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

**Audit of
Corporation for National and Community Service
Contract No. 97-743-1002
With R.O.W. Sciences, Inc.**

**Report Number 99-08
June 2, 1999**

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

Under CNS OIG MOU # 94-0468-1027
With the Department of State
Contract # S-OPRAQ-94C-0468-21

This report was issued to Corporation management on June 2, 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 November 29, 1999, and complete its corrective actions by June 2, 2000. Consequently, the reported findings do not necessarily represent the final resolution of the issues presented.

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

**Audit of Corporation for National and Community Service
Contract No. 97-743-1002
With R.O.W. Sciences, Inc.**

Cotton & Company, LLP, under contract to the Office of the Inspector General, audited the amounts claimed by R.O.W. Sciences, Inc. under Contract 97-743-1002. The audit covered the costs (\$2,173,613) claimed during the period from January 21, 1997 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 R.O.W.:

- claimed costs for work performed by individuals employed by temporary agencies in lieu of R.O.W. employees without obtaining prior written approval of the U.S. Small Business Administration and the designated Corporation contracting officer;
- claimed costs for work performed by R.O.W. employees using higher subcontractor labor rates;
- claimed costs for work performed by R.O.W. employees and subcontractors using contractual labor rates for incorrect labor categories; and
- claimed costs for work performed by R.O.W. employees and subcontractors using labor rates not included in the contract or contract modifications.

As a result, we are questioning \$161,893 (7 percent) in 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 did not have specific comments at this time.

In its response, R.O.W. disagreed with the questioned costs related to the work performed by temporary agencies, and it partially agreed with the questioned costs based on employee versus subcontractor labor rates, incorrect labor categories, and erroneous labor rates. R.O.W.'s summary response is included as Appendix B. R.O.W.'s responses to individual findings are included after each finding as appropriate.

**OFFICE OF INSPECTOR GENERAL
CORPORATION FOR NATIONAL AND COMMUNITY SERVICE
AUDIT REPORT NO. 99-08**

**AUDIT OF
CORPORATION FOR NATIONAL AND COMMUNITY SERVICE
CONTRACT NO. 97-743-1002 WITH
R.O.W. SCIENCES, INC.**

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COTTON & COMPANY

CERTIFIED PUBLIC ACCOUNTANTS, LLP

333 NORTH FAIRFAX STREET • SUITE 401 • ALEXANDRIA, VIRGINIA 22314

DAVID L. COTTON, CPA, CFE
CHARLES HAYWARD, CPA, CFE

MICHAEL W. GILLESPIE, CPA, CFE
CATHERINE L. NOCERA, CPA

ELLEN P. REED, CPA
MATTHEW H. JOHNSON, CPA

March 25, 1999

Inspector General
Corporation for National and Community Service

We audited costs claimed by R.O.W. Sciences, Inc., to the Corporation for National and Community Service under Contract No. 97-743-1002 for the period from January 21, 1997, through September 30, 1998, the contract award period. Under this time-and-materials contract, R.O.W. provided labor support for the Corporation's wide-area network, automation help desk, and Oracle development and maintenance support services.

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 R.O.W.'s cost accounting system, contract terms, applicable laws and regulations including the *Federal Acquisition Regulation* and applicable cost accounting standards; (2) R.O.W. complied with contract terms and conditions; and (3) R.O.W.'s accounting system and system of internal accounting control were adequate as related to 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 \$161,964, or approximately 7 percent of the \$2,173,613 claimed under the contract. The questioned amount includes R.O.W.'s claims for work performed by employees and subcontractors at labor rates and categories that did not agree with rates or categories in the contract or contract modifications. The contract specifies allowable labor categories and unit prices. The questioned amount also includes claims for work performed by unauthorized subcontractors utilized by R.O.W. without the required prior, written approval of the designated Corporation contracting officer and the U.S. Small Business Administration. The Schedule of Contract Costs provides additional information on these questioned costs.

Compliance

The results of our tests of compliance regarding claimed costs disclosed that R.O.W. claimed direct labor and subcontract costs that were unallowable and unallocable under the contract terms and conditions and the *Federal Acquisition Regulation*, as discussed above and in detail in the Notes to the Schedule of Contract Costs.

Accounting and Internal Control Systems

We noted two matters involving R.O.W.'s internal control structure and its operations that we consider reportable conditions under standards established by the American Institute of Certified Public Accountants. We believe that the first matter is a material weakness.

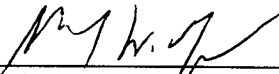
R.O.W.'s policies and procedures for accounting for and preparing invoices under time-and-materials-type contracts are inadequate. R.O.W. does not revise labor categories in its accounting system to correspond with categories identified in contracts. As a result, it must prepare invoices manually using spreadsheets and timekeeping information generated from its accounting system.

R.O.W. did not retain copies of resumes or other information detailing the experience and skills required of all individuals who worked on the contract. According to R.O.W.'s contract manager, R.O.W. provided resumes for subcontractor employees directly to the Corporation's contracting officer's technical representative, and R.O.W. did not retain copies.

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, R.O.W. disagreed with most of the questioned costs. R.O.W.'s summary response is included as Appendix B. R.O.W.'s responses to specific findings are included after each finding, as appropriate.

COTTON & COMPANY, LLP

By: 
Michael W. Gillespie, CPA

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March 25, 1999

Inspector General
Corporation for National and Community Service

INDEPENDENT AUDITORS' OPINION

We audited costs claimed by R.O.W. Sciences, Inc., to the Corporation for National and Community Service under Contract No. 97-743-1002 for the period from January 21, 1997, through September 30, 1998, the contract award period. Costs claimed are summarized in the Schedule of Contract Costs. Costs claimed summarized in the schedule are the responsibility of R.O.W. 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.

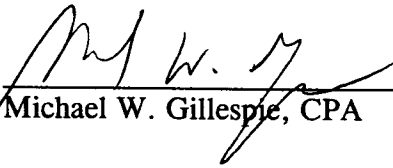
This schedule is intended to present allowable costs incurred under the contract in accordance with the *Federal Acquisition Regulation* and contract terms and conditions. Therefore, it is not intended to be a complete presentation of R.O.W.'s revenues and expenses.

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 R.O.W. as these costs relate to the contract for the audit period from January 21, 1997, through September 30, 1998, in conformity with the *Federal Acquisition Regulation* and contract terms and conditions.

In accordance with *Government Auditing Standards*, we have also issued reports dated March 25, 1999, on our consideration of R.O.W.'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 and Community Service Contract With
R.O.W. Sciences, Inc.
Contract No. 97-743-1002
January 21, 1997 through September 30, 1998

	Claimed Costs	Questioned Costs	Note
Direct Labor	\$2,162,471	\$161,964	1
Travel and Other Direct Costs	10,185		
General and Administrative	<u>957</u>	<u></u>	
Total	<u>\$2,173,613</u>	<u>\$161,964</u>	

NOTES TO THE SCHEDULE OF CONTRACT COSTS

1. We questioned \$161,964 of the \$2,162,471 of direct labor claimed as follows:

- a. We questioned \$97,455 billed for work performed by individuals employed by temporary employment agencies. Contract Section H.1 (3) states that R.O.W. will not subcontract the performance of any requirement of this subcontract to any lower-tier subcontractor without prior written approval of the U.S. Small Business Administration and the designated Corporation contracting officer. In a February 20, 1997, letter to the Corporation's contract specialist, R.O.W. asked:

“Is there any specific contractual procedure for the using of a temporary employee through a temporary agency with the intention of placing them on permanent status? Specifically, does R.O.W. Sciences, Inc. need the Contracting Officers [sic] approval under H.8. Advance Understanding.”

R.O.W.'s contract manager stated that the contract specialist responded by telephone that the Corporation did not consider a temporary employment agency to be a subcontractor. R.O.W.'s controller also stated that R.O.W. did not consider these organizations to be subcontractors, and that nothing was included in the contract to preclude R.O.W. from using temporary employees. The actual amount paid to the temporary employment agencies for these individuals was \$75,419. The \$22,036 difference between the amount paid to the temporary agencies and the amount claimed represents additional profit to R.O.W. Because R.O.W. did not have prior written U.S. Small Business Administration and contracting officer approval to utilize these temporary employment agencies, we questioned \$97,455 as follows:

Labor Category	Billed Hours	Amount Billed	Questioned in Note 1.h	Questioned Amount	Amount Paid to Agencies
Oracle Applications Developer, Subcontractors	741	\$ 64,725		\$ 64,725	\$ 43,325
LAN Technician	1,008	<u>32,992</u>	<u>\$262</u>	<u>32,730</u>	<u>32,094</u>
Total		<u>\$ 97,717</u>	<u>\$262</u>	<u>\$ 97,455</u>	<u>\$ 75,419</u>

R.O.W. Comments. R.O.W.'s response to the report stated that the Corporation was fully informed that R.O.W. intended to use temporary employees. R.O.W.'s response also states that R.O.W. asked both orally and

in writing if it needed any kind of approval to use temporary employees and the Corporation's contracting officer stated in an oral response that no approval was required, because the Corporation did not consider a temporary employment agency to be a subcontractor. R.O.W.'s response stated that it thus did not pursue the matter of written approval for the subcontracting arrangement any further. R.O.W. stated that had it known that these costs would be considered unallowable, it would not have proceeded with the placement of the temporary employees until it had obtained written Corporation approval. R.O.W.'s response noted that the audit report refers to the questioned \$22,036 as "profit," but that this amount would include R.O.W.'s G&A costs as well as fee.

Auditors' Additional Comments. The addition of subcontractors constitutes a change to contract terms and conditions and such changes clearly require written contracting officer approval. Section G.3 of the contract states that the contracting officer is the only individual with the authority to change any contract terms and conditions and it must be done in writing. R.O.W.'s response provided no additional documentation to support its statement that the contracting officer determined that temporary agency employees are not subcontractors.

- b. On invoice numbers 1, 2, and 5 under Task Order 2, R.O.W. billed 568.5 hours at an hourly rate of \$87.13 for work performed by its employees at the Oracle Application Developers, Subcontractor, labor category. The rate specified in Contract Section B.2 for R.O.W. employees was \$50.73 per hour. We questioned the \$20,693 difference (568.5 hours x \$36.40) of unallowable costs billed.

R.O.W. Comments. R.O.W.'s response to the report, stated that the \$87.13 labor rate for the Oracle Application Developer was the only appropriate rate approved under this task order.

Auditors' Additional Comments. The fact that the contract rate for R.O.W. employees was not included in the task order does not justify billing at the higher subcontractor rate. R.O.W. should have requested a modification to include the rate billed in the task order.

- c. On invoice number 4 under Task Order 2, R.O.W. billed 328 hours at an hourly rate of \$61.19 for work performed by its subcontractor, Capital Technology Information Service (CTIS), at a labor category titled Oracle Application Support, Subcontractor. This labor category and billing rate were not specified in the contract during the base year. In addition, we noted that CTIS' invoices supported only 317 of the 328 hours billed by R.O.W. We questioned \$20,070 of unallowable costs billed.

R.O.W. Comments. R.O.W.'s response to the report, stated that the \$61.19 rate was included in Task Order 2. R.O.W. could not substantiate 11 hours with original source documentation and thus sent a corrected invoice to the Corporation on April 2, 1999.

Auditors' Additional Comments. R.O.W. cannot unilaterally add a labor category and billing rate to the contract by including them in a proposed task order budget. Section G.3 of the contract states that the contracting officer is the only individual with the authority to change any contract terms and conditions and it must be done in writing. The addition of labor categories and rates constitutes changes to contract terms and conditions, and such changes clearly require written contracting officer approval. R.O.W. did not provide any documentation that the contracting officer approved the labor category and billing rate.

- d. On invoice number 5 under Task Order 2, R.O.W. billed 164.5 hours at an hourly rate of \$61.19 for work performed by one of its employees at a labor category titled Oracle Application Support, Subcontractor. As discussed in Note c, above, this labor category and rate were not included in the contract. In addition, a corresponding rate for R.O.W. employees was not included in the contract. Contract Section B.2. specified labor categories and unit prices allowable under the contract. We questioned \$10,066 of unallowable costs billed.

R.O.W. Comments. R.O.W.'s response to the report, stated that the \$61.19 labor rate was the only appropriate rate approved under the task order.

Auditors' Additional Comments. The exclusion of a rate in the task order for R.O.W. employees does not justify billing at the subcontractor rate. R.O.W. cannot unilaterally add a labor category and billing rate to the contract. Section G.3 of the contract states that the contracting officer is the only individual with the authority to change any contract terms and conditions and it must be done in writing. The addition of labor categories and rates constitutes changes to contract terms and conditions, and such changes clearly require written contracting officer approval.

- e. On invoice numbers 2 through 6 under Task Order 5, R.O.W. billed 785.5 hours for work performed by an employee as a Senior LAN Technician at a \$46.50 hourly rate and on invoice numbers 8, 9, and 10, R.O.W. billed 313.5 hours for the same employee as a Hardware Engineer at a \$26.12 hourly rate. According to R.O.W.'s controller, however, the employee was working as a LAN Technician and should have been billed at a \$31.78 hourly rate for the base year and a \$32.73 hourly rate for option year 1. We questioned \$9,490

$[785.5 \text{ hours} \times (\$46.50 - \$31.78) + 313.5 \text{ hours} \times (\$26.12 - \$32.73)]$ of unallowable costs billed.

R.O.W. Comments. In its response to the report, R.O.W. agreed with the finding and noted that it issued a correcting invoice on April 2, 1999.

- f. On invoice number 11 under Task Order 5, R.O.W. billed 181 hours for work performed by an employee at the Senior LAN Technician hourly rate of \$47.90. The Corporation's contracting officer notified R.O.W. that the employee should have been billed at the LAN Technician hourly rate of \$32.73. R.O.W. and the Corporation's contracting officer adjusted costs billed, but the adjustment was calculated incorrectly, and R.O.W. did not reimburse the Corporation for all of the over-billed amount. In addition, we noted on invoice numbers 10, 13, and 14 under Task Order 5 that R.O.W. incorrectly billed 510 hours for the same employee at the Senior LAN Technician rate. R.O.W.'s controller agreed with this finding and stated that R.O.W. will issue a credit to the Corporation. We questioned \$9,317 of unallowable costs billed.

R.O.W. Comments. In its response to the report, R.O.W. agreed with the finding and noted that it issued a correcting invoice April 2, 1999.

- g. On invoice number 3 under Task Order 5, R.O.W. billed 352 hours for work performed by its subcontractor, Aerotek, at the Hardware Engineer hourly rate of \$25.36. The rate specified in Contract Section B.2. for this subcontractor was \$40.67 an hour. We questioned the under-billed amount of (\$5,389).

R.O.W. Comments. In its response to the report, R.O.W. agreed with the finding and noted that it issued a correcting invoice April 2, 1999.

- h. On invoice number 13 under Task Order 5, R.O.W. billed 488 for work performed by its subcontractor, New Boston Systems (NBS), at the LAN Technician, Subcontractor, labor category. NBS' invoices, however, supported only 480 hours. The *Federal Acquisition Regulation* (FAR) 31.201 states that costs claimed must be incurred to be allowable direct costs. We questioned \$262 resulting from unsupported hours.

R.O.W. Comments. In its response to the draft report, R.O.W. agreed with the finding and noted that it issued a correcting invoice on April 2, 1999.

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

COTTON & COMPANY

CERTIFIED PUBLIC ACCOUNTANTS, LLP

333 NORTH FAIRFAX STREET • SUITE 401 • ALEXANDRIA, VIRGINIA 22314

DAVID L. COTTON, CPA, CFE
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MICHAEL W. GILLSPIE, CPA, CFE
CATHERINE L. NOCERA, CPA

ELLEN P. REED, CPA
MATTHEW H. JOHNSON, CPA

March 25, 1999

Inspector General
Corporation for National and Community Service

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE

We audited costs claimed by R.O.W. Sciences, Inc., to the Corporation for National and Community Service under Contract No. 97-743-1002 for the period from January 21, 1997, through September 30, 1998, the contract period, and have issued our report thereon dated March 25, 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 R.O.W. 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 one material instance of noncompliance that is required to be reported herein under *Government Auditing Standards*.

R.O.W. claimed direct labor and subcontract costs that were unallowable and unallocable in accordance with contract terms and conditions and the *Federal Acquisition Regulation*. Refer to the Schedule of Contract Costs on page 5.

Recommendation. We recommend that the Corporation direct R.O.W. to limit claimed costs to those allowable under applicable cost principles and contract provisions.

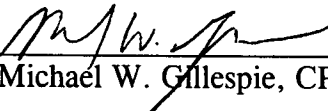
R.O.W. Comments. In its response to the draft report, R.O.W. stated that it does not agree that any costs are unallowable and unallocable, but does agree that some minor billing issues with the labor categories exist under approved task orders.

Auditors' Additional Comments. We disagree with R.O.W.'s statement that no costs are unallowable and unallocable. R.O.W. did not provide any additional documentation to support the allowability of the questioned costs.

We considered the above material instance of noncompliance in forming our opinion on whether R.O.W.'s costs claimed under the contract for the period from January 21, 1997, through September 30, 1998, are presented fairly, in all material respects, pursuant to contract terms and conditions and the *Federal Acquisition Regulation*. Because of the material instance of noncompliance and matters described in 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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Michael W. Gillespie, CPA

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March 25, 1999

Inspector General
Corporation for National and Community Service

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL STRUCTURE

We audited costs claimed by R.O.W. Sciences, Inc., to the Corporation for National and Community Service under Contract No. 97-743-1002 for the period from January 21, 1997, through September 30, 1998, the contract period, and have issued our report thereon dated March 25, 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.

R.O.W. 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 R.O.W.'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 two 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. 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. R.O.W.'s policies and procedures for accounting for and preparing invoices under time-and-materials-type contracts are inadequate. R.O.W. does not revise labor categories and billing rates in its accounting system to correspond with categories identified in contracts. As a result, it must prepare invoices manually using spreadsheets and timekeeping information generated from its accounting system. As discussed in the notes to the Schedule of Contract Costs, R.O.W. erroneously billed individuals at the wrong labor rate or at labor categories not in the contract. R.O.W.'s Controller stated that the accounting system is capable of utilizing labor rates and categories identified in contracts, but they consider this too cumbersome and have chosen to use standard labor categories recognized by the U.S. Department of Labor. The failure to identify labor categories and rates in the accounting system and utilize that system to prepare invoices resulted in billing at incorrect labor rates or categories.

Recommendation: We recommend that the Corporation direct R.O.W. to revise the labor categories in its accounting system for Corporation contracts to correspond with the labor categories in Corporation contracts.

R.O.W. Comments. In its response to the draft report, R.O.W. stated that it takes exception to the statement in the report that its "policies and procedures for accounting and preparing invoices under the time and material contracts are inadequate." R.O.W. utilizes Deltek software, which it states is widely accepted as adequate, not only for time-and-material contracts, but for "the much more complex task of accounting for cost contracts." R.O.W. added that the Defense Contract Audit Agency (DCAA) has found its accounting and billing system to be adequate. R.O.W. acknowledges "a few isolated instances of human error in coding individuals to labor categories" and stated that it will accept a recommendation to add additional controls to the labor category mapping process to reduce the chance of human error on any future Corporation contracts.

Auditors' Additional Comments. As noted in the report R.O.W. is not using its Deltek software to prepare its billings under this contract and its procedures did result in billing errors. In addition, R.O.W. did not provide any details of DCAA's approval of the accounting and billing system or that DCAA was aware of the accounting and billing procedures followed on the Corporation contract. Accordingly, the finding remains as stated.

2. R.O.W. did not retain copies of resumes or other information detailing the experience and skill levels of all individuals who worked under the contract. According to R.O.W.'s contract manager, R.O.W. provided resumes for subcontractor employees to the Corporation's contracting officer's technical representative, and R.O.W. did not retain copies. Contract Section C.2.2.2. contains mandatory qualification requirements for most labor categories. Without copies of resumes or other information, the mandatory qualification requirements for all employees and subcontractors billed under the contract could not be verified.

Recommendation. We recommend that the Corporation direct R.O.W. to retain documentation to support the qualifications of all individuals that work on Corporation contracts.

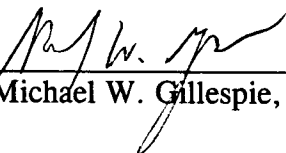
R.O.W. Comments. In its response to the draft report, R.O.W. stated that the Corporation reviewed the qualifications of all individuals and found them to meet qualifications required under the category to which they were assigned prior to placement on the contract. R.O.W. relied on this review as prior Corporation approval to incur the labor costs.

Auditors' Additional Comments. R.O.W. did not provide any documentation to support its statement that the Corporation reviewed and approved each person's qualifications. Accordingly, the finding remains as stated.

We believe the first 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

MEMORANDUM

CORPORATION
FOR NATIONAL
 SERVICE

DATE: April 21, 1999

TO: Luise Jordan, OIG

FROM: *Simon G. Woodard*
Simon G. Woodard, Director, Procurement Services

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

SUBJECT: OIG Report 99-08, Draft Audit of Contract No. 97-743-1002 with R.O.W. Sciences, Inc.

The subject draft report cites conditions and deficiencies pertaining to the performance of R.O.W. Sciences, Inc Contract No. 97-743-1002. 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.

1201 New York Avenue, NW
Washington, DC 20525
Telephone 202-606-5000

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APPENDIX B

R.O.W. SCIENCES, INC.'S RESPONSE

May 11, 1999

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

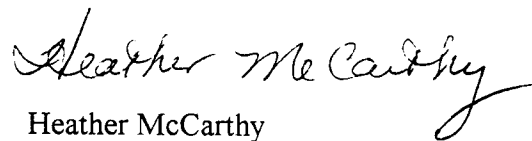
RE: Audit of Corporation for National & Community Services Contract NO. 97-743-1002

Dear Mr. Gillespie:

Thank you for giving us the opportunity to review and respond to your audit findings for the above reference contract. Attached is a copy of the findings along with our responses in bold on an item by item basis.

We look forward to your final audit report and hope that it reflects all material facts. If you have any additional questions or need clarification on any point, please let us know.

Sincerely,



Heather McCarthy
Controller

cc: Paul Tardif, COO
John Smith, CFO
Ken Lyles, Contract Manager

**R.O.W. Sciences Response
to
The March 25, 1999 Inspector General Audit Report
for
The Corporation for National and Community Service Contact No. 97-743-1002**

General Response

R.O.W. Sciences, Inc. was happy to cooperate with the Inspector General's request to audit our records with regard to the above cited CNS contract. We were shocked to read the language in the audit report that used such harsh terms as unallowable and unallocable costs, with no reference to material facts and information provided to the auditors during the audit and exit interview. Furthermore, quotes attributed to both R.O.W. Sciences' Controller and Contracts Manager were stated incorrectly. We will address these omissions and incorrect statements more fully during our response to each issue raised in this report.

R.O.W. categorically rejects the notion that there is \$161,893 in unallowable or unallocable cost claimed under this contract. To the contrary, we believe that the government owes R.O.W. \$19,459, as is explained herein. Most of the issues in the report deal directly or indirectly with the utilization of the "wrong" category for billing purposes or the use of a subcontractor labor category for the billing of a R.O.W. employee. In every case, the rate utilized by R.O.W. was an approved rate under a specific task order. The contract was negotiated as a Time and Materials (T&M) contract with labor rates for both subcontractor and R.O.W. personnel, yet the contractually required education and technical criteria or qualifications for each labor category made no reference to either subcontractor or R.O.W. We contend that any person, either subcontractor or R.O.W. employee could be billed at any rate in the schedule as long as they met the technical and education criteria as outlined very specifically in the contract and were approved rates under a specific task order. Furthermore, R.O.W. obtained all necessary approvals for each person that performed on the contract.

The major issue, as indicated in the audit report, is the \$97,455 billed for work performed by individuals employed by temporary agencies. Again, R.O.W. did everything a prudent contractor could or should do under the given circumstances to timely and adequately inform the Contracting Officer and get written approval before putting these individuals on the floor. As we have indicated several times both verbally and in writing, we both called and wrote the Contracting Specialist and she checked with the Contracting Officer and indicated that we could proceed. Also, we have indicated during the audit that we believe the use of a temporary employee is not a subcontractor. Utilizing temporary employees, especially under temporary to hire arrangements, is a common practice in the contracting community for LAN support and activities similar to the work scope for this contract. It would be very unusual to be required to get Contracting Officer approval under FAR 52. 244-3 for this type of support. We concurred with the decision and finding of the Contracting Officer on this that written approval was not required. We contend that the decision reached, which we fully relied upon, was correct and certainly

these costs should not and cannot be considered unallowable and unallocable. Additionally, R.O.W. had an indirect rate of 3.5% for subcontractor handling and a 11.5% G&A rate that it applied to all non-subcontract costs. We treated the cost of the temporary employees as other direct costs (ODC) accurately and consistently in our accounting system. Had these temporary labor costs been treated as subcontractors and carried the lower G&A, R.O.W. would have yielded a significant additional profit. This treatment as non-subcontracted costs is also consistent with our Cost Accounting System (CAS) Disclosure Statement and our Negotiated Indirect Rate Agreement.

Despite our giving the information below to Cotton & Company, the following material facts were not addressed in the audit report. The issue that these material facts were omitted goes to the core of the credibility of the audit report.

- (1) R.O.W.'s treatment of temporary labor as an ODC as opposed to a subcontractor was consistent with our accounting practices, Indirect Rate Agreement, and CAS Disclosure Statement.
- (2) The Contracting Officer (CO) had provided direction, that R.O.W. relied upon, which substantiates our position that written approval for temporary labor was not required. This is consistent with the fact that the CO never provided a written response to R.O.W.'s letter requesting approval.
- (3) Several months prior to the end of the contract R.O.W. proactively wrote to CNS requesting that the very issues now being raised in this audit report (use of labor categories commensurate with the work being performed) be addressed and cleared up immediately. Copies of these letters were given to the auditors.
- (4) Two invoices in the amount of \$33,068 for Aerotek had not been billed to CNS and needed to be included with any correcting invoice.
- (5) A correcting invoice to provide a credit for the few actual administrative errors was prepared and issued to CNS on April 2, 1999 and a copy was sent to Ms. Tong Qin at Cotton & Company, LLP. This date would have preceded the date we received this audit report.

We have addressed each issue in the audit report by a bolded response. R.O.W. respectfully requests that all our comments be incorporated into the final audit report and that all costs be immediately paid as are included in our corrected invoice dated April 2, 1999.

R.O.W. thanks you for the opportunity to respond to this draft audit report and anticipates bringing this contract to a successful close.