



July 24, 2017

TO: Robert McCarty  
Chief Financial Officer

FROM: Stuart Axenfeld /s/  
Assistant Inspector General for Audit

SUBJECT: Management Alert: CNCS Continues to Pay Invoices Without Adequate Oversight of Labor Charges, in Violation of Federal Acquisition Regulations and CNCS's Response to Audit Report No. 14-09.

### **Background**

Agencies are required per the Federal Acquisition Regulation (FAR) to scrutinize and validate labor charges by contractors and subcontractors, which reduces the risk of fraud, waste and improper expenditures. These safeguards are especially important for time-and-materials (T&M) contracts, because the contractor may have a financial incentive to charge excessive labor. To control the government's costs and to prevent contractors from overbilling, agencies must obtain documentation from its contractors or subcontractors to support the hours billed. This includes evidence of actual payment to employees and individual daily time-keeping records as required by FAR 16.601(b)(1) *Time and Materials Contracts*.

An audit report issued June 20, 2014, Audit Report No. 14-09, *Audit of Blanket Purchase Agreements for Professional Consulting Services*, found that CNCS was not complying with these and other requirements applicable to procurements. This is not a new issue; CNCS-OIG reported a similar finding in Audit Report No. 06-40, *Audit of Corporation for National and Community Service Office of Procurement Services*, issued in June 2006. CNCS agreed in 2014 to require that all contractors provide approved timesheets to support labor charges. More broadly, CNCS promised to scrutinize labor charges appropriately and to institute a variety of corrective actions, including requiring Contracting Officers to conduct a second-level review of documentation submitted prior to approving payment.

### **Observations:**

#### **1. CNCS is not validating labor charges as required and as promised.**

In its response to Audit Report 14-09, CNCS represented that it "now requires all contractors to submit detailed timesheets to validate labor charges on invoices and directs Contracting Officers to conduct a second-level review of documentation submitted prior to approving payment." See Appendix A to Audit Report 14-09.

A random selection of invoices from three reimbursable contracts, listed below, found no timesheets to substantiate the labor for which CNCS paid.

Invoice Number	Contractor	Contract Number	Amount
034634	ICF Invoice	CNSHQ16F0045	\$39,885
1089288	GMMB	CNS15A0010-0006	\$55,494
160247R	DESA, Inc.	CNS13A0001	\$121,609
160224			\$14,135
150249			\$31,152

None of the three Contracting Officers' Representatives (CORs) we interviewed understood their responsibility to obtain and review timesheets before approving payment of labor charges. None was aware of the FAR requirements, the CNCS-OIG Audit Report, or CNCS's agreement that CORs must obtain approved timesheets to validate labor charges. Instead, the CORs believed that they were merely to review the general reasonableness of the invoices and that their primary role was to ensure the receipt of deliverables.

We also found no evidence that the responsible Contracting Officers provided the promised second-level documentation review.

In the course of our review, we discovered that one of the three CORs did not obtain documentation to verify the "Other Direct Costs" (ODCs) for which CNCS paid. For example, the COR did not verify a \$38,000 charge for a conference lunch and did not obtain receipts for travel costs. The COR deemed the cost "reasonable" per an unstated standard and relied on the contractor's representation regarding the actual expense, instead of obtaining supporting documentation to validate the costs.

## **2. The CORs were not properly trained to oversee labor charges.**

As part of our COR interviews, we requested copies of any guidance that they had received for approving invoices. The most recent guidance provided — "*Federal Acquisition Certification for Contracting Officers' Representative (FAC-COR) Program Handbook*", dated January 2016 — focused primarily on obtaining and maintaining a COR certification. The CORs also mentioned the Office of Procurement Services' (OPS) monthly optional COR meetings. None of the three CORs recalled any training related to verifying labor charges on invoices.

While we are pleased that CNCS immediately scheduled a training session after being informed of our findings at the exit conference, CNCS is responsible for ensuring that staff understand and fulfill their critical oversight responsibilities. CNCS should have checked to ensure that proper scrutiny was taking place and provided periodic training on this subject, without CNCS-OIG's prompting. Given the strong promises and assurances that CNCS gave regarding reform of contract oversight, we were disappointed in the results of this follow-up.

## **3. Failure to substantiate labor charges exposes CNCS to waste and/or fraud.**

The FAR requires a Federal agency to ensure that it pays only actual costs on its reimbursable contracts. Without requiring and reviewing supporting documentation of those costs, CNCS may unknowingly pay excessive charges. It is concerning that CORs do not understand the professional skepticism that they are expected to bring to their jobs.

## Recommendations

Based on the information shared above, we recommend that the Corporation:

- 1) Require the OPS to inform all CORs of the need to obtain certified contractor timesheets to support labor and receipts for Other Direct Charges (ODCs) charged to CNCS on reimbursable invoices.
- 2) Incorporate this requirement into the OPS' COR Handbook and the COR Appointment letter.
- 3) Require the OPS to conduct a mandatory training session for all CORs to emphasize the responsibility of a COR to provide detailed oversight of all charges and contract requirements. This must include the requirement to obtain sufficient evidence (*i.e.* approved timesheets, hotel receipts, etc....) to support labor and ODC charges invoiced.
- 4) Retrain all Contracting Officers concerning their obligation to scrutinize the supporting documentation of contract expenses.
- 5) Require the OPS to develop a written procedure that requires it to
  - i. Perform periodic testing of reimbursable invoices; and
  - ii. Remove the COR responsibilities from those who do not comply with the written policy.
- 6) Review Audit Report 14-09 and CNCS's response thereto, determine whether CNCS is fulfilling the other commitments that it undertook, and advise CNCS-OIG of any other corrective actions being taken.

Please provide us your response to this Management Alert as soon as possible, but not later than August 19, 2017. If you have any questions about this Management Alert, please contact James Schneck, Audit Manager, at (202) 606-9357 or [j.schneck@cncsoig.gov](mailto:j.schneck@cncsoig.gov); or me at (202) 606-9360 or [s.axenfeld@cncsoig.gov](mailto:s.axenfeld@cncsoig.gov).

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