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Contract Audit of
KEENE, MONK AND ASSOCIATES, INC. (KMAI)

Contract No.
AID/LAC-0622-C-00-2043-00

Audit Report No. 64-18
January 20, 1984

KEENE, MONK AND ASSOCIATES, INC. (KMAI)
CONTRACT NO. AID/LAC-0622-C-00-2043-00

Organizational Background

Keene, Monk and Associates, Inc. (KMAI) was incorporated on January 2, 1981, under the laws of the Commonwealth of Virginia. KMAI provides consulting services in national and international trade, business and politics.

On August 31, 1983, AID awarded a \$506,513 cost-plus fixed-fee contract to KMAI to initiate the International Executive Development Program (IEDP). The purpose of the IEDP is to help mid and top level executives manage their businesses more effectively by drawing upon technical and managerial resources available in the U.S.

The objectives of the contract were:

- (a) To contribute to the improved managerial performance of private decision-makers and public policy managers in sectors that have the highest priority for the economic development of their country;
- (b) To train Less Developed Country (LDC) government officials responsible for increasing the role of private sector enterprise in their countries; and
- (c) To develop working relationships between LDC enterprises and U.S. enterprises operating in the same or similar industrial, agribusiness, or service sector.

During the period of this contract, the contractor trained a total of 49 Jamaicans and Costa Ricans from both the government and the private sectors. The cost of training the participants was \$194,963. Other direct costs incurred under the contract are shown in Exhibit A of this report.

Purpose and Scope

At the request of the Office of Contract Management, we performed a review of KMAI's accounting system and costs incurred under contract No. AID/LAC-0622-C-00-2043-00.

The purpose of our review was to determine: the allocability and allowability of costs claimed under Contract No. AID/LAC-0622-C-00-2043-00; the adequacy of KMAI's accounting system; and their financial capability of performing under future contracts.

We performed our work on this audit during December 1983.

FINDINGS AND RECOMMENDATIONS

Contract Costs

During the period August 31, 1982 through August 31, 1983, KMAI claimed and was reimbursed \$485,000 for costs and fixed fee. As a result of our review, we recommend acceptance of \$484,619 (see Exhibit A). The balance of \$381 represents questioned costs.

Recommendation No. 1

The Office of Contract Management (CM/ROD/LAC) should take appropriate action to ensure settlement of questioned costs totaling \$381.

Indirect Costs Rate

Under the terms and conditions of contract No. AID/LAC-0622-C-00-2043-00, all allocations were reimbursable as direct costs. We were informed that KMAI may be competing for future cost-plus-fixed-fee contracts which will include an indirect cost allocation. Therefore, for future comparative purposes, we calculated an overhead rate for the eleven month period ended November 30, 1983. Based on our review, we calculated an overhead rate of 42.04 percent applied to a total direct cost base (see Exhibit B).

Accounting System

On October 6, 1982, we issued Audit Report No. O-000-33-01 covering a preaward review conducted at KMAI prior to awarding contract No. AID/LAC-0622-C-00-2043-00. In that report we noted KMAI's accounting system was not acceptable for accumulating, segregating and recording costs under U.S. Government contracts.

KMAI subsequently modified their accounting system and now has a system which properly accumulates, segregates and records costs.

Financial Viability

Audit Report No. O-000-33-01, also reported that KMAI had been operating at a loss through June 30, 1982. However, for the eleven month period ended November 30, 1983, KMAI earned a net profit of \$60,686. In addition, it obtained a line of credit totaling \$50,000. The financial viability of the firm has thus materially improved since our last audit.

EXHIBIT A

KEENE, MONK AND ASSOCIATES, INC.
Contract No. AID/LAC-0622-C-00-2043-00

Summary of Costs Claimed and Accepted for the
Period August 31, 1982 through August 30, 1983

| | <u>COST CLAIMED</u> | <u>AUDIT ADJUSTEMENTS</u> | <u>COST ACCEPTED</u> |
|---------------------------|-------------------------|-------------------------------|--------------------------|
| Salaries and Wages | \$ 84,645 | | \$ 84,645 |
| Fringe Benefits | 11,927 | | 11,927 |
| Subcontract | 68,980 | | 68,980 |
| Office Rent | 17,136 | | 17,136 |
| Accounting | 2,042 | | 2,042 |
| Supplies | 4,469 | | 4,469 |
| Communications | 18,263 | | 18,263 |
| Workshop | 1,036 | | 1,036 |
| Travel | 19,645 | | 19,645 |
| Participant Costs | 195,344 | 381 <u>1/</u> | 194,963 |
| Other Direct Costs | <u>15,466</u> | | <u>15,466</u> |
| TOTAL COSTS | \$438,953 | \$ 381 | \$438,572 |
| FIXED FEE | <u>46,047</u> | | <u>46,047</u> |
| TOTAL COSTS AND FIXED FEE | <u>\$485,000</u> | <u>\$ 381</u> | <u>\$484,619</u> |

Explanatory Note:

1/ Represents the cost of meals at the U.S. Senate Restaurant for some Costa Rican participants. During their training in the United States participants are paid a per diem for meals and subsistence, therefore, the payment to the U.S. Senate Restaurant is questioned because it represents a duplicate payment.

KEENE, MONK AND ASSOCIATES, INC.
 Valuation of Overhead Rate
 Eleven Months Ended November 30, 1983

| <u>INDIRECT EXPENSE POOL</u> | <u>COST PER KMAI's RECORDS</u> | <u>COSTS QUESTIONED</u> | <u>COSTS ACCEPTED</u> |
|------------------------------|--|-----------------------------|---------------------------|
| Salaries | \$ 42,940 | | \$ 42,940 |
| Temporary Help | 1,434 | | 1,434 |
| Professional Fees | 33,915 | | 33,915 |
| Dues and Subscriptions | 802 | | 802 |
| Taxes | 1,137 | | 1,137 |
| Insurance | 3,437 | | 3,437 |
| Rent | 42,180 | | 42,180 |
| Office Supplies | 6,675 | | 6,675 |
| Janitorial Services | 1,470 | | 1,470 |
| Travel | 22,153 | | 22,153 |
| Telephone | 10,004 | | 10,004 |
| Courier and Delivery | 2,635 | | 2,635 |
| Interest | 12,449 | 12,449 | 1/ |
| Furniture Rental | 3,985 | | 3,985 |
| Utilities | 3,268 | | 3,268 |
| Bank Charges | 19 | | 19 |
| Equipment Rental | 5,159 | | 5,159 |
| Repairs & Maintenance | 3,669 | | 3,669 |
| Donations & Contributions | 110 | 110 | 2/ |
| Depreciation | 8,689 | | 8,689 |
| Penalties | 272 | 272 | 3/ |
| TOTAL EXPENSES (A) | <u>\$206,402</u> | <u>\$ 12,831</u> | <u>\$193,571</u> |
| TOTAL DIRECT COSTS (B) | <u>\$460,417</u> | <u>\$ 460,417</u> | <u>\$460,417</u> |
| INDIRECT EXPENSE RATES (A-B) | <u>44.83%</u> | <u>2.79%</u> | <u>42.04%</u> |

- 1/ Federal Procurement Regulations, Chapter 1-15.205-17 states that "Interest on borrowings (however represented)...are unallowable". Therefore, interest expenses incurred by KMAI are disallowed.
- 2/ Federal Procurement Regulations, Chapter 1-15-205-3 states that "Contributions and donations are unallowable".
- 3/ Federal Procurement Regulations, Chapter 1-15.205-13 states that "Costs of fines and penalties resulting from violations of, or failure of the contractor to comply with, Federal, State, and local laws and regulations are unallowable except when incurred as a result of compliance with specific provisions of the contract, or instructions in writing for the contracting officer". Penalties incurred by KMAI are not specifically authorized, therefore, they are unallowable.

KEENE, MONK AND ASSOCIATES, INC.
List of Report Recipients

| | |
|--|----|
| Associate Assistant to the Administrator for Management Services, M/AAA/SER | 1 |
| Audit Liaison Office, M/AAA/SER | 1 |
| Senior Assistant Administrator, Bureau for Science & Technology, SAA/S&T | 2 |
| Directorate for Human Resources, S&T/HR | 1 |
| Office of Education, S&T/ED | 1 |
| Audit Liaison Office, S&T/PO | 1 |
| Office of Financial Management, M/FM/ASD | 2 |
| Director, Office of Contract Management, M/SER/CM | 1 |
| Office of Contract Management, M/SER/CM/ROD/LAC | 1 |
| Office of Contract Management, M/SER/CM/SOD/PDC | 1 |
| Office of Contract Management, M/SER/CM/SOD/OSC | 1 |
| Office of Contract Management, M/SER/CM/SD/SUP | 1 |
| Office of the Inspector General, IG | 1 |
| DCAA, Landover, MD. | 1 |
| IG/II | 1 |
| IG/PPP | 1 |
| IG/EMS/C&R | 16 |