OFFICE OF THE INSPECTOR GENERAL
CORPORATION FOR NATIONAL AND
COMMUNITY SERVICE

AUDIT OF CORPORATION FOR NATIONAL AND COMMUNITY SERVICE CONTRACT NO. CNCS 94-003 AND NO. 95-002 HI-TECH INTERNATIONAL, INC.

OIG Audit Report Number 00-23
February 3, 2000

Prepared by:

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

Under Department of State OIG
Contract # S-OPRAQ-99-D-D-0021-CNS-06

This report was issued to Corporation management on June 15, 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 December 12, 2000, and complete its corrective actions by June 15, 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 94-003 and No. CNCS 95-002 with Hi-Tech International, Inc.

Cotton & Company, LLP, under contract to the Office of the Inspector General, audited the amounts claimed by Hi-Tech International, Inc., under Contract No. CNCS 94-003 and No. CNCS 95-002. The audit covered the costs claimed during the period from September 7, 1994 through January 31, 1999. The Corporation awarded Contract No. CNCS 94-003 for the period September 7, 1994, to August 31, 1998. This was a time-and-materials contract under which Hi-Tech provided conference and meeting support to the Corporation. The Corporation awarded Contract No. CNCS 95-002 for the period of February 2, 1995, to January 31, 1999. This was a time-and-materials contract under which Hi-Tech provided data base application development and computer-related support to the Corporation.

The auditors questioned $36,852 (approximately one percent) of costs claimed under the two contracts. The auditors also found two material weaknesses in Hi-Tech's internal control structure. The first related to the retention of documentation supporting all direct labor, travel and other direct costs billed to the Corporation. The second material weakness related to the adequacy of Hi-Tech's timekeeping procedures – Hi-Tech employees sometimes used correction fluid to alter timesheets, supervisors did not sign all timesheets, and employees and supervisors did not initial all changes to timesheets.

Additional information on questioned costs, as well as compliance and internal control findings, are discussed in detail in this report.

A draft of this report was sent to the Corporation for National and Community Service and to Hi-Tech International, Inc., for comment. In its response to a draft of this audit report, the Corporation stated that it had reviewed the draft but did not have specific comments at this time. The Corporation's response is attached as an appendix to this report. Hi-Tech International, Inc., did not submit a timely response to the report.

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

OFFICE OF INSPECTOR GENERAL
CORPORATION FOR NATIONAL AND COMMUNITY SERVICE
AUDIT REPORT NO. 00-23

AUDIT OF CORPORATION FOR NATIONAL AND COMMUNITY SERVICE CONTRACT NO. CNCS 94-003 AND NO. CNCS 95-002 WITH HI-TECH INTERNATIONAL, INC.

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COTTON & COMPANY LLP

CERTIFIED PUBLIC ACCOUNTANTS

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February 3, 2000

Inspector General
Corporation for National and Community Service

We audited costs claimed by Hi-Tech International, Inc., to the Corporation for National and Community Service under Contract No. CNCS 94-003 and No. CNCS 95-002 for the period September 7, 1994, through January 31, 1999. The Corporation awarded Contract No. CNCS 94-003 for the period September 7, 1994, to August 31, 1998. This is a time-and-materials contract under which Hi-Tech International, Inc., provided conference and meeting support to the Corporation. The Corporation awarded Contract No. CNCS 95-002 for the period February 2, 1995, to January 31, 1999. This is a time-and-materials contract under which Hi-Tech International, Inc., provided data base application development and computer-related support to the Corporation.

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 Hi-Tech International, Inc.'s cost accounting system, contract terms, applicable laws and regulations including the *Federal Acquisition Regulation*, and applicable cost accounting standards; (2) Hi-Tech International, Inc., complied with contract terms and conditions; and (3) Hi-Tech International, Inc.'s accounting system and system of internal accounting control were adequate for purposes of these contracts.

Except as discussed in the following paragraph, 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 contracts, 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.

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Hi-Tech International, Inc., was unable to provide original employee timesheets to support costs billed under the contracts. According to Hi-Tech International, Inc.'s senior accountant, Hi-Tech International, Inc., employees at the Corporation's offices retained original timesheets and sent facsimiles to Hi-Tech International, Inc.'s offices.

Response to Draft Report

The Corporation's response to the draft report is included as an Appendix. In its response, the Corporation stated that it reviewed the draft report and did not have specific comments, but will address the findings and recommendations in the final management decision. Hi-Tech International, Inc. did not respond within the comment period.

RESULTS IN BRIEF

Costs Claimed

We questioned $36,852 of costs billed under the two contracts. Our opinion on the Schedule of Contract Costs is qualified as the result of the questioned costs and the effects, if any, of matters that may have come to our attention had Hi-Tech International, Inc. provided original employee timesheets.

We questioned $36,681 of the $1,752,792 billed under Contract No. CNCS 94-003. As described in the Schedule of Contract Costs, Hi-Tech International, Inc., billed:

- $167 of direct labor for 3.5 hours not supported by employee timesheets.
- $28,675 of travel and other direct costs for which there was no supporting documentation such as receipts, invoices, cancelled checks, or general ledger reports. We also questioned $5,790 of general and administrative (G&A) costs associated with unsupported travel and other direct costs.
- $2,049 of unallowable fee related to travel and other direct costs billed.

We questioned $171 of the $1,627,555 billed under Contract No. CNCS 95-002. As described in the Schedule of Contract Costs, Hi-Tech International, Inc., billed $171 of labor costs at labor rates that did not agree with rates in the contract or contract modifications.

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

Compliance

The results of our tests of compliance disclosed a material instance of noncompliance for which we are recommending corrective action. Hi-Tech International, Inc., claimed direct labor,

other direct costs, general and administrative costs, and fee that were unallowable and unallocable in accordance with contract terms and conditions and the *Federal Acquisition Regulation*.

Internal Control

We noted two matters involving Hi-Tech International, Inc.'s internal control structure and its operations that we consider material weaknesses under standards established by the American Institute of Certified Public Accountants. First, Hi-Tech International, Inc., did not retain documentation supporting direct labor, travel, and other direct costs billed to the Corporation. Hi-Tech International, Inc., did not retain original employee timesheets and did not retain support, such as invoices, receipts, cancelled checks, or its general ledger for travel and other direct costs billed. Second, Hi-Tech International, Inc., 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.

COTTON & COMPANY LLP

By: _____
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February 3, 2000

Inspector General
Corporation for National and Community Service

INDEPENDENT AUDITORS' OPINION

We audited costs claimed by Hi-Tech International, Inc., to the Corporation for National and Community Service under Contract No. CNCS 94-003 for the period September 7, 1994, through August 31, 1998, and Contract No. CNCS 95-002 for the period February 2, 1995, through January 31, 1999. The Corporation awarded Contract No. CNCS 94-003 for the period September 7, 1994, through August 31, 1998, and Contract No. CNCS 95-002 for the period February 2, 1995, to January 31, 1999. Costs claimed are summarized in the Schedule of Contract Costs. Costs claimed summarized in the Schedule are the responsibility of Hi-Tech International, Inc., management. Our responsibility is to express an opinion on costs shown in the Schedule based on our audit.

Except as discussed in the following paragraph, 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.

Hi-Tech International, Inc., was unable to provide original employee timesheets to support costs billed under the contracts. According to Hi-Tech International, Inc.'s senior accountant, Hi-Tech International, Inc., employees at the Corporation's offices retained original timesheets and sent facsimiles to Hi-Tech International, Inc.'s offices.

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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 Hi-Tech International, Inc.'s revenues and expenses.

In our opinion, except for questioned costs in the Schedule and the effects, if any, of matters that may have come to our attention had Hi-Tech International, Inc., provided original employee timesheets, the Schedule of Contract Costs referred to above presents fairly, in all material respects, costs claimed by Hi-Tech International, Inc., for the audit period September 7, 1994, through January 31, 1999, in conformity with the *Federal Acquisition Regulation* and contract terms and conditions.

In accordance with *Government Auditing Standards*, we have also issued reports dated February 3, 2000, on our consideration of Hi-Tech International, Inc.'s internal control structure and on its compliance with laws and regulations.

This report is intended solely for the use of the Office of the Inspector General, the Corporation for National and Community Service, and Hi-Tech International, Inc., management.

COTTON & COMPANY LLP

By: _____
Michael W. Gillespie, CPA

FINANCIAL SCHEDULE

SCHEDULE OF CONTRACT COSTS

Corporation for National and Community Service Contracts With Hi-Tech International, Inc.

Contract No. CNCS 94-003
September 7, 1994, through August 31, 1998

	Claimed Cost	Questioned Costs	Notes
Direct Labor	$ 426,902	$167	1
Travel and Other Direct Costs	1,146,080	28,675	2
General and Administrative	177,761	5,790	3
Fee	2,049	2,049	4
Total Costs	$1,752,792	$36,681	

Contract No. CNCS 95-002
February 2, 1995, through January 31, 1999

	Claimed Costs	Questioned Costs	Note
Direct Labor	$1,627,555	$171	5
Total Costs	$1,627,555	$171	

NOTES TO THE SCHEDULE OF CONTRACT COSTS

1. Hi-Tech International, Inc., billed $167 for 3.5 hours not supported by employee timesheets. FAR 52.232-7, Payments under Time-and-Materials and Labor-Hour Contracts, Section (a), states that the Contractor is to substantiate vouchers by evidence of actual payment and by individual daily job timecards.

   We questioned unallowable costs of $167.

2. Hi-Tech International, Inc., billed other direct expenses that it could not support with invoices, receipts, cancelled checks, or its general ledger. Hi-Tech International, Inc.'s senior accountant stated that they did not know they needed to retain these types of records for audit purposes. The senior accountant also stated that some of the records were lost. We questioned $28,675 as follows:

   - **Task Order 1, Invoice 1.** Invoices and cancelled checks were not available to support $960 of staff lodging costs, and cancelled checks were not available to support $6,122 of equipment rental expenses. Further, Hi-Tech International, Inc., was unable to provide evidence in its general ledger that it had paid any of these claimed costs.

   - **Task Order 3, Invoice 4.** Invoices were not available to support $463 of meeting room and $23 of telephone charges at a hotel.

   - **Task Order 3, Invoice 6.** Invoices and cancelled checks were not available to support $808 claimed for hotel rooms. Further, Hi-Tech International, Inc., was unable to provide evidence in its general ledger that it had paid any of these claimed costs.

   - **Task Order 8, Invoice 2.** Hi-Tech International, Inc., claimed $775 for payments to a consultant. Hi-Tech International, Inc.'s cancelled checks and general ledger supported $725 of payments. We questioned the $50 overbilling.

   - **Task Order 19, Invoice 5.** Invoices were not available to support costs of $10,780 for participant meeting rooms, $1,200 for meeting room rentals, $2,100 for audiovisual rental, and $6,169 for meals.

   Without adequate supporting documentation, we were unable to determine the allowability of costs claimed in accordance with FAR 31.201-2, Determining Allowability. In addition, FAR 52.215-2, Audit and Records—Negotiation, Section (f), Availability, states that the Contractor is to make available at its office at all reasonable

times the records, materials, and other evidence for examination, audit, or reproduction for 3 years after final payment under a contract.

We questioned unsupported costs of $28,675.

3. We questioned $5,790 ($28,675 x 20.19%) of G&A expense allocable to travel and other direct costs questioned in Note 2.

4. Hi-Tech International, Inc., billed fees of $2,049, which was 2.5 percent of other direct costs billed under Task Order 1. FAR 16.601, Time-and-Materials Contracts, states that other direct costs under a time-and-materials contract must be billed at cost, including indirect costs if appropriate. In addition, FAR 16.102, Policies, specifically prohibits cost-plus-percentage-of-cost contracts.

   We questioned the unallowable costs of $2,049.

5. Hi-Tech International, Inc., billed $171 of labor costs at a labor rate that did not agree with rates in the contract or contract modifications. Task Order 4, Modification 2, specifies labor categories and unit prices allowable under the contract. Hi-Tech International, Inc., senior accountant stated that the contracting officer had orally instructed them to bill $29.25 per hour for the File/Scan/Coordinator category even though the contract rate was $29.13.

   We questioned unallowable costs of $171.

INDEPENDENT AUDITORS' REPORTS ON COMPLIANCE AND INTERNAL CONTROL STRUCTURE

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February 3, 2000

Inspector General
Corporation for National and Community Service

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE

We audited costs claimed by Hi-Tech International, Inc., to the Corporation for National and Community Service under Contract No. CNCS 94-003 for the period September 7, 1994, through August 31, 1998, and Contract No. CNCS 95-002 for the period February 2, 1995, through January 31, 1999, and have issued our report thereon dated February 3, 2000. The Corporation awarded Contract No. CNCS 94-003 for the period September 7, 1994, to August 31, 1998, and Contract No. CNCS 95-002 for the period February 2, 1995, to January 31, 1999.

Except for the scope limitation described in our report on page 4, 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 Hi-Tech International, Inc.'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 contracts. Our objective was not, however, to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

The results of our tests of compliance regarding claimed costs disclosed the following material instance of noncompliance that is required to be reported herein under *Government Auditing Standards*. As discussed in the Notes to the Schedule of Contract Costs, Hi-Tech International, Inc., claimed direct labor, other direct costs, G&A, costs and fee that were

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unallowable and unallocable in accordance with contract terms and conditions and the *Federal Acquisition Regulation*.

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

We considered the above material instance of noncompliance in forming our opinion on whether Hi-Tech International, Inc.'s costs claimed under the contracts for the period September 7, 1994, through January 31, 1999, 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, 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 Hi-Tech International, Inc., management.

COTTON & COMPANY LLP

By: _____
Michael W. Gillespie, CPA

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February 3, 2000

Inspector General
Corporation for National and Community Service

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL STRUCTURE

We audited costs claimed by Hi-Tech International, Inc., to the Corporation for National and Community Service under Contract No. CNCS 94-003 for the period September 7, 1994, through August 31, 1998, and Contract No. CNCS 95-002 for the period February 2, 1995, through January 31, 1999, and have issued our report thereon dated February 3, 2000. The Corporation awarded Contract No. CNCS 94-003 for the period September 7, 1994, to August 31, 1998, and Contract No. CNCS 95-002 for the period February 2, 1995, to January 31, 1999.

Except for the scope limitation described in our report on page 4, 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.

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

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In planning and performing our audit, we obtained an understanding of Hi-Tech International, Inc.'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.

We noted two 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. Hi-Tech International, Inc., did not retain documentation supporting all direct labor, travel, and other direct costs billed to the Corporation. Hi-Tech International, Inc., was unable to provide original employee timesheets to support costs billed under the contracts. According to Hi-Tech International, Inc.'s senior accountant, Hi-Tech International, Inc., employees at the Corporation's offices retained original timesheets and sent facsimiles to Hi-Tech International, Inc.'s offices. Hi-Tech International, Inc., also did not retain support, such as invoices, receipts, cancelled checks, or its general ledger for travel and other direct costs billed. Hi-Tech International, Inc.'s senior accountant stated that they did not know they needed to retain these types of records for audit purposes and some of the records were lost. However, FAR 52.215-2, Audit and Records—Negotiation, Section (f), Availability, states that the Contractor is to make available at its office at all reasonable times the records, materials, and other evidence for examination, audit, or reproduction for 3 years after final payment under a contract.

   We recommend that the Corporation direct Hi-Tech to retain all documentation supporting costs billed in accordance with the Federal Acquisition Regulation.

2. Hi-Tech International, Inc., 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 changes to timesheets be marked through and initialed by the employee and supervisor.

   We recommend that the Corporation direct Hi-Tech International, Inc., to require supervisors and employees to sign all timesheets, initial all timesheet corrections, and prohibit the use of correction fluid.

We believe 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 Hi-Tech International, Inc., management.

COTTON & COMPANY LLP

By: _____
Michael W. Gillespie, CPA

CORPORATION
FOR NATIONAL
SERVICE

MEMORANDUM

DATE: 5/31/00

TO: Luise Jordan, OIG

FROM: Anthony Musick, CFO

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

RE: OIG Report No. 00-23; Audit of Corporation for National and Community Service Contract No. CNCS 94-003 and No. CNCS 95-002 with Hi-Tech International, Inc.

The subject draft report cites conditions and deficiencies pertaining to the performance of Hi-Tech International, Inc. under Contract No. CNCS 94-003 and No. CNCS 95-002. 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.

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APPENDIX

THE CORPORATION'S RESPONSE

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

CORPORATION
FOR NATIONAL
SERVICE

June 15, 2000

William C. Cleveland
President
Hi-Tech International, Inc.
4501 Ford Avenue
Suite 310
Alexandria, Virginia 22302

Dear Mr. Cleveland:

Enclosed is the final report on the results of our audit of the Corporation for National and Community Service Contract No. CNCS 94-003 and No. CNCS 95-002 with Hi-Tech International, Inc. If you have questions concerning the audit resolution process, please contact Anthony Musick, Chief Financial Officer, at (202) 606-5000, extension 130. If you have questions concerning the report itself, please contact me at (202) 606-5000, extension 426.

Sincerely,

Dean A. Reuter
Deputy Inspector General for
Audit and Policy

Enclosure

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

CORPORATION
FOR NATIONAL
SERVICE

MEMORANDUM

DATE: June 15, 2000

TO: Harris Wofford
Chief Executive Officer

Wendy Zenker
Chief Operating Officer

FROM: Dean Reuter
Deputy Inspector General for Audit and Policy

SUBJECT: OIG Report 00-23; *Audit of Corporation for National and Community Service Contract No. CNCS 94-003 and No. CNCS 95-002 With Hi-Tech International, Inc.*

Attached is the final report on our audit of the above noted Corporation contracts with Hi-Tech International, Inc. Under the Corporation's audit resolution policy, final management decisions on the recommendations in this report are due by December 12, 2000. If you have any questions or wish to discuss the draft, please contact me on extension 426.

Attachments

c: Anthony Musick
Simon Woodard