

PD AAP 467

(AN = 3533)

**MANRING CORPORATION**

**Maize and Oilseed Production Project in Burma**

**Contract No. ASB-0005-C-00-2045**

**A.R. No. 84-31**

**July 18, 1984**

**Review of AID**

**Contract No. ASB-0005-C-00-2045**

**MANRING CORPORATION**

**Maize and Oilseed Production Project in Burma**

**EXECUTIVE SUMMARY**

The Manring Corporation is a small business devoted to procurement of supplies and equipment on behalf of organizations, private companies, and Government agencies. Manring Corporation was incorporated in 1971 under the laws of the State of Washington.

In 1982, the AID representative to Burma requested the Office of Contract Management (SER/CM) to negotiate and execute a contract for the services of an agent to procure commodities for the AID financed Maize and Oilseed Production Project in Burma. Contract No. ASB-0005-C-00-2045 was subsequently awarded to the Manring Corporation.

The objective of our review was to determine allowability of costs claimed and reimbursed during the period August 5, 1982 through December 31, 1983, and to examine the overhead proposals for Calendar Years 1982 and 1983.

During the period August 5, 1982 through December 31, 1983, Manring Corporation was reimbursed \$130,135 for services rendered under Contract No. ASB-0005-C-00-2045. As a result of our audit, we recommended acceptance of \$147,932. The difference of \$17,797 represented additional costs due the contractor. (p. 2)

We also examined indirect costs for Calendar Years 1982 and 1983. We recommended overhead rates of 122.8 percent and 74.4 percent for Calendar Years 1982 and 1983, respectively. The Calendar Year 1982 overhead rate was abnormally high because the AID funded contract did not start until August 5 and the contractor was not fully staffed. (p. 2)

## **Review of AID**

**Contract No. ASB-0005-C-00-2045**

### **MANRING CORPORATION**

#### **Maize and Oilseed Production Project in Burma**

#### **Background**

The Manring Corporation is a small business devoted to procurement of supplies and equipment on behalf of organizations, private companies, and Government agencies. Manring Corporation was incorporated in 1971 under the laws of the State of Washington.

In 1982, the AID representative to Burma requested the Office of Contract Management (SER/CM) to negotiate and execute a contract for the services of an agent to procure commodities for the Aid financed Maize and Oilseed Production Project in Burma. Subsequently, Contract No. ASB-0005-C-00-2045 was awarded to Manring Corporation for the following services:

- Refining requirements for commodities and commodity-related services.
- Review and edit commodity specifications.
- Prepare all Invitations for Bids.
- Evaluate all bids.
- Issue all purchase orders.
- Arrange for shipping and transportation of purchased commodities.

#### **Objective, Scope and Methodology**

The objective of our review was (1) to determine allowability of costs claimed and reimbursed during the period August 5, 1982 through December 31, 1983, and (2) to examine the overhead proposals for Calendar Years 1982 and 1983. Our examination was performed during May 1984 and included selective tests of the accounting records and supporting documents which we considered necessary in the circumstances. The cost principles contained in FPR 1-15.2 and the contract were used as criteria in our determination of acceptable costs. The review was made in accordance with the Comptroller General's Standards for Audit of Government Organizations, Programs, Activities and Functions.

The audit was conducted at the request of the USAID/Bangkok Regional Contracting Officer.

### FINDINGS AND RECOMMENDATIONS

During the period August 5, 1982 through December 31, 1983, Manring Corporation had been reimbursed \$130,135 for services rendered under Contract No. ASB-0005-C-00-2045. As a result of our audit, we recommended acceptance of \$147,932. The difference of \$17,797 represents additional costs due the contractor. The audit adjustments are summarized below, and shown in detail in Exhibit A:

Questioned Costs	\$ 3,026
Additional Overhead Due Contractor	<u>(20,823)</u>
Net Amount Due Contractor	<u>(\$17,797)</u>

#### Recommendation No. 1

The Regional Contracting Officer (USAID/Bangkok) should ensure settlement of the \$17,797 due the contractor.

#### Overhead Rates

We examined indirect costs for Calendar Years 1982 and 1983. During the examination we questioned unallowable indirect expenses and adjusted the direct labor base. Detailed information on how rates were computed and why we adjusted Manring's proposed rates are presented in Exhibit B and C. Proposed and recommended indirect rates are as follows:

<u>Calendar Year</u>	<u>Contractor's Proposed Rate</u>	<u>Audit Recommended Rate</u>
1982	156.4%	122.8%
1983	88.7%	74.4%

In Calendar Year 1982 the AID funded contract did not start until August 5, 1982 which created a lower direct labor base and caused a substantial increase in the overhead rate. In Calendar Year 1983, the overhead rate decreased approximately 49 points because of the increased direct labor base. Because of abnormal conditions, the Contracting Officer should attempt to negotiate a lower overhead for Calendar Year 1982.

#### Recommendation No. 2

The Regional Contracting Officer (USAID/Bangkok) should negotiate final overhead rates for Calendar Years 1982 and 1983.

**MANRING CORPORATION**

**Contract No. ASB-0005-C-00-2045**

**Costs Claimed and Audit Adjustments for  
Period August 5, 1982 through December 31, 1983**

	<u>Costs Claimed</u>	<u>Audit Adjustment</u>	<u>Costs Accepted</u>
Salaries and Wages	\$ 70,014	\$ 5,120 1/	\$ 64,894
Fringe Benefits	9,045	439 2/	8,606
Travel and Transportation	9,614	-	9,614
Telephone and Telegraph	-	(2,533) 3/	2,533
Overhead and G&A	<u>33,007</u>	<u>(20,823) 4/</u>	<u>53,830</u>
 Total Costs	 \$121,680	 \$(17,797)	 \$139,477
 Fixed Fee	 <u>8,455</u>	 <u>-</u>	 <u>8,455</u>
 Total Costs and Fee	 <u>\$130,135</u>	 <u>\$(17,797)</u>	 <u>\$147,932</u>

**Explanatory Notes**

- 1/ Represents deferred officer's salaries which were never accrued and reflected in the Corporation's financial statements. As of the date of our audit, the deferred salaries had not been paid. Therefore, in accordance with FPR 1-15.205-6, the salaries are not allowable.
- 2/ Represents 1982 fringe benefit expenses erroneously allocated to the AID financed project.
- 3/ Represents long distance telephone calls applicable to the AID financed project which were never billed.

**MANRING CORPORATION**

**Contract No. ASB-0005-C-00-2045**

**Costs Claimed and Audit Adjustments for**  
**Period August 5, 1982 through December 31, 1983**

**Explanatory Notes (Continued)**

**4/ Overhead expenses are adjusted  
as follows:**

<b>Overhead Expenses Claimed:</b>			<b>\$ 33,007</b>
<b>Overhead Expenses Accepted:</b>			
<b>Direct Salaries - CY 1982</b>	<b>\$16,583</b>		
<b>Less: Audit Adjustments</b>	<b><u>5,120</u></b>		
<b>Direct Salaries Accepted</b>	<b>\$11,463</b>		
<b>Audited Overhead Rate (Exhibit B)</b>	<b><u>X 122.8%</u></b>	<b>\$ 14,077</b>	
<b>Direct Salaries - CY 1983</b>	<b>\$53,431</b>		
<b>Audited Overhead Rate</b>	<b><u>X 74.4%</u></b>	<b><u>39,753</u></b>	<b><u>53,830</u></b>
<b>(Exhibit C)</b>			
<b>Additional Overhead Due</b>			
<b>Contractor</b>			<b><u>\$(20,823)</u></b>

MANRING CORPORATION

Proposed and Recommended Overhead Rates for  
Calendar Year 1982

<u>Indirect Costs</u>	<u>Costs Proposed</u>	<u>Audit Adjustments</u>	<u>Costs Accepted</u>
Indirect Salaries	\$29,540	\$24,254 1/	\$ 5,286
Fringe Benefits	3,258	2,676 2/	582
Advertising	543	446 3/	97
PO Box/Rent	-	(45) 4/	45
Office	3,337	444 5/	2,893
Telephone and Telex	7,033	1,736 6/	5,297
Postage	1,807	-	1,807
Travel	5,197	3,405 7/	1,792
Dues & Subscription	976	-	976
Maintenance & Repair	672	(231) 5/	903
Meetings	535	-	535
Professional Fees	2,707	(405) 5/	3,112
Rent	5,643	45 4/	5,598
Depreciation	-	(2,664) 8/	2,664
Petty Cash	806	806 9/	-
Financial Charges	54	54 10/	-
Moving Expenses	882	-	882
Mileage	2,238	-	2,238
Insurance	902	-	902
Business Taxes	-	(209) 11/	209
Interest	108	108 10/	-
<b>Total Indirect Cost</b>	<b><u>\$66,238</u></b>	<b><u>\$30,420</u></b>	<b><u>\$35,818</u></b>
<b>Direct Labor</b>	<b><u>\$42,354</u></b>	<b><u>\$13,177</u></b>	<b><u>\$29,177</u></b>
<b>Indirect Rate</b>	<b><u>156.4%</u></b>		<b><u>122.8%</u></b>

Explanatory Notes:

- 1/ Represents deferred officer's salaries which were never accrued and reflected in the Corporation's financial statements. As of the date of our audit, the deferred salaries had not been paid. Therefore, in accordance with FPR 1-15.205-6, the salaries are not allowable.
- 2/ Represents adjustment of fringe benefits from proposed cost to cost actually incurred.

MANRING CORPORATION

Overhead Proposal for Year Ending December 31, 1982

Explanatory Notes (Continued)

- 3/ Advertising costs not related to recruiting employees is unallowable (FPR 1-15.205-11).
- 4/ Rental of post office box was reclassified from rent of office facilities.
- 5/ Office expense was adjusted to correspond with the balance reflected in the company's financial statements as of December 31, 1982.
- 6/ We reclassified long distance telephone costs from overhead to direct cost because they are applicable to specific contracts.
- 7/ Travel expenses are adjusted as follows:
- |  |                |
|--|----------------|
| (a) Expenses applicable to specific contracts were reclassified to direct costs. | \$2,105        |
| (b) Travel advances not accounted for by an expense report.                      | <u>1,300</u>   |
| Audit Adjustment   | <u>\$3,405</u> |
- 8/ Depreciation was erroneously omitted from the contractor's overhead proposal.
- 9/ Petty cash expenditures did not identify the specific expense; therefore, it was not accepted.
- 10/ Interest and financial charges are unallowable (FPR 1-15.205.17).
- 11/ Business taxes erroneously omitted from the contractor's proposal.

## MANRING CORPORATION

Proposed and Recommended Overhead Rates  
for Calendar Year 1983

<u>Indirect Costs</u>	<u>Costs Proposed</u>	<u>Audit Adjustments</u>	<u>Costs Accepted</u>
Travel & Transportation	\$ 4,357	\$ -	\$ 4,357
Telephone & Telex	10,682	3,968 1/	6,714
Office Supplies & Postage	9,093	-	9,093
Rent	7,184	-	7,184
Professional Fees	5,357	-	5,357
Bank Charges	3,853	3,853 2/	-
Selling Expenses	2,197	2,197 3/	-
Depreciation	2,991	-	2,991
Insurance	2,447	-	2,447
Dues & Subscription	2,152	-	2,152
Repair & Maintenance	1,947	-	1,947
Meetings & Seminars	507	-	507
Indirect Salaries	18,363	1,467 4/	16,896
Fringe Benefits	2,020	161 4/	1,859
Miscellaneous	-	(79) 5/	79
Business Taxes	-	(60) 5/	60
<b>Total Indirect Costs</b>	<b><u>\$ 73,150</u></b>	<b><u>\$ 11,507</u></b>	<b><u>\$ 61,643</u></b>
<b>Direct Labor</b>	<b><u>\$ 82,505</u></b>	<b><u>\$ (308) 5/</u></b>	<b><u>\$ 82,813</u></b>
<b>Indirect Rate</b>	<b><u>88.7%</u></b>		<b><u>74.4%</u></b>

Explanatory Notes:

- 1/ We reclassified long distance telephone costs from overhead to direct costs because they are applicable to specific contracts.
- 2/ Finance charges are unallowable in accordance with FPR 1-15.205-17.
- 3/ Selling expenses are unallowable (FPR 1-15.205-37) because they are not attributable to the AID contract.
- 4/ Represents adjustment of indirect salaries and fringe benefits from proposed costs to costs actually incurred and reflected in the contractor's financial records.
- 5/ Represents allowable costs erroneously omitted from the Contractor's proposal.

**MANRING CORPORATION**

**List of Report Recipients**

Associate Assistant to the Administrator for Management Services, M/AAA/SER	1
Assistant Administrator, Bureau for Asia, AA/Asia	1
Audit Liaison Office, M/AAA/SER	1
Office of Philippines, Thailand and Burma Affairs, ASIA/PTB	1
Audit Liaison Office, AA/ASIA	5
USAID/Thailand	5
Director, Office Contract Management, M/SER/CM	1
Office of Contract Management, SER/CM/ROD/ASIA	1
Office of Program and Policy Coordination, PPC/E/DIU	2
Office of Financial Management, M/FM/ASD	2
Office of General Counsel, GC	1
Bureau of External Affairs, XA	2
Office of Legislative Affairs, LEG	1
Office of Inspector General, IG	1
AIG/A	1
IG/PPP	1
IG/II	1
IG/EMS/C&R	16