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CHICAGO ASSOCIATION OF COMMERCE AND INDUSTRY
Cooperative Agreement No. LAC-0619-A-00-2058-00

Audit Report No. 84-24

April 24, 1984

CHICAGO ASSOCIATION OF COMMERCE AND INDUSTRY
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Background Information

Chicago Association of Commerce and Industry (CACI) was organized more than 75 years ago and is the largest metropolitan chamber of commerce in the United States. It is made up of nearly 6,000 companies and other organizations which are active in promoting the commercial and industrial growth of metropolitan Chicago.

AID Cooperative Agreement No. LAC-0619-A-00-2058-00 had an effective date of September 29, 1982 and an estimated completion date of March 31, 1984. It was the first contract between AID and CACI. The estimated amount of the contract is \$749,464. The purpose of the contract was to provide financial assistance for a program to demonstrate workable ways of linking specific Chicago-area private businesses with opportunities in specific Caribbean Basin Nations. Presently, the program is in operation in the Dominican Republic and Costa Rica.

Objective, Scope and Methodology

The objective of our review was to determine (1) the reasonableness, allocability and allowability of costs claimed during the period September 29, 1982 through December 31, 1983, and (2) to examine the overhead proposals for calendar years 1982 and 1983. Our examination was performed during February, 1984 in CACI and AID offices. We did selective tests of the accounting records and supporting documents which we considered necessary in the circumstances but we did not verify accomplishments reported by the contractor. The cost principles contained in FPR 1-15.6 and the contract were used as criteria in our determination of acceptable costs. This examination was conducted in accordance with generally accepted audit standards and included such tests deemed necessary in the circumstances.

The findings in this report were discussed with CACI and AID officials who concurred with our findings.

FINDINGS AND RECOMMENDATIONS

Costs

The contractor claimed costs totalling \$520,115 (see Exhibit A. attached). As a result of our audit, we recommend acceptance of \$531,749. The difference (\$11,634) represents additional costs due the contractor. This resulted primarily from the contractor's claim of fringe benefits and overhead costs at less than the incurred rates for Calendar Years 1982 and 1983.

Recommendation No. 1

The Office of Contract Management (CM/ROD/LAC) should ensure settlement of the \$11,634 due the contractor.

Overhead and Fringe Benefits Rates

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

<u>Overhead:</u>	<u>Calendar Year</u>	<u>Proposed</u>	<u>Recommended</u>
	1982	46.37%	44.58%
	1983	46.15%	46.96%
<u>Fringe Benefits:</u>			
	1982	28.32%	28.32%
	1983	26.85%	26.85%

Recommendation No. 2

The Office of Contract Management (CM/ROD/LAC) should negotiate overhead and fringe benefit rates for Calendar Years 1982 and 1983.

Contractor's Performance under the Contract

The specific objectives of the contract were:

1. To investigate the needs of the Dominican Republic and Costa Rica and determine linkages between Chicago and these countries.
2. To disperse information about specific Costa Rican and Dominican opportunities to Chicago business persons and vice versa.
3. To broker specific contacts and link needs of Caribbean Basin and Chicago business persons through import/export and investment specialists.
4. To develop information about the most promising and appropriate means of linking U.S. and Caribbean Basin business executives for the purpose of trade and investment.

CACI reported the following contract accomplishments:

Possible Investments

<u>Description</u>	<u>Amount</u>	<u>No. of Jobs Created</u>
Major International Hotel chain - 250 Rooms Contract signed	\$15,000,000	200
Metal Fabricator (wire-fence mfg.) - Finan- cing and insurance rejected by OPIC	5,000,000	50
Furniture Manufacturing - Feasibility study completed	300,000	150-250
Parochical School Uniform Plant - Fully operational	300,000	140
Metal Fabricator/Marine & Aviation Industry - Feasibility study completed	<u>400,000</u>	100
Total	<u>\$21,000,000</u>	

Caribbean Export Sales Activity

Apparel	\$5,600,000	59
Fruit and Vegetables	60,000	7
Cigars	55,000	5
Rattan Furniture	25,000	3
Rum	10,000	3
Total	<u>\$5,750,000</u>	<u>77</u>

Our review did not include an evaluation of the CACI's actual performance, therefore we cannot express an opinion on the validity of these accomplishments.

CHICAGO ASSOCIATION OF COMMERCE AND INDUSTRY

Summary of Costs Claimed, Questioned and Accepted for
the Period from September 29, 1982 through December 31, 1983

	Claimed by Contractor	Auditor Questioned	Accepted
Salaries	\$139,037	\$ 134 1/	\$138,903
Fringe Benefits @ 25.8%	35,871	(1,620) 2/	37,491
Travel	22,496		22,496
Allowances	22,766		22,766
Other Direct Costs	79,588		79,588
Subtotal (overhead base)	\$299,758	\$ (1,486)	\$301,244
Overhead @ 44%	130,736	(10,148) 3/	140,884
Consultants	28,260		28,260
Subcontract	61,361	--	61,361
Total	\$520,115	\$(11,634)	\$531,749

Explanatory Notes:

1/ Represents labor cost claimed in excess of incurred labor cost by J. Coulter during June 1983 as follows:

	1983	Total
(a) Labor cost claimed		\$ 278
(b) Employee's hourly rate	\$ 20.50	
(c) Number of hours worked	x7	
(d) Total labor cost accepted		144
(e) Total labor cost questioned		\$ 134

2/ This amount represents fringe benefits due the contractor and computed, thus:

	1982	1983	Total
(a) Total fringe benefits claimed	\$ 3,441	\$ 32,430	\$ 35,871
(b) Total salaries accepted	\$13,338	\$125,565	
(c) Recorded fringe benefits rates	x28.32%	x26.85%	
(d) Total fringe benefits accepted	\$ 3,777	\$ 33,714	37,491
(e) Fringe benefits questioned			\$ (1,620)

3/ The overhead cost questioned is computed as follows:

	1982	1983	Total
(a) Total overhead costs claimed	\$10,580	\$120,156	\$130,736
(b) Total direct costs accepted	\$24,381	276,863	
(c) Recommended overhead rates	x44.58%	x46.96%	
(d) Overhead costs accepted	\$10,869	\$130,015	140,884
(e) Overhead costs questioned			\$ (10,148)

CHICAGO ASSOCIATION OF COMMERCE AND INDUSTRY

Summary of Overhead and Fringe Benefit Rates
for the Period

January 1, 1983 through December 31, 1983

	Calendar Year 1982			Calendar Year 1983		
	Per Contractor	Per Auditor Questioned	Per Auditor Accepted	Per Contractor	Per Auditor Questioned	Per Auditor Accepted
<u>Indirect Expenses-By Division:</u>						
Accounting	\$ 217,847	\$ 4,479 1/	\$ 213,368	\$ 250,392	\$ 10,444 1/	\$ 239,948
Operations	410,361	1,032 2/	409,329	480,106	1,276 3/	478,830
Mailroom	104,833		104,833	111,819		111,819
General Administration	406,606	28,479 4/	378,127	334,262	9,160 5/	325,102
Total Indirect Expenses (A)	\$1,139,647	\$33,990	\$1,105,657	\$1,176,579	\$ 20,880	\$1,155,699
<u>Direct Costs Base-By Division:</u>						
Gift Shop	\$ 136,474	\$	\$ 136,474	135,010	\$	\$ 135,010
Urban Affairs	41,218		41,219	53,829		53,829
Merit Employment	44,587		44,587	46,881		46,881
Transportation	113,080		113,080	109,349		109,349
Industrial Development	101,287		101,287	106,879		106,879
Research and Statistic	364,880		364,880	284,813		284,813
World Trade	95,493		95,493	119,841		119,841
Manpower	50,484		50,484	52,471		52,471
Government Affairs	133,173		133,173	158,765		158,765
Membership	330,030		330,030	309,629		309,629
Chicago Society	12,747		12,747	11,700		11,700
Communications and Promotions	117,592		117,592	137,799		137,799
Commerce Magazine	618,342		618,342	688,785		688,785
Bryer's Guide	298,073		298,073			
A. I. D.		(22,786) 6/	22,786	333,934	88,735 7/	245,199
Total Direct Costs (B)	\$2,457,460	\$ (22,786)	\$2,480,246	\$2,549,685	\$ 88,735	\$2,460,950
Overhead Rates (A - B)	<u>46.27%</u>		<u>44.58%</u>	<u>46.15%</u>		<u>46.26%</u>

CHICAGO ASSOCIATION OF COMMERCE AND INDUSTRY

Summary of Overhead and Fringe Benefit Rates
for the Period
January 1, 1983 through December 31, 1983

	Calendar Year 1982			Calendar Year 1983		
	Per	Per Auditor		Per	Per Auditor	
	Contractor	Questioned	Accepted	Contractor	Questioned	Accepted
<u>Fringe Benefits:</u>						
Payroll Taxes	\$ 111,619		\$ 111,619	\$ 110,849		\$ 110,849
Employee Insurance	81,097		81,097	77,977		77,977
Pension and Savings Plan	<u>193,944</u>		<u>193,944</u>	<u>160,671</u>		<u>160,671</u>
Total Fringe Benefits Expenses (I)	<u>\$ 386,660</u>		<u>\$ 386,660</u>	<u>349,497</u>		<u>\$ 349,497</u>
Total Salaries and Commissions (II)	<u>\$1,365,122</u>		<u>\$1,365,122</u>	<u>\$1,301,765</u>		<u>\$1,301,765</u>
Fringe Benefits Rates (I - II)	<u>28.32%</u>		<u>28.32%</u>	<u>26.85%</u>		<u>26.85%</u>

1/ These amounts represent unallowable interest expenses in accordance with FPR 1-15.603-19.

2/ Represents the costs of a Christmas party and is disallowed as entertainment in accordance with FPR 1-15.603-12.

3/ This amount represents unallowable costs as follows:

(a) Costs of liquor	\$ 167
(b) Christmas party expenses	<u>1,109</u>
Total	<u>\$ 1,276</u>

CHICAGO ASSOCIATION OF COMMERCE AND INDUSTRY

Summary of Overhead and Fringe Benefit Rates
for the Period
January 1, 1983 through December 31, 1983

Notes continued

4/ Represents the following unallowable costs:

(a) Auto rental and insurance costs for the personal use of an executive.	\$ 7,487
(b) Gifts and awards for visitors to Chicago	796
(c) Legal fees for services rendered prior to 1982	<u>\$20,196</u>
Total	<u>\$28,479</u>

5/ Represents unallowable costs as follows:

(a) Auto rental and insurance costs for the personal use of an executive.	\$ 5,819
(b) Gifts and awards for visitors coming to Chicago	<u>3,341</u>
Total	<u>\$ 9,160</u>

6/ This amount represents burdenable direct costs.

7/ This amount represents non-burdenable consultant costs.

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