OFFICE OF THE INSPECTOR GENERAL
CORPORATION FOR NATIONAL AND COMMUNITY SERVICE

AUDIT OF CORPORATION FOR NATIONAL AND COMMUNITY SERVICE CONTRACT NO. CNCS-94-002 WITH ENCORE MANAGEMENT CORPORATION

OIG Audit Report Number 00-22
February 18, 2000

Prepared by:

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Under Department of State OIG
Contract # S-OPRAQ-99-D-0021-CNS-05

This report was issued to Corporation management on September 21, 2000. 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 March 20, 2001, and complete its corrective actions by September 21, 2001. Consequently, the reported findings do not necessarily represent the final resolution of the issues presented.

CORPORATION
FOR NATIONAL
SERVICE

Office of the Inspector General
Corporation for National and Community Service

Audit of Corporation for National and Community Service Contract No. CNCS-94-002 with Encore Management Company
OIG Audit Report Number 00-22

Cotton & Company, LLP, under contract to the Office of the Inspector General, audited the amounts claimed by Encore Management Company under Contract No. 94-002. The audit covered the costs claimed during the period from July 25, 1994, through December 31, 1998. The audit of cost-plus-fixed-fee contract included tests to determine whether costs reported to the Corporation were documented and allowable in accordance with the terms and conditions of the contract, applicable laws and regulations, including the *Federal Acquisition Regulation*, and applicable cost accounting standards. We reviewed the report and work papers supporting its conclusions and agree with the findings and recommendations presented.

As a result of their work, auditors questioned a total of $1,102,982 of costs billed to the Corporation and identified three material instances of noncompliance and three material internal control weaknesses. At the exit conference held with Encore on May 11, 2000, attended by the Encore President, the CFO, and Encore's accountant, each finding was presented to and discussed with Encore senior management in detail. Encore was given the opportunity to and did ask questions concerning the findings. No new findings or questioned costs have been included in the report.

The Corporation's response to a draft of this report is included as Appendix A. The Corporation's response is also summarized in the text of the report, with additional comments and analysis from the auditors. Encore did not respond to the draft report within the 30-day comment period.

Inspector General
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Washington, DC 20525

OFFICE OF INSPECTOR GENERAL
CORPORATION FOR NATIONAL AND COMMUNITY SERVICE
AUDIT REPORT NO. 00-22

AUDIT OF CORPORATION FOR NATIONAL AND COMMUNITY SERVICE CONTRACT NO. CNCS-94-002 WITH ENCORE MANAGEMENT CORPORATION

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February 18, 2000

Inspector General
Corporation for National and Community Service

We audited costs claimed by Encore Management Corporation to the Corporation for National and Community Service under Contract No. CNCS 94-002 for the period July 25, 1994, through December 31, 1998. This is a cost-plus-fixed-fee contract under which Encore Management Corporation provided office and clerical support.

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 Encore Management Corporation's cost accounting system, contract terms, applicable laws and regulations including the *Federal Acquisition Regulation*, and applicable cost accounting standards; (2) Encore Management Corporation complied with contract terms and conditions; and (3) Encore Management Corporation's accounting system and system of internal accounting control were adequate for purposes of this contract.

We conducted 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 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 amounts and disclosures in the schedule. An audit also includes assessing accounting principles used and significant estimates made by the auditee, as well as evaluating overall financial schedule presentation. We believe our audit provides a reasonable basis for our opinion.

RESULTS IN BRIEF

Costs Claimed

Encore Management Corporation billed $9,777,322 under the contract, and we questioned $1,102,982 (approximately 11 percent). Our opinion on the Schedule of Contract Costs is qualified as the result of questioned costs.

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As described in the Schedule of Contract Costs, Encore Management Corporation inappropriately billed the Corporation for:

- $658,213 of temporary labor costs for work performed in labor categories or at labor rates not included in the contract or contract modifications.

- $500,398 of indirect costs at provisional rates that exceeded its actual rates. On September 9, 1998, in response to issues raised by the Office of the Inspector General (OIG), Encore Management Corporation sent a $94,091 payment to the contracting officer as partial reimbursement for overbilled indirect costs.

- $32,730 more than the $552,840 fixed fee allowed under the contract.

- $5,732 of direct labor costs not supported by employee timesheets or at labor rates exceeding labor rates paid.

In addition, Encore Management Corporation billed $45,270 of overtime labor costs as direct labor instead of overtime premium. We reclassified these costs to the overtime premium category.

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

Compliance

Results of our tests of compliance disclosed three material instances of noncompliance. Encore Management Corporation:

- Billed costs in excess of contract-specified funding limits for fixed fee, temporary help, and total funding.

- Failed to submit its proposed final indirect cost rates to the contracting officer as required by the *Federal Acquisition Regulation*.

- Claimed direct labor, indirect costs, and fee that were unallowable and unallocable in accordance with contract terms and conditions and the *Federal Acquisition Regulation*.

Internal Control

We noted three matters involving Encore Management Corporation's internal control structure and its operations that we consider material weaknesses under standards established by the American Institute of Certified Public Accountants. Encore Management Corporation:

- Does not have policies and procedures to adequately identify unallowable indirect expenses in accordance with the *Federal Acquisition Regulation.* Thus, its indirect cost rate proposals contained unallowable indirect expenses.

- Does not have adequate timekeeping procedures. Its employees sometimes used correction fluid to alter timesheets, supervisors did not sign all timesheets, and employees and supervisors did not initial all changes.

- Did not prepare invoices directly from its accounting system. Invoices were supported by Excel spreadsheets and contained errors.

COTTON & COMPANY LLP

By: _____
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February 18, 2000

Inspector General
Corporation for National and Community Service

INDEPENDENT AUDITORS' OPINION

We audited costs claimed by Encore Management Corporation to the Corporation for National and Community Service under Contract No. CNCS 94-002 for the period July 25, 1994, through December 31, 1998. Costs claimed are summarized in the Schedule of Contract Costs. Costs claimed summarized in the schedule are the responsibility of Encore Management Corporation 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.

The Schedule of Contract Costs 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 Encore Management Corporation's revenues and expenses.

In our opinion, except for questioned costs in the schedule, the Schedule of Contract Costs referred to above presents fairly, in all material respects, costs claimed by Encore Management Corporation for the audit period July 25, 1994, through December 31, 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 February 18, 2000, on our consideration of Encore Management Corporation's internal control structure and on its compliance with laws and regulations.

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This report is intended solely for the use of the Office of the Inspector General, the Corporation for National and Community Service, and Encore Management Corporation.

COTTON & COMPANY LLP

By: _____
Michael W. Gillespie, CPA, CFE

FINANCIAL SCHEDULES

SCHEDULE A

SCHEDULE OF CONTRACT COSTS

Corporation for National and Community Service Contract with Encore Management Corporation

CONTRACT NO. CNCS 94-002
July 25, 1994, through December 31, 1998

	Claimed Costs	Questioned Costs	Notes
Direct Labor	$5,414,937	$ 51,002	1
Overhead	2,045,003	379,699	2
Overtime Premium	236,137	(45,270)	1
Other Direct Costs	8,928		
General & Administrative (G&A)	660,287	120,699	3
Indirect Cost Reimbursement	(94,091)	(94,091)	4
Fee	585,570	32,730	5
Temporary Support	920,551	658,213	6
Total	$9,777,322	$1,102,982	

NOTES TO THE SCHEDULE OF CONTRACT COSTS

1. We questioned $51,002 of direct labor costs as follows:

   a. Encore Management Corporation billed $199 of direct labor costs for three employees for hours not supported by timesheets or for unbillable leave time.

      We questioned $199.

   b. Encore Management Corporation billed $45,270 of overtime labor costs as direct labor instead of overtime premium. The invoices included the following explanation, "Note: No provisions have been made to increase funding in the overtime budget category. As a result, all authorized overtime hours worked have been converted to direct labor hours. The calculation used: overtime hours multiplied by 1.5 equals direct labor hours." Encore Management Corporation's indirect cost allocation structure excludes overtime labor costs from the overhead allocation base. Because Encore Management Corporation billed these costs as direct labor instead of overtime labor as recorded in its accounting system, the provisional overhead rates were incorrectly applied and billed.

      We questioned $45,270 of direct labor costs and reclassified them to the overtime premium category.

   c. Encore Management Corporation billed $5,533 of unallowable labor costs. It invoiced labor costs for eleven employees at incorrect labor rates, because the Excel spreadsheets used to prepare the invoices contained incorrect labor rates for some employees.

      We questioned $5,533 of unallowable labor costs.

2. Encore Management Corporation billed overhead costs based on provisional billing rates. We applied the overhead rates per audit (Schedules B-2, B-5, B-8, B-11, B-14) to overhead base costs per audit and calculated questioned costs as follows:

Fiscal Year	Base Costs Per Audit	Overhead Rate Per Audit	Overhead Costs Per Audit	Overhead Costs Claimed	Overhead Costs Questioned
1994	$ 323,775	0.2676	$ 86,642	$ 132,142	$ 45,500
1995	1,475,796	0.2755	406,582	583,801	177,219
1996	1,254,193	0.3381	424,043	477,048	53,005
1997	1,284,645	0.3254	418,023	474,003	55,980
1998	1,025,526	0.3218	330,014	378,009	47,995
Total	$5,363,935		$1,665,304	$2,045,003	$379,699

3. Encore Management Corporation billed G&A costs based on provisional billing rates. We applied the G&A rates per audit (Schedules B-3, B-6, B-12, B-15) to G&A base costs per audit and calculated questioned costs as follows:

Fiscal Year	Base Costs Per Audit	G&A Rate Per Audit	G&A Costs Per Audit	G&A Costs Claimed	G&A Costs Questioned
1994	$ 459,471	0.0723	$ 33,220	$ 65,801	$ 32,581
1995	1,984,194	0.0553	109,726	234,933	125,207
1996	1,751,618	0.0769	134,699	128,961	(5,738)
1997	1,731,283	0.0710	122,921	127,704	4,783
1998	1,393,008	0.0998	139,022	102,888	(36,134)
Total	$7,319,574		$539,588	$660,287	$120,699

4. On September 9, 1998, Encore Management Corporation sent a $94,091 payment to the contracting officer as partial reimbursement for overbilled indirect costs.

5. Encore Management Corporation billed $585,570 of fixed fee. Contract Modification No. 56 limited the fixed fee to $552,840. Encore Management Corporation's chief financial officer (CFO) stated that the firm was aware that billings exceeded the contract ceiling, and that they discussed this matter with the contracting officer. The CFO also stated that Contract Modification No. 47 indicates that "the Estimated Cost and Fixed Fee require slight upward adjustments to accurately reflect changes made in Modifications 5, 15, 16, 19, 20, and 23."

   We questioned the $32,730 of fixed fee billed in excess of the contract ceiling.

6. Encore Management Corporation billed labor categories and rates not allowed in the contract. Contract Section B.4 specifies labor categories and billing rates allowable under the contract for temporary help services. We questioned $658,213 as follows:

   a. Encore Management Corporation billed $600,920 of temporary support for non-overtime hours worked by employees in labor categories not included in the contract or contact modifications.

   b. Encore Management Corporation billed $22,226 of temporary support for non-overtime hours worked by employees at rates not included in the contract or contract modifications.

   c. Encore Management Corporation billed $22,424 of temporary support for overtime hours worked by employees in labor categories not included in the contract or contract modifications.

   d. Encore Management Corporation billed $12,643 of temporary support for overtime hours worked by employees at labor rates not included in the contract or contract modifications. Encore Management Corporation billed overtime hours at rates equal to 1.5 times the non-overtime rates allowed in the contract. The contract did not include overtime rates and did not specify how overtime should be billed. Encore Management Corporation's indirect cost allocation structure excludes overtime labor costs from the overhead allocation base. Accordingly, any billing rates negotiated with Encore Management Corporation for overtime hours worked by its employees must exclude overhead costs and thus will be substantially less than the rates billed.

Corporation Comments. The Corporation responded to this finding in an August 31, 2000, memorandum (Appendix A). The Corporation states:

> The report then goes on to question all costs claimed for these personnel even thought the report does not dispute the fact that the government received the services claimed and that Encore is due equitable compensation under procurement law for the work it performed.

The Corporation further states:

> While the report purports to be an incurred cost audit, and thus sufficient to close out the contract, the Corporation will have to perform a significant amount of audit work itself to resolve issues in the report.

The Corporation contends that it acknowledged errors made in administering the Encore Management Corporation contract noted in a previous audit (OIG Audit Report No. 98-24), and thus the OIG and Cotton & Company, LLP were aware of these issues. The Corporation concludes that the audit would have been of more value if the auditor would have worked with Encore Management Corporation and the Corporation to resolve audit findings rather than questioning all costs. The Corporation requests that the OIG "revisit the work performed and work with the Encore and the Contracting Officer to resolve these matters prior to issuing the report."

Auditors' Additional Comments. *Government Auditing Standards* issued by the Comptroller General of the United States state that the purpose of a financial-related audit is to determine if financial information is presented in accordance with established or stated criteria and if the contractor has adhered to specific financial compliance requirements. Encore Management Corporation should not have billed the Corporation for work performed in labor categories or at billing rates not in the contract, and the Corporation should not have paid for this work.

In accord with *Government Auditing Standards*, the auditor is not responsible for determining or recommending billing rates for labor categories not included in the contract. The contracting officer is responsible for negotiating new and revised labor rates with the contractor and closing out the contract.

The Corporation's statement that the OIG was aware of the issues before the audit began is incorrect. OIG Audit Report No. 98-24, dated August 7, 1998, was an audit of the Corporation's procurement and contracting processes and procedures. Its primary objectives were to determine if (1) the Corporation had an effective procurement system in place and (2) the procurement system complied with statutory and regulatory requirements applicable to the Corporation.

The audit concluded that the Corporation did not have an effective procurement system and did not comply with all applicable statutory and regulatory requirements. It also found that the Corporation had inadequate procedures for contractor selection and contract award, and inadequate procedures for contract administration, monitoring, and oversight.

Concerning Encore Management Corporation, the report noted **only** that Encore failed to adjust from indirect cost rates used for interim billing purposes to actual indirect cost rates and, based on its proposed actual indirect cost rates, was overpaid approximately $452,000. The prior audit report did not address the labor category and rate issues, and thus these were not known before the current audit started.

SCHEDULE B-1

CORPORATION FOR NATIONAL AND COMMUNITY SERVICE
ENCORE MANAGEMENT CORPORATION
SCHEDULE OF FRINGE BENEFIT COSTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 1994

Category	Claimed Costs	Questioned Costs	Costs per Audit	Note
Health and Welfare	$ 70,973	$70,973		1
Vacation Pay	9,877		$ 9,877	
Sick Pay	5,356		5,356	
Holiday Pay	42,358		42,358	
Payroll Tax	205,847		205,847	
Insurance	42,110		42,110	
Other	5,008		5,008	
Total Fringe Benefit Pool	$ 381,529	$70,973	$ 310,556	
Fringe Benefit Base				
G&A Labor	$ 64,192		$ 64,192	
Overhead Labor	79,437		79,437	
Contract Labor	1,583,516		1,583,516	
Total Fringe Benefit Base	$1,727,145		$1,727,145	
Fringe Benefit Rate	22.09%		17.98%	

1. **Health and Welfare.** Health and Welfare (H&W) costs are fringe benefits payable in cash to employees as required by the U.S. Department of Labor Wage Determination law. H&W rates were $0.89 and $0.90 per hour from 1994 through 1998. Encore Management Corporation paid H&W costs to part-time employees for whom it did not provide fringe benefits. It recorded H&W costs in its accounting system as direct expenses. Encore Management Corporation prepared indirect cost rate proposals for 1994, 1995, 1996, and 1997 that classified the H&W costs as direct expenses. In September 1998, in response to issues raised by OIG, Encore Management Corporation submitted revised indirect cost rate proposals to the Corporation contracting officer that reclassified all H&W costs as indirect expenses and included them in the fringe-benefit pool. The cover letter indicated that Encore Management Corporation's CFO noted that H&W costs were not included in the fringe-benefit pool.

   In its original April 8, 1994, cost proposal for Contract No. CNCS 94-002, and in its September 18, 1996, cost proposal to continue the contract, Encore Management Corporation noted that it calculated fully-loaded billing rates for temporary support using H&W costs as direct expenses. We also noted that Encore Management Corporation included H&W costs in fully-loaded billing rates on other Government contracts.

   Encore Management Corporation could not identify all contracts that included H&W expenses as a direct expense or the amounts billed under those contracts. Because Encore Management Corporation included H&W costs in its proposed rates for Government contracts it is recovering those costs in the billing rates as direct costs. *Federal Acquisition Regulation* (FAR) 31.202, Direct Costs, states that all costs specifically identified with other final cost objectives of the contractor are direct costs of those cost objectives and are not to be charged to the contract directly or indirectly. In addition, FAR 31.203, Indirect Costs, states that an indirect cost is not to be allocated to a final cost objective if other costs incurred for the same purpose in like circumstances have been included as a direct cost of that or any other final cost objective. Accordingly, Encore Management Corporation has recovered some H&W expenses as a direct part of its fully-loaded billing rates, but it cannot also include all H&W expenses in the fringe-benefit pool and allocate H&W to all final cost objectives. The CFO indicated that it would be easier for Encore Management Corporation to reclassify H&W costs back to direct costs than to identify costs already recovered as direct expenses through its fully-loaded billing rates.

   Corporation Comments. The Corporation also takes issue with questioned H&W costs, which it considers allowable under the FAR. In its August 31, 2000, memorandum (Appendix B), it states:

   > ...Encore originally claimed the [H&W] costs as Other Direct Costs (ODCs). In September 1998, in response to issues raised by

> OIG, Encore reclassified these costs to its fringe benefits pool....However, in this report the auditor is questioning the costs' inclusion in the fringe benefit pool. Therefore, under the current situation, Encore would not be reimbursed for these costs as either indirect or direct costs. If the Corporation were to disallow the costs based on OIG's audit report its decision would not be sustained.

Auditors' Additional Comments. The Corporation's statement that Encore Management Corporation originally claimed H&W costs as Other Direct Costs is misleading. Encore Management Corporation never billed the Corporation for H&W costs as Other Direct Costs. It did recover H&W costs in its fully-loaded billing rates for Temporary Support personnel under this contract and other Government contracts. Accordingly, Encore Management Corporation cannot reclassify H&W costs after the fact to its fringe benefit pool, because a significant amount of those costs have already been paid by the Corporation and other government agencies in its fully-loaded billing rates.

During the audit, Encore Management Corporation's CFO was unable to identify the amount of H&W costs already recovered in the fully-loaded billing rates. She indicated that Encore Management Corporation might consider trying to recover H&W costs by billing the Corporation for H&W costs associated with direct labor billed under the cost-plus-fixed-fee portion of the contract.

Including H&W costs in the fringe benefit pool and in fully-loaded billing rates is inconsistent, violates the FAR, and would result in a double recovery of costs.

SCHEDULE B-2

CORPORATION FOR NATIONAL AND COMMUNITY SERVICE
ENCORE MANAGEMENT CORPORATION
SCHEDULE OF OVERHEAD COSTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 1994

Category	Claimed Costs	Questioned Costs	Costs per Audit	Notes
Salaries	$ 79,437		$ 79,437	
Rent	24,855		24,855	
Materials and Supplies	4,974		4,974	
Bonuses	2,047	$ 2,047		1
Travel and Transportation	3,847		3,847	
Telephone	5,787		5,787	
Recruitment	1,280		1,280	
Depreciation	2,877		2,877	
Other Overhead Costs	2,008	310	1,698	2
Applied from Fringe Allocation	367,349	68,350	298,999	3
Total Overhead Pool	$ 494,461	$70,707	$ 423,754	
Overhead Base				
Contract Labor	$1,583,516		$1,583,516	
Overhead Rate	31.23%		26.76%	

NOTES TO SCHEDULE B-2

1. **Bonuses.** Encore Management Corporation paid bonuses to the president and other employees. Its Employee Handbook does not, however, identify bonus plans. According to the CFO, Encore Management Corporation's president determined bonus recipients and amounts. Encore Management Corporation had no documentation available to support the basis for bonus payments. FAR 31.205-6(f)(2), Compensation for Personal Services, states that bonuses are allowable provided (1) they are paid under an agreement entered into in good faith between the contractor and the employee before services are rendered or pursuant to an established plan or policy followed so consistently as to imply an agreement to make such payment, and (2) the basis for the award is supported. In 1994, overhead costs included $2,047 in bonuses paid to employees. We questioned these unsupported costs.

2. **Other Overhead Costs.** Encore Management Corporation's business development expense account includes unallowable costs, such as personal travel expenses, local meals, flowers, and other expenditures for which the business purpose was not documented. FAR 31.201-6, Accounting for Unallowable Costs, states that unallowable costs must be identified and excluded from any proposal applicable to a Government contract. FAR 31.205-38, Selling Costs, identifies allowable and unallowable types of selling costs. Further, FAR 31.205-14, Entertainment, says that costs for amusement, diversions, and social activities are unallowable. It also states that membership costs for social or dining clubs are unallowable. In 1994, overhead costs included hotel and gift-shop charges in Williamsburg, Virginia, of $179 and $108 respectively, and $23 meal costs in Washington, DC. According to Encore Management Corporation's CFO, the trip to Williamsburg was a personal trip by Encore Management Corporation's president, and the purpose of the meal was not documented. We questioned these costs.

3. **Applied from Fringe Allocation.** We calculated fringe-benefit costs per audit by multiplying the fringe-benefit rate per audit (Schedule B-1) by overhead salaries and contract labor costs. We questioned the difference between costs per audit and claimed costs.

SCHEDULE B-3

CORPORATION FOR NATIONAL AND COMMUNITY SERVICE
ENCORE MANAGEMENT CORPORATION
SCHEDULE OF GENERAL AND ADMINISTRATIVE COSTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 1994

Category	Claimed Costs	Questioned Costs	Costs per Audit	Notes
Salaries	$ 64,192		$ 64,192	
Rent	14,473		14,473	
Materials and Supplies	7,171		7,171	
Bonuses	10,900	$ 10,900		1
Travel and Transportation	8,520	5,661	2,859	2
Telephone	3,525		3,525	
Consultants	11,682	1,000	10,682	3
Professional Fees	1,723		1,723	
Equipment Rental	2,632		2,632	
Bank Charges	2,278		2,278	
Legal and Accounting	1,934		1,934	
State Income Taxes	27,437		27,437	
Taxes (Other)	1,327		1,327	
Other Overhead Costs	2,706	617	2,089	4
Applied from Fringe Allocation	14,180	2,638	11,542	5
Total G&A Pool	$ 174,680	$ 20,816	$ 153,864	
G&A Base				
Contract Labor	$1,583,516		$1,583,516	
Overtime Premium	40,386		40,386	
Health and Welfare		$(70,973)	70,973	6
Materials and Supplies	3,067		3,067	
Travel	1,937		1,937	
Reproduction	1,544		1,544	
Courier	1,846		1,846	
Overhead	494,461	68,350	426,111	7
Total G&A Expense Base	$2,126,757	$ (2,623)	$2,129,380	
G&A Rate	8.21%		7.23%	

1. **Bonuses.** In 1994, G&A costs included bonuses of $900 paid to Encore Management Corporation employees and $10,000 to its president. Encore Management Corporation had no documentation available to support the basis for bonus payments. We questioned these unsupported costs for the reasons stated in Schedule B-2, Note 1 (page 16).

2. **Travel and Transportation.** Encore Management Corporation included the total cost of various Mercedes Benz automobiles leased by Encore Management Corporation in the G&A pool. Encore Management Corporation's president used the automobiles for business and personal reasons, but did not, however, maintain records documenting personal and business usage. According to Encore Management Corporation's CFO, the value of the personal usage was not reported as personal income to the Internal Revenue Service by Encore Management Corporation's president. In response to inquires by other Government auditors, Encore Management Corporation's president prepared a memorandum dated August 13, 1999, estimating personal and business miles driven in 1997 and 1998, but had no support for the estimate. FAR 31.205-6(m)(2), Compensation for Personal Services, states that the personal-use portion of the cost of company-furnished automobiles (including transportation to and from work) is unallowable. FAR 31.205-46(f), Travel Costs, states that costs of contractor-leased automobiles are allowable if reasonable to the extent that the automobiles are used for company business. Encore Management Corporation did not maintain records supporting personal or business vehicle use. Accordingly we questioned all claimed costs.

   In addition, Encore Management Corporation's own unsupported estimate of business and personal miles shows total costs to operate the president's vehicles as $3.65 and $3.11 per mile in 1997 and 1998, respectively. These costs are unreasonable in accordance with FAR 31.205-46(f), Travel Costs. In the event any amount is allowed during the Corporation's audit resolution process, we recommend that costs per mile be limited to the mileage rate ceiling in the *Federal Travel Regulation* (FTR). Based on FTR rates multiplied by Encore Management Corporation's estimated business miles of 4,148.5 and 4,225.5 in 1997 and 1998, respectively, maximum allowable costs would have been $1,286 and $1,373 in 1997 and 1998, respectively. Encore Management Corporation claimed automobile lease and operating costs of $22,630 in 1997 and $19,281 in 1998.

3. **Consultants.** Encore Management Corporation was unable to locate an agreement detailing the scope of services provided by a consultant. FAR 31.205-33(f), Professional and Consultant Service Costs, states that fees for services are allowable only when supported by evidence of the nature and scope of the service furnished. We questioned $1,000 of unsupported consultant costs.

4. **Other Overhead Costs.** Encore Management Corporation's business development expense account includes unallowable costs, such as personal travel expenses, local meals, flowers, and other expenditures for which the business purpose was not documented. We questioned $617 of business development costs for the reasons stated in Schedule B-2, Note 2 (page 16).

5. **Applied from Fringe Allocation.** We calculated fringe-benefit costs per audit by multiplying the fringe-benefit rate per audit (Schedule B-1, page 12) by G&A salaries. We questioned the difference between costs per audit and claimed costs.

6. **Health and Welfare.** Encore Management Corporation included H&W costs in its proposed labor rates for some Government contracts and, in effect, recovered H&W costs as direct costs. Accordingly, it cannot also include all H&W expenses in the fringe-benefit pool and allocate H&W to all final cost objectives. We included H&W costs in the allocation base for the reasons stated in Schedule B-1, Note 1 (page 13).

7. **Overhead.** We questioned the difference in the overhead pool between fringe-benefit costs per audit and claimed costs for the reasons stated in Schedule B-2, Note 3 (page 16).

SCHEDULE B-4

CORPORATION FOR NATIONAL AND COMMUNITY SERVICE
ENCORE MANAGEMENT CORPORATION
SCHEDULE OF FRINGE BENEFIT COSTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 1995

Category	Claimed Costs	Questioned Costs	Costs per Audit	Note
Health and Welfare	$ 192,787	$192,787		1
Vacation Pay	42,272		$ 42,272	
Sick Leave	30,866		30,866	
Holiday Pay	133,192		133,192	
Maternity/Military/Jury Duty	2,825		2,825	
Payroll Tax	451,842		451,842	
Insurance	78,186		78,186	
Other	10,294		10,294	
Total Fringe Benefit Pool	$ 942,264	$192,787	$ 749,477	
Fringe Benefit Base				
G&A Labor	$ 147,464		$ 147,464	
Overhead Labor	189,443		189,443	
Contract Labor	3,634,094		3,634,094	
Total Fringe Benefit Base	$3,971,001		$3,971,001	
Fringe Benefit Rate	23.73%		18.87%	

NOTE TO SCHEDULE B-4

1. **Health and Welfare.** Encore Management Corporation included H&W costs in its proposed labor rates for some Government contracts and, in effect, recovered H&W costs as direct costs. Accordingly, it cannot also include all H&W expenses in the fringe-benefit pool and allocate H&W to all final cost objectives. We questioned all claimed costs for the reasons stated in Schedule B-1, Note 1 (page 13).

SCHEDULE B-5

CORPORATION FOR NATIONAL AND COMMUNITY SERVICE
ENCORE MANAGEMENT CORPORATION
SCHEDULE OF OVERHEAD COSTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 1995

Category	Claimed Costs	Questioned Costs	Costs per Audit	Notes
Salaries	$ 189,443	$ 1,075	$ 188,368	1
Rent	44,275		44,275	
Materials and Supplies	12,247		12,247	
Professional and Consultants Fee	7,010		7,010	
Travel and Transportation	3,885	997	2,888	2
Telephone	8,952		8,952	
Depreciation	10,088		10,088	
Other Overhead Costs	6,779	728	6,051	3
Applied from Fringe Allocation	907,271	185,972	721,299	4
Total Overhead Pool	$1,189,950	$188,772	$1,001,178	
Overhead Base				
Contract Labor	$3,634,094		$3,634,094	
Overhead Rate	32.74%		27.55%	

NOTES TO SCHEDULE B-5

1. **Salaries.** In 1995, overhead costs included bonuses of $1,075. Encore Management Corporation had no documentation available to support the basis for bonus payments. We questioned these unsupported costs for the reasons stated in Schedule B-2, Note 1 (page 16).

2. **Travel and Transportation.** Indirect costs include unallowable personal travel, direct travel, and unsupported costs. Encore Management Corporation's CFO stated that Encore Management Corporation did not require employees to complete expense vouchers for indirect travel, and, thus, documentation to support trip purposes was not available. In addition, due to budget restraints, Encore Management Corporation could not bill travel costs directly to the contract and charged the costs instead to overhead. FAR 31.205-46(a)(7), Travel Costs, states that travel costs are allowable if the following is documented: date and location where expense was incurred, trip purpose, and traveler's name. FAR 31.205-46(c), Travel Costs, states that travel costs directly attributable to specific contract performance are allowable as direct contract costs. FAR 31.205-46(a)(1), Travel Costs, states that costs incurred by contractor personnel on official company business are allowable, subject to the limitations in this subsection. Overhead costs in 1995 included $276 of personal travel and $721 of undocumented travel. We questioned the $997 total.

3. **Other Overhead Costs.** Encore Management Corporation's dues and subscriptions account included unallowable costs for the City Club, a social and dining club in Washington, DC. FAR 31.205-14, Entertainment Costs, says that amusement, diversion, and social activity costs and social and dining club membership costs are unallowable. We questioned $728.

4. **Applied from Fringe Allocation.** We calculated fringe-benefit costs per audit by multiplying the fringe-benefit rate per audit (Schedule B-4, page 20) by overhead salaries and contract labor costs. We questioned the difference between costs per audit and claimed costs.

CORPORATION FOR NATIONAL AND COMMUNITY SERVICE
ENCORE MANAGEMENT CORPORATION
SCHEDULE OF GENERAL AND ADMINISTRATIVE COSTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 1995

Category	Claimed Costs	Questioned Costs	Costs per Audit	Notes
Salaries	$ 147,464		$ 147,464	
Rent	8,061		8,061	
Materials and Supplies	9,444		9,444	
Travel and Transportation	12,557	$ 12,155	402	1
Equipment Rental	4,835		4,835	
Legal and Accounting	30,824	600	30,224	2
Other Overhead Costs	10,556	1,900	8,656	3
State Income Taxes	51,315		51,315	
Applied from Fringe Allocation	34,993	7,167	27,826	4
Total G&A Pool	$ 310,049	$ 21,822	$ 288,227	
G&A Base				
Contract Labor	$3,634,094		$3,634,094	
Subcontractors	193,570		193,570	
Overtime Premium	177,129		177,129	
Health and Welfare		$(192,787)	192,787	5
Materials and Supplies	8,219		8,219	
Travel	321		321	
Reproduction	3,208		3,208	
Courier	3,318		3,318	
Overhead	1,189,950	185,972	1,003,978	6
Total G&A Expense Base	$5,209,809	$ (6,815)	$5,216,624	
G&A Rate	5.95%		5.53%	

NOTES TO SCHEDULE B-6

1. **Travel and Transportation.** Encore Management Corporation did not maintain records documenting business and personal usage of leased automobiles. We questioned $12,155 of automobile expenses for the reasons stated in Schedule B-3, Note 2 (page 18).

2. **Legal and Accounting.** Encore Management Corporation was unable to provide a copy of an invoice or agreement for legal services provided by a consultant. FAR 31.205-33(f), Professional and Consultant Service Costs, states that fees for services are allowable only when supported by evidence of the nature and scope of the service furnished. We questioned $600 of unsupported costs.

3. **Other Overhead Costs.** We questioned $1,900 as follows:

   a. Encore Management Corporation did not maintain records documenting business and personal usage of leased automobiles. We questioned $1,245 of automobile expenses for the reasons stated in Schedule B-3, Note 2 (page 18).

   b. Encore Management Corporation's business development expense account includes unallowable costs, such as personal travel expenses, local meals, flowers, and other expenditures for which the business purpose was not documented. We questioned $655 of business development costs for the reasons stated in Schedule B-2, Note 2 (page 16).

4. **Applied from Fringe Allocation.** We calculated fringe-benefit costs per audit by multiplying the fringe-benefit rate per audit (Schedule B-4, page 20) by G&A salaries. We questioned the difference between costs per audit and claimed costs.

5. **Health and Welfare.** Encore Management Corporation included H&W costs in its proposed labor rates for some Government contracts and, in effect, recovered H&W costs as direct costs. Accordingly, it cannot also include all H&W expenses in the fringe-benefit pool and allocate H&W to all final cost objectives. We included H&W costs in the allocation base for the reasons stated in Schedule B-1, Note 1 (page 13).

6. **Overhead.** We questioned the difference in the overhead pool between fringe-benefit costs per audit and claimed costs for the reasons stated in Schedule B-5, Note 4 (page 23).

CORPORATION FOR NATIONAL AND COMMUNITY SERVICE
ENCORE MANAGEMENT CORPORATION
SCHEDULE OF FRINGE BENEFIT COSTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 1996

Category	Claimed Costs	Questioned Costs	Costs per Audit	Note
Health and Welfare	$ 153,211	$153,211		1
Vacation Pay	41,207		$ 41,207	
Sick Pay	31,950		31,950	
Holiday Pay	111,850		111,850	
Payroll Tax	340,043		340,043	
Insurance	98,806		98,806	
Other	13,829		13,829	
Total Fringe Benefit Pool	$ 790,896	$153,211	$ 637,685	
Fringe Benefit Base				
G&A Labor	$ 198,602		$ 198,602	
Bid & Proposal (B&P) Labor	7,045		7,045	
Overhead Labor	275,288		275,288	
Contract Labor	2,930,116		2,930,116	
Total Fringe Benefit Base	$3,411,051		$3,411,051	
Fringe Benefit Rate	23.19%		18.69%	

NOTE TO SCHEDULE B-7

1. **Health and Welfare.** Encore Management Corporation included H&W costs in its proposed labor rates for some Government contracts and, in effect, recovered H&W costs as direct costs. Accordingly, it cannot also include all H&W expenses in the fringe-benefit pool and allocate H&W to all final cost objectives. We questioned all claimed costs for the reasons stated in Schedule B-1, Note 1 (page 13).

SCHEDULE B-8

CORPORATION FOR NATIONAL AND COMMUNITY SERVICE
ENCORE MANAGEMENT CORPORATION
SCHEDULE OF OVERHEAD COSTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 1996

Category	Claimed Costs	Questioned Costs	Costs per Audit	Notes
Salaries	$ 275,288	$ 7,000	$ 268,288	1
Rent	69,146		69,146	
Materials and Supplies	9,351		9,351	
Professional and Consultants Fee	10,163	506	9,657	2
Travel and Transportation	2,251		2,251	
Telephone	10,482		10,482	
Depreciation	15,138		15,138	
Equipment Rental	4,742		4,742	
Other Overhead Costs	4,882	114	4,768	3
Applied from Fringe Allocation	743,206	144,108	599,098	4
Total Overhead Pool	$1,144,649	$151,728	$ 992,921	
Overhead Base				
Contract Labor	$2,930,116		$2,930,116	
B&P Labor	7,045		7,045	
Total Overhead Base	$2,937,161		$2,937,161	
Overhead Rate	38.97%		33.81%	

NOTES TO SCHEDULE B-8

1. **Salaries.** In 1996, overhead costs included bonuses of $2,000 paid to Encore Management Corporation employees and $5,000 to its president. Encore Management Corporation had no documentation available to support the basis for bonus payments. We questioned these unsupported costs for the reasons stated in Schedule B-2, Note 1 (page 16).

2. **Professional & Consultants Fee.** Claimed costs included costs for employee background investigations that were billed directly to the Corporation on Voucher No. 9602519. FAR 31.202, Direct Costs, states that costs identified specifically with a contract are direct costs of the contract. We questioned $506.

3. **Other Overhead Costs.** Encore Management Corporation's dues and subscriptions account included unallowable costs for the City Club, a social and dining club in Washington, DC. We questioned $114 of dues and subscription costs for the reasons stated in Schedule B-5, Note 3 (page 23).

4. **Applied from Fringe Allocation.** We calculated fringe benefit costs per audit by multiplying the fringe benefit rate per audit (Schedule B-7, page 26) by overhead salaries, bid and proposal labor, and contract labor costs. We questioned the difference between the costs per audit and claimed costs.

SCHEDULE B-9

CORPORATION FOR NATIONAL AND COMMUNITY SERVICE
ENCORE MANAGEMENT CORPORATION
SCHEDULE OF GENERAL AND ADMINISTRATIVE COSTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 1996

Category	Claimed Costs	Questioned Costs	Costs per Audit	Notes
Salaries	$ 198,602	$ 33,000	$ 165,602	1
Rent	28,908		28,908	
Materials and Supplies	5,266		5,266	
Professional Fees	4,861		4,861	
Travel and Transportation	20,660	19,930	730	2
Telephone	3,360		3,360	
Equipment Rental	3,642		3,642	
Legal and Accounting	40,929		40,929	
State Income Taxes	31,240		31,240	
Other Overhead Costs	8,074	2,095	5,979	3
Applied from Fringe Allocation	46,056	15,105	30,951	4
B&P Labor	7,045		7,045	
B&P Fringe Allocation	1,634	1,634		5
B&P Overhead Allocation	2,745	363	2,382	6
Total G&A Pool	$ 403,022	$ 72,127	$ 330,895	
G&A Base				
Contract Labor	$2,930,116		$2,930,116	
Subcontractors	39,574		39,574	
Overtime Premium	123,824		123,824	
Health and Welfare		$(153,211)	153,211	7
Materials and Supplies	57,053		57,053	
Courier	1,781		1,781	
Overhead	1,144,649	144,614	1,000,035	8
B&P Overhead Allocation	(2,745)	(363)	(2,382)	6
Total G&A Expense Base	$4,294,252	$ (8,960)	$4,303,212	
G&A Rate	9.39%		7.69%	

1. **Salaries.** In 1996, G&A costs included bonuses of $3,000 paid to Encore Management Corporation employees and $30,000 to its president. Encore Management Corporation had no documentation available to support the basis for bonus payments. We questioned these unsupported costs for the reasons stated in Schedule B-2, Note 1 (page 16).

2. **Travel and Transportation.** We questioned $19,930 as follows:

   a. Encore Management Corporation did not maintain records documenting business and personal usage of leased automobiles. We questioned $16,387 of automobile expenses for the reasons stated in Schedule B-3, Note 2 (page 18).

   b. Travel costs included $1,698 of personal travel costs associated with a trip to Las Vegas, Nevada, by Encore Management Corporation's president and executive vice-president and $1,845 of travel costs without documentation to support the trip purpose. We questioned $3,543 of travel costs for the reasons stated in Schedule B-5, Note 2 (page 23).

3. **Other Overhead Costs.** We questioned $2,095 as follows:

   a. Encore Management Corporation's business development expense account includes unallowable costs, such as personal travel expenses, local meals, flowers, and other expenditures for which the business purpose was not documented. We questioned $893 of business development costs for the reasons stated in Schedule B-2, Note 2 (page 16).

   b. Encore Management Corporation's G&A pool includes unallocable costs in the amount of $1,202 for fees charged by credit card companies for payments made to Encore Management Corporation with a credit card. These fees are direct costs of specific contracts and do not benefit the Corporation contract. FAR 31.201-4, Determining Allocability, states that a cost is allocable if it is assignable or chargeable to one or more cost objectives on the basis of relative benefits received. FAR 31.203, Indirect Costs, states an indirect cost is any cost not directly identified with a single final cost objective. According to Encore Management Corporation's CFO, Encore Management Corporation considers these types of charges to be indirect costs.

4. **Applied from Fringe Allocation.** We calculated fringe-benefit costs per audit by multiplying the fringe-benefit rate per audit (Schedule B-7, page 26) by G&A salaries. We questioned the difference between costs per audit and claimed costs.

5. **B&P Fringe Allocation.** Encore Management Corporation incorrectly applied the fringe-benefit rate to B&P labor costs. All fringe-benefit costs associated with B&P labor costs are included in Encore Management Corporation's overhead rate (Schedule B-8, page 28). We questioned these costs.

6. **B&P Overhead Allocation.** We calculated overhead costs per audit by multiplying the overhead rate per audit (Schedule B-8, page 28) by B&P labor. We questioned the difference between costs per audit and claimed costs.

7. **Health and Welfare.** Encore Management Corporation included H&W costs in its proposed labor rates for some Government contracts and, in effect, recovered H&W costs as direct costs. Accordingly, it cannot also include all H&W expenses in the fringe-benefit pool and allocate H&W to all final cost objectives. We included H&W costs in the allocation base for the reasons stated in Schedule B-1, Note 1 (page 13).

8. **Overhead.** We questioned the difference in the overhead pool between fringe-benefit costs per audit and claimed costs and unallocable direct costs for the reasons stated in Schedule B-8, Notes 2 and 4 (page 29).

SCHEDULE B-10

CORPORATION FOR NATIONAL AND COMMUNITY SERVICE
ENCORE MANAGEMENT CORPORATION
SCHEDULE OF FRINGE BENEFIT COSTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 1997

Category	Claimed Costs	Questioned Costs	Costs per Audit	Note
Health and Welfare	$159,796	$159,796		1
Vacation Leave	84,416		$ 84,416	
Sick Pay	58,792		58,792	
Holiday Pay	159,938		159,938	
Maternity/Military/Jury Duty	2,537		2,537	
Payroll Tax	450,913		450,913	
Insurance	169,035		169,035	
Other	1,418		1,418	
Total Fringe Benefit Pool	$1,086,845	$159,796	$ 927,049	
Fringe Benefit Base				
G&A Labor	$ 211,295		$ 211,295	
B&P Labor	19,837		19,837	
Overhead Labor	240,639		240,639	
Contract Labor	3,761,130		3,761,130	
Total Fringe Benefit Base	$4,232,901		$4,232,901	
Fringe Benefit Rate	25.68%		21.90%	

NOTE TO SCHEDULE B-10

1. **Health and Welfare.** Encore Management Corporation included H&W costs in its proposed labor rates for some Government contracts and, in effect, recovered H&W costs as direct costs. Accordingly, it cannot also include all H&W expenses in the fringe-benefit pool and allocate H&W to all final cost objectives. We questioned all claimed costs for the reasons stated in Schedule B-1, Note 1 (page 13).

SCHEDULE B-11

CORPORATION FOR NATIONAL AND COMMUNITY SERVICE
ENCORE MANAGEMENT CORPORATION
SCHEDULE OF OVERHEAD COSTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 1997

Category	Claimed Costs	Questioned Costs	Costs per Audit	Notes
Salaries	$ 240,639		$ 240,639	
Rent	70,778		70,778	
Materials and Supplies	6,872		6,872	
Professional and Consultants Fee	1,481		1,481	
Travel and Transportation	2,604	$ 1,803	801	1
Telephone	12,293		12,293	
Depreciation	12,346		12,346	
Equipment Rental	2,139		2,139	
Other Overhead Costs	2,374		2,374	
Applied from Fringe Allocation	1,027,490	146,758	880,732	2
Total Overhead Pool	$1,379,016	$148,561	$1,230,455	
Overhead Base				
Contract Labor	$3,761,130		$3,761,130	
B&P Labor	19,837		19,837	
Total Overhead Base	$3,780,967		$3,780,967	
Overhead Rate	36.47%		32.54%	

NOTES TO SCHEDULE B-11

1. **Travel and Transportation.** We questioned $1,803 of travel costs directly associated with a contract for the reasons stated in Schedule B-5, Note 2 (page 23).

2. **Applied from Fringe Allocation.** We calculated fringe-benefit costs per audit by multiplying the fringe-benefit rate per audit (Schedule B-10, page 33) by overhead salaries, B&P, and contract labor costs. We questioned the difference between costs per audit and claimed costs.

CORPORATION FOR NATIONAL AND COMMUNITY SERVICE
ENCORE MANAGEMENT CORPORATION
SCHEDULE OF GENERAL AND ADMINISTRATIVE COSTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 1997

Category	Claimed Costs	Questioned Costs	Costs per Audit	Notes
Salaries	$ 211,295	$ 13,500	$ 197,795	1
Rent	21,666		21,666	
Materials and Supplies	6,174		6,174	
Consultants	3,534		3,534	
Travel and Transportation	25,545	22,630	2,915	2
Telephone	1,984		1,984	
Equipment Rental	6,548		6,548	
Legal and Accounting	18,585	6,489	12,096	3
State Income Taxes	43,384		43,384	
Other Overhead Costs	20,972	1,336	19,636	4
Applied from Fringe Allocation	54,261	10,944	43,317	5
B&P Labor	19,837		19,837	
B&P Fringe Allocation	5,094	5,094		6
B&P Overhead Allocation	7,235	780	6,455	7
Total G&A Pool	$ 446,114	$ 60,773	$ 385,341	
G&A Base				
Contract Labor	$3,761,130		$3,761,130	
Subcontractors	27,420		27,420	
Overtime Premium	101,082		101,082	
Health and Welfare		$(159,796)	159,796	8
Materials and Supplies	45,028		45,028	
Other	105,470		105,470	
Overhead	1,379,016	146,758	1,232,258	9
B&P Overhead Allocation	(7,235)	(780)	(6,455)	7
Total G&A Expense Base	$5,411,911	$ (13,818)	$5,425,729	
G&A Rate	8.24%		7.10%	

NOTES TO SCHEDULE B-12

1. **Salaries.** In 1997, G&A costs included bonuses of $3,500 paid to Encore Management Corporation employees and $10,000 to its president. Encore Management Corporation had no documentation available to support the basis for bonus payments. We questioned these unsupported costs for the reasons stated in Schedule B-2, Note 1 (page 16).

2. **Travel and Transportation.** Encore Management Corporation did not maintain records documenting business and personal usage of leased automobiles. We questioned $22,630 of automobile expenses for the reasons stated in Schedule B-3, Note 2 (page 18).

3. **Legal & Accounting.** Claimed costs included $6,489 for legal services related to a bid protest filed against the Federal Government. FAR 31.205-47(f)(8), Costs Related to Legal and Other Proceedings, states that bid protest costs are unallowable. We questioned these costs.

4. **Other Overhead Costs.** We questioned $1,336 as follows:

   a. Encore Management Corporation's business development expense account includes unallowable costs, such as personal travel expenses, local meals, flowers, and other expenditures for which the business purpose was not documented. We questioned $1,018 of business development costs for the reasons stated in Schedule B-2, Note 2 (page 16).

   b. Encore Management Corporation's G&A pool includes unallocable costs for fees charged by credit card companies for payments made to Encore Management Corporation with a credit card. These fees are direct costs of specific contracts and do not benefit the Corporation contract. We questioned $318 of credit card fees for the reasons stated in Schedule B-9, Note 3 (page 31).

5. **Applied from Fringe Allocation.** We calculated fringe-benefit costs per audit by multiplying the fringe-benefit rate per audit (Schedule B-10, page 33) by G&A salaries. We questioned the difference between costs per audit and claimed costs.

6. **B&P Fringe Allocation.** Encore Management Corporation incorrectly applied the fringe-benefit rate to B&P labor costs. All fringe-benefit costs associated with B&P labor costs are included in Encore Management Corporation's overhead rate (Schedule B-11, page 35). We questioned these costs.

7. **B&P Overhead Allocation.** We calculated overhead costs per audit by multiplying the overhead rate per audit (Schedule B-11, page 35) by B&P labor. We questioned the difference between costs per audit and claimed costs.

8. **Health and Welfare.** Encore Management Corporation included H&W costs in its proposed labor rates for some Government contracts and, in effect, recovered H&W costs as direct costs. Accordingly, it cannot also include all H&W expenses in the fringe-benefit pool and allocate H&W to all final cost objectives. We included H&W costs in the allocation base for the reasons stated in Schedule B-1, Note 1 (page 13).

9. **Overhead.** We questioned the difference in the overhead pool between fringe-benefit costs per audit and claimed costs for the reasons stated in Schedule B-11, Note 2 (page 36).

CORPORATION FOR NATIONAL AND COMMUNITY SERVICE
ENCORE MANAGEMENT CORPORATION
SCHEDULE OF FRINGE BENEFIT COSTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 1998

Category	Claimed Costs	Questioned Costs	Costs per Audit	Note
Health and Welfare	$ 177,833	$177,833		1
Vacation Pay	136,105		$ 136,105	
Sick Pay	52,869		52,869	
Holiday Pay	209,186		209,186	
Military/Jury/Maternity Leave	1,082		1,082	
Payroll Taxes	547,474		547,474	
Insurance	153,540		153,540	
Other	1,596		1,596	
Total Fringe Benefit Pool	$1,279,685	$177,833	$1,101,852	
Fringe Benefit Base				
G&A Labor	$ 288,532		$ 288,532	
B&P Labor	41,650		41,650	
Overhead Labor	158,991		158,991	
Contract Labor	4,072,139		4,072,139	
Total Fringe Benefit Base	$4,561,312		$4,561,312	
Fringe Benefit Rate	28.06%		24.16%	

NOTE TO SCHEDULE B-13

1. **Health and Welfare.** Encore Management Corporation included H&W costs in its proposed labor rates for some Government contracts and, in effect, recovered H&W costs as direct costs. Accordingly, it cannot also include all H&W expenses in the fringe-benefit pool and allocate H&W to all final cost objectives. We questioned all claimed costs for the reasons stated in Schedule B-1, Note 1 (page 13).

SCHEDULE B-14

CORPORATION FOR NATIONAL AND COMMUNITY SERVICE
ENCORE MANAGEMENT CORPORATION
SCHEDULE OF OVERHEAD COSTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 1998

Category	Claimed Costs	Questioned Costs	Costs per Audit	Note
Salaries	$ 158,991		$ 158,991	
Rent	62,149		62,149	
Materials and Supplies	8,812		8,812	
Professional and Consultants Fee	7,812		7,812	
Telephone	26,413		26,413	
Depreciation	12,594		12,594	
Equipment Rental	13,105		13,105	
Other Overhead Costs	1,664		1,664	
Fringe Allocation	1,187,052	$154,748	1,032,304	1
Total Overhead Pool	$1,478,592	$154,748	$1,323,844	
Overhead Base				
Contract Labor	$4,072,139		$4,072,139	
B&P Labor	41,650		41,650	
Total Overhead Base	$4,113,789		$4,113,789	
Overhead Rate	35.94%		32.18%	

NOTE TO SCHEDULE B-14

1. **Fringe Allocation.** We calculated fringe-benefit costs per audit by multiplying the fringe-benefit rate per audit (Schedule B-13, page 40) by overhead salaries, B&P, and contract labor costs. We questioned the difference between costs per audit and claimed costs.

SCHEDULE B-15

CORPORATION FOR NATIONAL AND COMMUNITY SERVICE
ENCORE MANAGEMENT CORPORATION
SCHEDULE OF GENERAL AND ADMINISTRATIVE COSTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 1998

Category	Claimed Costs	Questioned Costs	Costs per Audit	Notes
Salaries	$ 288,532	$ 5,000	$ 283,532	1
Rent	59,163		59,163	
Materials and Supplies	7,874		7,874	
Professional Fees	5,845		5,845	
Travel and Transportation	21,304	20,299	1,005	2
Telephone	1,194		1,194	
Equipment Rental	5,745		5,745	
Legal and Accounting	45,496	17,862	27,634	3
Insurance	6,879		6,879	
State Income Taxes	77,451		77,451	
Other Overhead Costs	31,151	8,383	22,768	4
G&A Fringe Allocation	80,948	12,447	68,501	5
B&P Labor	41,650		41,650	
B&P Fringe Allocation	11,685	11,685		6
B&P Overhead Allocation	14,969	1,566	13,403	7
Total G&A Pool	$ 699,886	$ 77,242	$ 622,644	
G&A Base				
Contract Labor	$4,072,139		$4,072,139	
Subcontractors	16,037		16,037	
Overtime Premium	154,394		154,394	
Materials and Supplies	68,156		68,156	
Consultants	98,123		98,123	
Health and Welfare		$(177,783)	177,783	8
Travel	215,980		215,980	
Other	126,033		126,033	
Overhead	1,478,592	154,748	1,323,844	9
B&P Overhead Allocation	(14,969)	(1,566)	(13,403)	7
Total G&A Expense Base	$6,214,485	$ (24,601)	$6,239,086	
G&A Rate	11.26%		9.98%	

1. **Salaries.** In 1998, G&A costs included bonuses of $5,000 paid to Encore Management Corporation employees. Encore Management Corporation had no documentation available to support the basis for bonus payments. We questioned these unsupported costs for the reasons stated in Schedule B-2, Note 1 (page 16).

2. **Travel and Transportation.** We questioned $20,299 as follows:

   a. Encore Management Corporation did not maintain records documenting business and personal usage of leased automobiles. We questioned $19,281 of automobile expenses for the reasons stated in Schedule B-3, Note 2 (page 18).

   b. Travel costs included personal travel expenses incurred by Encore Management Corporation's president and travel costs without documentation to support the trip purpose. We questioned $1,018 of travel costs for the reasons stated in Schedule B-5, Note 2 (page 23).

3. **Legal and Accounting.** We questioned $17,862 as follows:

   a. Claimed costs included $13,587 for legal services related to a bid protest filed against the Federal Government. FAR 31.205-47(f)(8), Costs Related to Legal and Other Proceedings, states that bid protest costs are unallowable. We questioned these costs.

   b. Claimed costs included $21,378 of legal expenses associated with defense of fraud proceedings brought by the Federal Government. The proceedings did not result in a conviction or finding of liability. FAR 31.205-47(e)(3), Costs Related to Legal and Other Proceedings, states that costs in connection with proceedings brought by the Federal Government that do not result in a conviction or finding of liability may be allowable to the extent that they do not exceed 80 percent of otherwise allowable legal costs incurred. We questioned 20 percent of the claimed costs, or $4,275.

4. **Other Overhead Costs.** We questioned $8,383 as follows:

   a. Encore Management Corporation's G&A pool includes unallocable costs for fees charged by credit card companies for payments made to Encore Management Corporation with a credit card. These fees are direct costs of specific contracts and do not benefit the Corporation contract. We questioned $1,712 of credit card fees for the reasons stated in Schedule B-9, Note 3 (page 31).

b. Claimed costs include $6,671 for the industrial funding fee paid to the General Services Administration (GSA) for contracts awarded under Encore Management Corporation's GSA contract. The industrial funding fee is based on revenues earned on specific contracts. These fees are direct costs of other contracts and do not benefit the Corporation contract, which was not procured through GSA. FAR 31.201-4, Determining Allocability, states that a cost is allocable if it is assignable or chargeable to one or more cost objectives on the basis of relative benefits received. FAR 31.203, Indirect Costs, states that an indirect cost is any cost not directly identified with a single, final cost objective. According to Encore Management Corporation's CFO, Encore Management Corporation considers these types of charges to be indirect costs. We questioned these costs.

5. **G&A Fringe Allocation.** We calculated fringe-benefit costs per audit by multiplying the fringe-benefit rate per audit (Schedule B-13, page 40) by G&A salaries. We questioned the difference between costs per audit and claimed costs.

6. **B&P Fringe Allocation.** Encore Management Corporation incorrectly applied the fringe-benefit rate to B&P labor costs. All fringe-benefit costs associated with B&P labor costs are included in Encore Management Corporation's overhead rate (Schedule B-14, page 42). We questioned these costs.

7. **B&P Overhead Allocation.** We calculated overhead costs per audit by multiplying the overhead rate per audit (Schedule B-14, page 42) by B&P labor. We questioned the difference between costs per audit and claimed costs.

8. **Health and Welfare.** Encore Management Corporation included H&W costs in its proposed labor rates for some Government contracts and, in effect, recovered H&W costs as direct costs. Accordingly, it cannot also include all H&W expenses in the fringe-benefit pool and allocate H&W to all final cost objectives. We included H&W costs in the allocation base for the reasons stated in Schedule B-1, Note 1 (page 13).

9. **Overhead.** We questioned the difference in the overhead pool between fringe-benefit costs per audit and claimed costs for the reasons stated in Schedule B-14, Note 1 (page 43).

INDEPENDENT AUDITORS' REPORTS ON COMPLIANCE AND INTERNAL CONTROL STRUCTURE

COTTON & COMPANY LLP

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February 18, 2000

Inspector General
Corporation for National and Community Service

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE

We audited costs claimed by Encore Management Corporation to the Corporation for National and Community Service under Contract No. CNCS 94-002 for the period July 25, 1994, through December 31, 1998, and have issued our report thereon dated February 18, 2000. The Corporation awarded Contract No. CNCS 94-002 for the period July 25, 1994, to December 31, 1998.

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 Encore Management Corporation's 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 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 three material instances of noncompliance that are required to be reported herein under *Government Auditing Standards*.

1. Encore Management Corporation billed in excess of contract-specified funding limits as follows:

   - **Fixed Fee**. Encore Management Corporation billed $585,570, or $32,730 more than the $552,840 contract amount.

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- **Total Funding**. Encore Management Corporation billed $9,871,413, or $200,725 more than the $9,670,688 contract amount.

- **Temporary Help**. Encore Management Corporation billed $920,551, or $381,655 more than the $538,896 contract amount.

Encore Management Corporation's chief financial officer (CFO) stated that the firm was aware that billings exceeded the contract ceiling, and that they discussed this matter with the contracting officer. The CFO also stated that Contract Modification No. 47 indicates that "the Estimated Cost and Fixed Fee require slight upward adjustments to accurately reflect changes made in Modifications 5, 15, 16, 19, 20 and 23."

We recommend that the Corporation direct Encore Management Corporation to limit billed costs to those allowable under applicable contract provisions.

2. Encore Management Corporation failed to submit its proposed final indirect cost rates to the contracting officer as required. Contract Section I.1 incorporates *Federal Acquisition Regulation* (FAR) 52.216-7, Allowable Cost and Payment, which states that the contractor must submit proposed final indirect cost rates to the contracting officer for each of its fiscal years within 90 days of fiscal year end; proposed rates must be based on the contractor's actual cost experience for the period. This section further states that billing rates may be prospectively or retroactively revised by mutual agreement, at either party's request, to prevent substantial overpayment or underpayment. Encore Management Corporation representatives stated that they were not aware that they were required to submit the indirect cost rate proposals to the Corporation or to adjust indirect costs billed. Because Encore Management Corporation did not submit indirect cost rate proposals as required, and because it did not revise provisional billing rates, indirect costs were overbilled.

   We recommend that the Corporation direct Encore Management Corporation to submit its proposed final indirect cost rates as required by the FAR.

3. As discussed in the Notes to the Schedule of Contract Costs and Schedules B-1 through B-15, Encore Management Corporation claimed direct labor, indirect costs, and fee that were unallowable and unallocable in accordance with contract terms and conditions and the FAR.

   We recommend that the Corporation direct Encore Management Corporation 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 Encore Management Corporation's costs claimed under the contract for the period July 25, 1994, through December 31, 1998, are presented fairly, in all material respects, pursuant to contract terms and conditions and the FAR. Because of the material instances of noncompliance, our opinion on the schedule is qualified.

This report is intended solely for the use of the Office of the Inspector General, the Corporation for National and Community Service, and Encore Management Corporation.

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February 18, 2000

Inspector General
Corporation for National and Community Service

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL STRUCTURE

We audited costs claimed by Encore Management Corporation to the Corporation for National and Community Service under Contract No. CNCS 94-002 for the period July 25, 1994, through December 31, 1998, and have issued our report thereon dated February 18, 2000. The Corporation awarded Contract No. CNCS 94-002 for the period July 25, 1994, to December 31, 1998.

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.

Encore Management Corporation 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 Encore Management Corporation's internal control structure. We obtained an understanding of the design of relevant policies and procedures and whether they had 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.

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We noted three matters involving the internal control structure and its operation that we consider reportable conditions 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 conditions follow.

1. Encore Management Corporation does not have policies and procedures to adequately identify unallowable indirect expenses in accordance with the *Federal Acquisition Regulation.* As shown in Schedules B-1 through B-15, Encore Management Corporation claimed unallowable indirect expenses.

   We recommend that the Corporation direct Encore Management Corporation to institute policies and procedures to identify unallowable indirect costs.

2. Encore Management Corporation does not have adequate timekeeping procedures. Its employees sometimes used correction fluid to alter timesheets, supervisors did not sign all timesheets, and employees and supervisors did not initial all changes. Sound internal controls dictate that, at a minimum, employees and supervisors sign all timesheets and that timesheet changes be marked through and initialed by the employee and supervisor.

   We recommend that the Corporation direct Encore Management Corporation to require supervisors and employees to sign all timesheets, initial all timesheet corrections, and prohibit the use of correction fluid.

3. Encore Management Corporation did not prepare invoices directly from its accounting system. Invoices were supported by Excel spreadsheets and contained errors. Encore Management Corporation's CFO stated that its accounting software is not capable of generating invoices.

   We recommend that the Corporation direct Encore Management Corporation to prepare invoices directly from its accounting system.

We believe that the matters described above are material weaknesses. 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 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 solely for the use of the Office of the Inspector General, the Corporation for National and Community Service, and Encore Management Corporation.

COTTON & COMPANY LLP

By: _____
Michael W. Gillespie, CPA, CFE

APPENDIX A

THE CORPORATION'S RESPONSE

CORPORATION
FOR NATIONAL
SERVICE

MEMORANDUM

DATE: August 31, 2000

TO: Luise Jordan, Inspector General

FROM: Tony Musick, Chief Financial Officer

SUBJECT: OIG Draft Report No. 00-22, *Audit of Corporation for National and Community Service Contract No. CNCS 94-002 with Encore Management Corporation*

We have reviewed the draft Office of the Inspector General (OIG) audit report of the Corporation's contract with Encore Management Corporation (Encore) and are concerned about the work performed and the conclusions reached in the report. Our comments are based on the limited information provided in the report. Of course, we will have to review Encore's response to the draft and the specific work performed by OIG and its contractor before making any final determinations on the findings included in the report.

Our concerns relate to the utility of the report to the Corporation in closing out this contract. While the report purports to be an incurred cost audit, and thus sufficient to close out the contract, the Corporation will have to perform a significant amount of audit work itself to resolve issues in the report. For example, the report states that in some instances Encore used incorrect labor categories and/or rates for temporary personnel when billing under the contract. The report then goes on to question all costs claimed for these personnel even though the report does not dispute the fact that the government received the services claimed and that Encore is due equitable compensation under procurement law for the work it performed (*see page 9*).

Similarly, the report questions all Health & Welfare costs incurred under the contract, costs that are allowable under the Federal Acquisition Regulation (FAR). In this case, Encore originally claimed the costs as Other Direct Costs (ODCs). In September 1998, in response to issues raised by OIG, Encore reclassified these costs to its fringe benefits pool (*see page 11*). However, in this report the auditor is questioning the costs' inclusion in the fringe benefit pool. Therefore, under the current situation, Encore would not be reimbursed for these costs as either indirect or direct costs. If the Corporation were to disallow the costs based on OIG's audit report its decision would not be sustained.

In a previous OIG audit dealing with this contract (OIG report 98-24) the Corporation acknowledged that it had made errors administering the Encore contract. Thus, OIG and

its contractor were aware of these issues before the audit began. In our opinion, a fair and equitable solution would have occurred if the auditor had worked with Encore and the Corporation's Contracting Officer to resolve these matters during the audit rather than questioning all costs, including allowable costs, in a report. Such an audit would be of value to the Corporation in closing out this and other contracts. Accordingly, the Corporation requests that you revisit the work performed and work with the Encore and the Contracting Officer to resolve these matters prior to issuing this report.

cc: Harris Wofford
Wendy Zenker
Bill Anderson
Peg Rosenberry
Simon Woodard
Wilsie Minor
Dean Reuter

AUG 31 2000