its actual G&A and material-handling costs. Accordingly, the finding remains as stated.

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



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June 30, 1999

Inspector General  
Corporation for National and Community Service

## INDEPENDENT AUDITORS' REPORT ON COMPLIANCE

We audited costs claimed by GS Tech, Inc., to the Corporation for National and Community Service under the indefinite quantity portion of Contract No. 97-743-1001 for the period October 1, 1996, through February 28, 1999, and have issued our report thereon dated June 30, 1999. The Corporation awarded Contract No. 97-743-1001 for the period October 1, 1996, to September 30, 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 contract is the responsibility of GS Tech, Inc.'s management. As part of obtaining reasonable assurance that costs are free of material misstatement, we performed tests of compliance with certain provisions of laws and regulations related to the contract. 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 two material instances of noncompliance that are required to be reported herein under *Government Auditing Standards*.

1. GS Tech, Inc., claimed costs in excess of the contract amount in the base year. GS Tech, Inc., billed \$310,738; the base year contract amount was \$305,900.

Contract Section C.1 states that the contract is a combination firm-fixed-price and indefinite-quantity contract. However, the contract did not specify the firm-fixed-price amounts for the base or option years; it only listed the ceiling amount for each year. According to GS Tech, Inc.'s Director of Government Contracts, GS Tech, Inc., submitted a firm-fixed-price proposal to the Corporation.<sup>1</sup> The Corporation sent back a combination firm-fixed-price and indefinite-quantity/time-and-material contract. However, instead of contacting the Corporation to discuss the differences between their proposal and the contract, GS Tech, Inc., signed the contract. GS Tech, Inc., then unilaterally reduced the amount invoiced on the firm-fixed-price work "to be fair to the Government" because they were now billing some of the work initially proposed under the firm-fixed-price proposal as indefinite-quantity work. Instead of billing \$25,492 per month, all firm-fixed-price work, as originally proposed, GS Tech, Inc., billed \$17,705 per month for the firm-fixed-price effort and billed the balance of the effort on an indefinite-quantity/time-and-material basis.

Because the Corporation did not specify the firm-fixed-price and indefinite-quantity amounts, the contracting officer or contracting officer's technical representative could not adequately monitor contract costs or reasonably review and approve invoices. As a result, during the first year of the contract, billings under the contract exceeded the contract ceiling.

We recommend that the Corporation direct GS Tech, Inc., to limit claimed costs to those allowable under applicable cost principles and contract provisions.

In addition, GS Tech, Inc.'s contract expires September 30, 1999, and the Corporation is in the process of procuring a new contract for facilities support services. We recommend that the Corporation's Office of General Counsel review the request for proposal and monitor the reprocurement of this contract to provide reasonable assurance that the next award contains an appropriate statement of work and contract instrument.

**GS Tech, Inc., Comments.** In its response to the draft report, GS Tech, Inc., stated that services provided during the base year warranted exceeding the base year price due to an unforeseen need to install backflow preventors, which came to a total cost of \$24,353.30.

**Auditors' Additional Comments.** Contract Section G.3 states that the contracting officer is the only individual with the authority to change any contract terms and conditions. GS Tech, Inc., did not provide any documentation that the contracting officer approved costs in excess of the contract amount.

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<sup>1</sup> As reported in OIG Audit Report Number 98-24, *Audit of the Corporation Procurement and Contracting Practices*, the Corporation used a statement of work that had been prepared by the Navy for a facilities support services contract for the entire Naval Station at Charleston when developing its contract for facilities support at the campus.

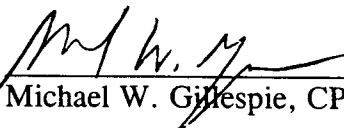
2. GS Tech, Inc., claimed direct labor and material costs that were unallowable and unallocable under contract terms and conditions and the *Federal Acquisition Regulation*. As discussed in detail in the Notes to the Schedule of Contract Costs, GS Tech, Inc.:
- billed for work performed by employees at labor rates that did not agree with rates in the contract or contract modifications. The contract specifies that the unit-prices bid establish the labor rates for indefinite-quantity work.
  - billed for services under the time and materials portion of the contract that were included in the firm-fixed-price portion of the contract.
  - was unable to provide copies of work order requests from the contracting officer's technical representative for some of this work.
  - billed material-handling charges at a rate of 15 percent of other direct costs billed. The contract states that other direct costs "shall be billed at actual costs plus a stated percentage for administrative handling," but does not specify the percentage to be billed. GS Tech, Inc., was unable to provide documentation supporting its actual general and administrative (G&A) or material-handling rates.

We recommend that the Corporation direct GS Tech, Inc., to limit claimed costs to those allowable under applicable cost principles and contract provisions.

We considered the above material instances of noncompliance in forming our opinion on whether GS Tech, Inc.'s costs claimed under indefinite-quantity work under the contract for the period October 1, 1996, through February 28, 1999, are presented fairly, in all material respects, pursuant to contract terms and conditions and the *Federal Acquisition Regulation*. Because of the material instances of noncompliance for which we questioned costs as described in the Notes to the Schedule of Contract Costs, our opinion on the Schedule is qualified.

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

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June 30, 1999

Inspector General  
Corporation for National and Community Service

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

We audited costs claimed by GS Tech, Inc., to the Corporation for National and Community Service under the indefinite quantity portion of Contract No. 97-743-1001 for the period from October 1, 1996, through February 28, 1999, and have issued our report thereon dated June 30, 1999. The Corporation awarded Contract No. 97-743-1001 for the period October 1, 1996, to September 30, 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.

GS Tech, Inc.'s 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 GS Tech, Inc.'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 a matter involving the internal control structure and its operations that we consider a reportable condition under standards established by the American Institute of Certified Public Accountants. 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. The reportable condition follows.

GS Tech, Inc.'s accounting system is capable of maintaining multiple tasks under a contract, but GS Tech, Inc., accumulated and recorded labor and other direct costs under one job number for services performed under the fixed-price and indefinite-quantity portions of the Corporation contract. Further, we noted that employee timesheets and vendor invoices specify one job number for the Corporation contract and do not distinguish between the fixed-price and indefinite-quantity portions. Therefore, GS Tech, Inc., was not able to prepare invoices submitted to the Corporation from its accounting records. Instead, GS Tech, Inc., employees at the work site generated invoices based on hours recorded on work orders and other direct costs from vendor invoices. As a result, GS Tech, Inc., submitted invoices that contained errors totaling \$27,541 (net) of costs that we questioned.

We recommend that the Corporation direct GS Tech, Inc., to:

- Establish separate job numbers for the fixed-price and indefinite-quantity portions of the contract.
- Prepare invoices based on its accounting system and records.
- Require all employees to record hours worked by specific job number on their timesheets.
- Accumulate other direct costs by job number.

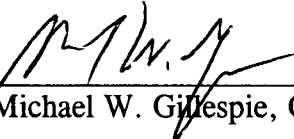
**GS Tech, Inc., Comments.** In its response to the draft report, GS Tech, Inc., claimed that as of April 1, 1999, it had made the recommended changes to its internal controls and accounting procedures.

**Auditors' Additional Comments.** GS Tech, Inc., did not provide any documentation to support its claim that it made the recommended changes to its internal controls and accounting procedures.

We believe the matter described above is a material weakness. 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 American Institute of Certified Public Accountants.

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**

CORPORATION

FOR NATIONAL

 SERVICE

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MEMORANDUM

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DATE: 8/12/99

TO: Luise Jordan, OIG

FROM: Wendy Zenker, COO 

CC: Simon G. Woodard, Director, Procurement Services  
Wilsie Minor, Assistant General Counsel

RE: OIG Report 99-18, Draft Audit of Contracts No. 97-743-1001 with GS Tech,  
Inc.

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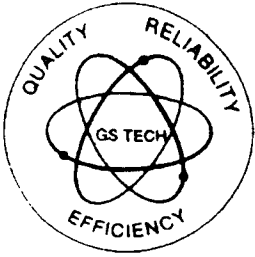
The subject draft report cites conditions and deficiencies pertaining to the performance of G.S. Tech, Inc. under Contracts No. 97-743-1001. We have reviewed the draft report and do not have specific comments at this time. We will address the findings and recommendations in the final management decision.





**APPENDIX B**

**GS TECH, INC.'S RESPONSE**



# GS TECH, INC.

Mechanical Contractors  
P.O. Box 157  
Pendleton, SC 29670  
USA

Telephone: (864) 646-3772

Telefax: (864) 646-2682

August 11, 1999

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

Subject: Audit of Contract No. 97-743-1001  
Americorps NCCC Southeast Campus

Dear Mr. Gillespie:

Attached is GS Tech, Inc.'s response to your draft report on the audit of NCCC Contract No. 97-743-1001 at our Charleston, SC location.

Please feel free to contact Joyce Peebles, Office Supervisor, or me if you have questions.

Sincerely,

*Joyce Peebles for  
George O'Neal*

George C. O'Neal  
President

*Mohammad Salim*

Mohammad Salim  
Chairman of the Board

GCO/jwp

Xc: Leonard Brock – Vice President of Operations  
Eddie Hughes – Project Manager  
Joyce Peebles – Office Supervisor

## NOTES TO THE SCHEDULE OF CONTRACT COST (Page 6)

1. We questioned \$29,853 of claimed direct labor costs as follows:
  - a. GS Tech field office personnel prepared invoices submitted to the Corporation using copies of work orders and vendor bills, which they attached to the invoices. The invoices did not identify specific work orders or other direct costs billed on each invoice. GS Tech did not prepare any other summaries of costs billed or retain complete copies of invoice packages submitted to the Corporation.

GS Tech's accounting records accumulate and record labor and other direct costs for services performed under the firm-fixed-price and indefinite-quantity portions of the contract under the same job number. In response to our request for documentation supporting the invoices submitted to the Corporation, GS Tech prepared a revised claim for costs incurred under the contract based on available work orders and vendor invoices. Labor costs billed were \$59,850; GS Tech's revised claim supported \$45,220. The *Federal Acquisition Regulation (FAR)* 31.201-1 states that costs claimed must be incurred and allocable to be allowable direct costs. We questioned the \$14,630 difference as unallowable.

### GS Tech Response

The NCCC contract evolved from the BOSS (Navy) contract. This contract required that GS Tech send original work orders with the invoices to the contracting officer. For the first three months of the NCCC contract, GS Tech continued to follow these guidelines. Thus, from October through December 1996, all original work orders were sent to the NCCC contracting officer and no copies were maintained on file. Labor costs for these 3 months totaled \$11,532. The remaining amount of \$3,098 was also legitimate charges for which copies of work orders were not kept on file.

- b. GS Tech's revised building structures and fire repair labor claim totaled \$43,252. The claim was based on labor rates that were not included in the contract. Contract Section C, Part 10, states that the labor rates bid establish the labor rates for the indefinite-quantity work. However, GS Tech did not use the contract-specified billing rates for the HVAC Mechanic/Electronic Tech, Housekeeper, or Gardener labor categories. We recalculated the labor costs based on contract specified fully loaded labor rates which totaled \$29,996. We

questioned the \$13,256 difference between costs claimed and costs per audit as unallowable as follows:

- ❖ 1402.25 hours for building/structures labor was billed at a \$30 hourly rate for a total of \$42,217 rather than the contract rates for Electronic Tech of \$20.50 in FY 1996, \$21.22 in FY 1997, and \$21.93 in FY 1998. We questioned the \$12,782 difference.

GS Tech Response:

This contract did not give specific figures on G&A, fringe benefits, and overhead. Therefore, GS Tech used the \$30 per hour rate based on allowance of other Government contracts.

- ❖ Thirty hours for spreading pine straw on bedding edges was billed at a \$30 hourly rate for a total of \$900 rather than the contract rate for a Gardener of \$15.08. We questioned the \$447 difference.

GS Tech Response:

This individual was a Technician who had to be used on this specific job for a minimum amount of time. Since the contract did not specify specific figures on G&A, fringe benefits, and overhead, the \$30 rate was based on allowance of other Government contracts.

- ❖ Nine hours for cleaning services labor was billed at \$15 hourly rate for a total of \$135 rather than the contract rate for a Housekeeper of \$11.99. We questioned the \$27 difference.

GS Tech Response

This was janitorial labor for two people, 9 hours each (total of 18 hours) at a rate of \$7.50 per hour. This was combined into a \$15.00/hr. rate x 9 hours, for a total of \$135. G&A, fringe benefits, and overhead should have been included, bringing the cost higher than the \$135.

- c. GS Tech's revised claim also included \$540 of labor costs for checking airflow in the buildings, which was required under the firm - fixed price portion of the contract; labor costs of \$1,132 invoiced twice; and \$310 for hours not supported by work orders or other documentation. We also noted that \$15 was under billed, because a work order omitted one-half hour from costs claimed.

FAR31.201-1 states that costs claimed must be incurred and allocable to the contract to be allowable direct costs. We questioned the \$1,967 (net) claimed as unallowable.

### GS Tech Response

During the audit, duplicate copies of work orders appeared in a few instances. However, GS Tech has found no indication that the customer was double billed. The \$540 labor cost for checking airflow was the result of an additional request by the customer and was outside direct cost. The \$310 for hours not supported by work orders or other documentation was because the original invoices were turned in to the contracting officer, and GS Tech did not maintain copies. We do not feel we billed in error.

2. We questioned \$20,997 (net) of material and other direct costs claimed as follows:
  - a. As explained in Note 1.b, GS Tech prepared a revised claim for materials and other direct costs incurred under the contract. The revised claim supported \$94,961 (exclusive of material-handling costs), which was \$6,034 more than the \$88,927 billed. We accepted this \$6,034 of under-billed costs and reduced questioned costs accordingly.

### GS Tech Response

When data was gathered for the audit, GS Tech discovered there were invoices that were not billed to NCCC. Therefore, we agree with the under-billed amount of \$6,034.

- b. GS Tech's revised claim included \$12,000.00 for annual floor waxing and \$496 for steam boiler inspections. These services were included in the firm-fixed-price portion of the contract. Annex 3 to the contract states that stripping and re-waxing floors is part of firm-fixed-price services and that custodial services required only on an unscheduled or irregular frequency are indefinite-quantity work. Section C and Annex 2 to the contract state that heating system operation, including boiler inspections, is included in firm-fixed-price services. In addition, GS Tech was unable to provide copies of work order requests from the contracting officer's technical representative. Contract Section C, Part 10 states that the contracting officer or COTR will request indefinite quantity work. FAR 31.201-1 states that costs claimed must be allocable to the contract to be allowable direct costs. We questioned the \$12,496 claimed as unallowable.

### GS Tech Response

GS Tech considers the entire \$12,496 to be allowable.

The \$12,000 for annual floor waxing was part of the firm-fixed price under the contract, but it was billed separately at the time it was completed instead of being included in the monthly firm-fixed price.

The \$496 for steam boiler inspection is not part of the preventive maintenance and inspection. It was an additional inspection required by South Carolina DHEC and was billed accordingly.

- c. GS Tech billed \$10,053 of material-handling charges of 15 percent of other direct costs billed. GS Tech's Director of Government Contracts stated that he used the 15 percent rate "because that is what they bill everyone else." FAR 16.601 states that a time-and-materials contract includes provisions for acquiring material at cost, including, if appropriate, material-handling costs. It further states that material-handling costs may include costs alone and may include indirect costs allocated in accordance with the contractor's usual accounting procedures. The contract states that other direct costs "shall be billed at actual costs plus a stated percentage for administrative handling," but did not specify the percentage to be billed. GS Tech was unable to provide documentation supporting its actual general and administrative (G&A) or material-handling rates. We questioned the claimed as \$10,053 of handling costs claimed as unsupported.

### GS Tech Response

The 15% figure was a combination of G&A and material-handling costs. Since the NCCC contract did not specify the percentage to be billed, GS Tech used a percentage established by work history experience. Thus, we feel the \$10,053 of handling cost is justified.

- d. GS Tech's revised claim included \$707 of duplicate vendor invoices, \$2,575 of vendor invoices related to other contracts, and \$1,200 for materials returned to the vendor.

FAR 31.201-1 states that costs claimed must be incurred and allocable to the contract to be allowable direct costs. We questioned \$4,482 claimed as unallowable.

### GS Tech Response

When GS Tech compiled data for the audit to justify actual billed, a few duplicate invoices and invoices related to other contracts had been erroneously mixed in with the collected data. We have no record of these amounts being included on the original invoices billed to the NCCC contract

The \$1200 credit was part of a firm-fixed price delivery order, not a cost plus. The original quote was accepted by the contractor.

G S Tech feels the \$4,482 was allowable.

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE (Page 10)****AUDITORS' COMMENT 1:**

GS Tech claimed costs in excess of the contract amount in the base year. GS Tech billed \$310,738; when the base year contract amount was \$305,900.

**GS TECH'S RESPONSE:**

At the award of the NCCC contract, the contract base was established at \$305,000. The total set aside by the federal government for that year's operation was \$331,000. Services provided during that year warranted exceeding the base year price due to an unforeseen need to install backflow preventors, which came to a total cost of \$24,353.30. The \$310,738.35 minus the \$24,353.30 would have resulted in a total billed to the contractor for the year of \$286,385.05, well below the \$305,000 base established.

For fiscal year 1998, the contract base was \$316,606. G S Tech billed NCCC for only \$278,238.35.



## INTERNAL CONTROL STRUCTURE (Page 13)

The auditors' report recommended that GS Tech do the following:

- Establish separate job numbers for the fixed-price and indefinite quantity portions of the contract
- Prepare invoices based on its accounting system and records
- Require all employees to record hours worked by specific job number on timesheets
- Accumulate other direct costs by job number

### GS TECH'S RESPONSE:

As of April 1, 1999 GS Tech:

- Established separate job numbers for the firm-fixed price (2003-000) and indefinite-quantity portions (2003-999)
- Invoices once prepared on Quick-Book Pro at the Charleston office location are now prepared by the Corporate Office's Deltek system.
- Employees working on NCCC contact work have been instructed on recording their time on work orders separately by firm-fixed price and indefinite quantity.
- Other direct costs under indefinite quantity work are given controlled job numbers by NCCC, and GS Tech posts these job numbers into our system accordingly.

## GS TECH RESPONSE SUMMARY

GS Tech has in good faith charged our NCCC contract customer fairly. Broad interpretation of the contract and flaws in procedural matters involving the contract have resulted in the auditors' addressed discrepancies.

As soon as these discrepancies were recognized, GS Tech took steps to more accurately differentiate between firm-fixed costs and indefinite quantity costs. In addition, GS Tech's representatives at the Charleston location are working closely with the customer to assure agreement is occurring on all invoice charges.